



## Thinking Outside the Box

A central image of an open cardboard box filled with various household items: a blue gift box, a teddy bear, a white electric fan, and a football. The box has the Public Storage logo and the text 'Public Storage' and 'Use the location near you. Call 1-800-44-STORAGE' printed on its side.

**TRUCK RENTALS**

**INTERNET COMMERCE**

**NATIONAL RESERVATION CENTER**

**MERGERS**

CAPITAL FORMATION - MANAGEMENT AND MARKETING  
TRUCK RENTALS - RETAIL STORES - PORTABLE SELF STORAGE  
NET COMMERCE - NATIONAL RESERVATION CENTER - PARTNERSHIP  
ALLIANCE MARKETING - INVESTMENT AND MARKETING  
CAPITAL FORMATION - TRUCK RENTALS - MERGERS - MANAGEMENT  
MANAGEMENT - COMPLIANCE - PROPERTY DEVELOPMENT  
PROPERTY DEVELOPMENT - MERGERS  
Y2K COMPLIANCE - RETAIL STORES  
CAPITAL FORMATION - MARKETING  
DEVELOPMENT - COMPLIANCE - NATIONAL RESERVATION CENTER  
TRUCK RENTALS - PORTABLE SELF STORAGE - PROPERTY DEVELOPMENT  
NATIONAL RESERVATION CENTER  
DEVELOPMENT - MERGERS - CAPITAL FORMATION  
PORTABLE SELF STORAGE - RETAIL - NATIONAL RESERVATION CENTER  
ALLIANCE MARKETING - RETAIL STORES - Y2K COMPLIANCE  
MERGERS - CAPITAL FORMATION - PROPERTY DEVELOPMENT  
MANAGEMENT & MARKETING - TRUCK RENTALS - RETAIL STORES  
PORTABLE SELF STORAGE - NATIONAL RESERVATION CENTER

## Public Storage, Inc. and The System

Public Storage, Inc. is a fully integrated, self-administered and self-managed real estate investment trust that primarily acquires, develops, owns and operates self-storage facilities. The Company's self-storage properties are located in 37 states. At December 31, 1998, the Company owned interests in 1,094 self-storage properties (1,309 when the portfolios of Public Storage, Inc. and Storage Trust Realty are combined).

The Public Storage System is a national infrastructure operated by thousands of people. The system is designed to respond efficiently to the needs of its 700,000 customers. The system also encompasses subsidiaries operating portable self-storage, truck rentals and retail stores.

Location	Number of Properties <sup>(1)</sup>		Net Rentable Square Feet	
	Public Storage, Inc.	Combined Portfolio <sup>(2)</sup>	Public Storage, Inc.	Combi Portfolio <sup>(2)</sup>
Alabama	16	21	633,000	835,000
Arizona	11	11	735,000	735,000
California	281	281	16,799,000	16,799,000
Colorado	38	50	2,374,000	3,137,000
Connecticut	13	13	710,000	710,000
Delaware	4	4	230,000	230,000
Florida	101	129	5,905,000	7,253,000
Georgia	36	61	1,898,000	3,525,000
Hawaii	5	5	247,000	247,000
Illinois	67	90	4,224,000	5,404,000
Indiana	14	14	799,000	799,000
Kansas	15	22	882,000	1,274,000
Kentucky	4	8	213,000	424,000
Louisiana	8	11	542,000	831,000
Maryland	35	35	1,989,000	1,989,000
Massachusetts	10	10	580,000	580,000
Michigan	12	12	694,000	694,000
Minnesota	6	6	341,000	341,000
Missouri	19	41	1,018,000	2,212,000
Nebraska	1	1	46,000	46,000
Nevada	22	22	1,409,000	1,409,000
New Hampshire	2	2	123,000	123,000
New Jersey	35	35	2,018,000	2,018,000
New York	29	29	1,692,000	1,692,000
North Carolina	10	20	570,000	1,005,000
Ohio	27	31	1,650,000	1,899,000
Oklahoma	8	8	429,000	429,000
Oregon	25	25	1,171,000	1,171,000
Pennsylvania	18	18	1,224,000	1,224,000
Rhode Island	2	2	64,000	64,000
South Carolina	2	24	81,000	1,081,000
Tennessee	11	22	706,000	1,312,000
Texas	123	156	8,110,000	10,125,000
Utah	6	6	324,000	324,000
Virginia	33	37	2,040,000	2,241,000
Washington	38	38	2,360,000	2,360,000
Wisconsin	7	9	448,000	703,000
Totals	1,094	1,309	65,278,000	77,245,000

(1) Self-storage and properties combining self-storage and commercial space.

(2) Public Storage, Inc. and Storage Trust Realty combined assets as of December 31, 1998.

## Selected Financial Highlights

(In thousands, except per share data)

For the year ended December 31,

	1998 <sup>(1)</sup>	1997 <sup>(1)</sup>	1996 <sup>(1)</sup>	1995 <sup>(1)</sup>	1994
<b>Revenues:</b>					
Rental income	\$ 535,869	\$ 434,008	\$ 294,426	\$ 202,134	\$ 141,845
Equity in earnings of real estate entities	26,602	17,569	22,121	3,763	764
Facility management fees	6,221	10,141	14,428	2,144	—
Interest and other income	13,459	9,126	7,976	4,509	4,587
	<u>582,151</u>	<u>470,844</u>	<u>338,951</u>	<u>212,550</u>	<u>147,196</u>
<b>Expenses:</b>					
Cost of operations	212,815	174,186	94,491	72,247	52,816
Cost of facility management	1,066	1,793	2,575	352	—
Depreciation and amortization	107,482	91,356	64,967	40,760	28,274
General and administrative	8,972	6,384	5,524	3,982	2,631
Interest expense	4,507	6,792	8,482	8,508	6,893
Environmental cost	—	—	—	2,741	—
Advisory fee	—	—	—	6,437	4,983
	<u>334,842</u>	<u>280,511</u>	<u>176,039</u>	<u>135,027</u>	<u>95,597</u>
Income before minority interest	247,309	190,333	162,912	77,523	51,599
Minority interest in income	(20,290)	(11,684)	(9,363)	(7,137)	(9,481)
Net income	<u>\$ 227,019</u>	<u>\$ 178,649</u>	<u>\$ 153,549</u>	<u>\$ 70,386</u>	<u>\$ 42,118</u>
<b>Per Common Share:</b>					
Distributions	\$ 0.88	\$ 0.88	\$ 0.88	\$ 0.88	\$ 0.85
Net income — Basic	\$ 1.30	\$ 0.92	\$ 1.10	\$ 0.96	\$ 1.05
Net income — Diluted	\$ 1.30	\$ 0.91	\$ 1.10	\$ 0.95	\$ 1.05
Weighted average common shares — Basic	113,929	98,446	77,117	41,039	23,978
Weighted average common shares — Diluted	<u>114,357</u>	<u>98,961</u>	<u>77,358</u>	<u>41,171</u>	<u>24,077</u>
<b>Balance Sheet Data:</b>					
Total assets	\$3,403,904	\$3,311,645	\$2,572,152	\$1,937,461	\$ 820,309
Total debt	\$ 81,426	\$ 103,558	\$ 108,443	\$ 158,052	\$ 77,235
Minority interest	\$ 139,325	\$ 288,479	\$ 116,805	\$ 112,373	\$ 141,227
Shareholders' equity	<u>\$3,119,340</u>	<u>\$2,848,960</u>	<u>\$2,305,437</u>	<u>\$1,634,503</u>	<u>\$ 587,786</u>
<b>Other Data:</b>					
Net cash provided by operating activities	<u>\$ 368,675</u>	<u>\$ 293,163</u>	<u>\$ 245,329</u>	<u>\$ 123,579</u>	<u>\$ 79,180</u>
Net cash used in investing activities	<u>\$ (345,774)</u>	<u>\$ (409,151)</u>	<u>\$ (484,730)</u>	<u>\$ (248,672)</u>	<u>\$ (169,590)</u>
Net cash provided by (used in) financing activities	<u>\$ (13,131)</u>	<u>\$ 130,587</u>	<u>\$ 185,821</u>	<u>\$ 185,378</u>	<u>\$ 100,029</u>
Funds from operations <sup>(2)</sup>	<u>\$ 336,363</u>	<u>\$ 272,234</u>	<u>\$ 224,476</u>	<u>\$ 105,199</u>	<u>\$ 56,143</u>

1. During 1998, 1997, 1996 and 1995 the Company completed several significant business combinations and equity transactions. See Notes 3 and 10 to the Company's consolidated financial statements.
2. Funds from operations ("FFO"), 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 the Company's pro-rata share of depreciation and amortization of unconsolidated equity interests and amortization of assets acquired in a merger, including property management agreements and excess purchase cost over net assets acquired), and (ii) less FFO attributable to minority interest. FFO is a supplemental performance measure for equity REITs as defined by the National Association of Real Estate Investment Trusts, Inc. ("NAREIT"). The NAREIT definition does not specifically address the treatment of minority interest in the determination of FFO or the treatment of the amortization of property management agreements and excess purchase cost over net assets acquired. In the case of the Company, FFO 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 excess purchase cost over net assets acquired. FFO is presented because management, as well as many analysts, consider FFO to be one measure of the performance of the Company and it is used in certain aspects of the terms of the Class B Common Stock. FFO does not take into consideration scheduled principal payments on debt, capital improvements distributions and other obligations of the Company. Accordingly, FFO is not a substitute for the Company's cash flow or net income as a measure of the Company's liquidity or operating performance or ability to pay distributions. FFO is not comparable to similarly entitled items reported by other REITs that do not define it exactly as the Company defines it.

## To Our Shareholders

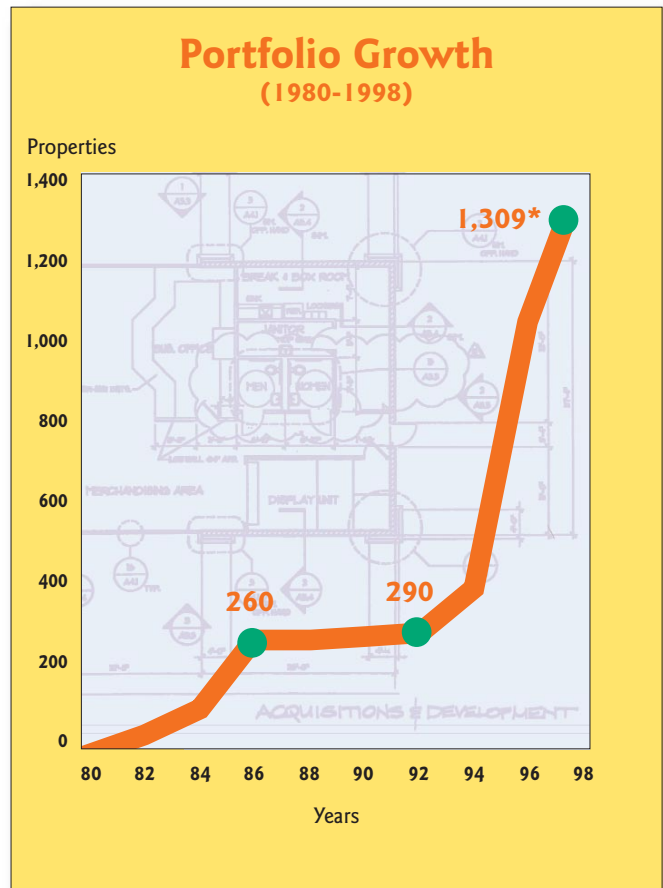
In today's hectic, fast-changing society, Americans want solutions, not problems. When it comes to self-storage, customers demand first-class service, convenience and dependability. To maintain industry leadership, we are responding to customer demand for value and satisfaction, differentiating ourselves from competitors and incorporating the most effective ways available to manage and market our properties. We make selecting Public Storage an easier decision for customers by providing *Self-Storage Plus*, a strategy our competitors have not been able to copy.

*Self-Storage Plus* affords customers the best possible combination of value and satisfaction. Successfully implementing *Self-Storage Plus* allows us to attract a wider variety of customers and generate new sources of revenue. *Self-Storage Plus* is manifested in everything from our clean, accessible, well-managed properties to a national reservation center generating solutions to practically any self-storage need. *Self-Storage Plus* enables us to offer products and services that enhance the basic Public Storage experience. At the center of our activities is our established primary operating business, self-storage properties, which we use to support our emerging complementary lines of business. In turn, these emerging complementary businesses allow us to rent more self-storage spaces at higher prices. Through our *Self-Storage Plus* strategy, our self-storage properties support our complementary businesses and activities and our complementary businesses and activities contribute to operating our self-storage properties. *Self-Storage Plus* is a compelling strategy for growth, for thinking outside the box, for pushing ourselves to excel.

As self-storage evolves and an increasing percentage of American households rely on self-storage, *Self-Storage Plus* should facilitate the interaction between Public Storage and our customers, competitive pricing structures, professionally managed, quality self-storage space in metropolitan markets and enhanced property operations.



Providing a full line of moving and storage supplies is part of *Self-Storage Plus*.



\*Self-storage properties in which Public Storage has an interest at December 31, 1998, plus the March 1999 merger with Storage Trust.

### Sharing Success

In addition to benefiting our customers and shareholders, through *Self-Storage Plus* we can increase community involvement. Children may be one-fourth of our population, but they are 100 percent of our future. Many of our charitable activities are designed to assist children, our nation's most precious resource. For the second year in a row, Public Storage employees helped the Marine Corps with its annual Toys for Tots program. Using modified Pak & Store™ containers, our subsidiary collected over 19,000 toys.

Although we believe our *Self-Storage Plus* strategy will help propel our company forward, we recognize that successfully implementing our strategy is only part of the equation. Understanding the self-storage industry is the other component required for success. We are a national enterprise in an essentially localized, fragmented business. We own interests in over 1,300 self-storage properties, are the dominant operator in the self-storage industry, yet we know our staying power depends on continued aggressive innovation in multiple local markets.

### Broadening Our Customer Base

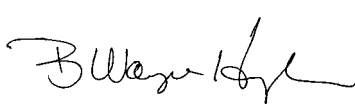
*Self-Storage Plus* took center stage last year as we began the merger process with Storage Trust Realty. In March 1999, we merged with Storage Trust Realty, a teaming that we expect will extend and



broaden the Public Storage trade name in dynamic markets where self-storage demand is favorable. Storage Trust Realty was a fully integrated, self-managed and self-administered REIT headquartered in Columbia, Missouri with 215 self-storage properties located in 16 states. Each share of beneficial interest of Storage Trust Realty is being exchanged for 0.86 shares of Public Storage's common stock. This exchange ratio implies an enterprise value of approximately \$600 million for Storage Trust Realty, including the assumption of approximately \$192 million of debt. The merger was structured as a tax-free transaction. Daniel C. Staton, Storage Trust Realty's Chairman of the Board, is now a member of our Board of Directors.

Numerous employees in both companies pulled together to complete the merger. We want everyone involved to know we are enormously proud of their dedication. To our shareholders and customers we express appreciation for accompanying us on this leg of the journey.

Sincerely,




B. Wayne Hughes  
Chairman of the Board  
and Chief Executive Officer

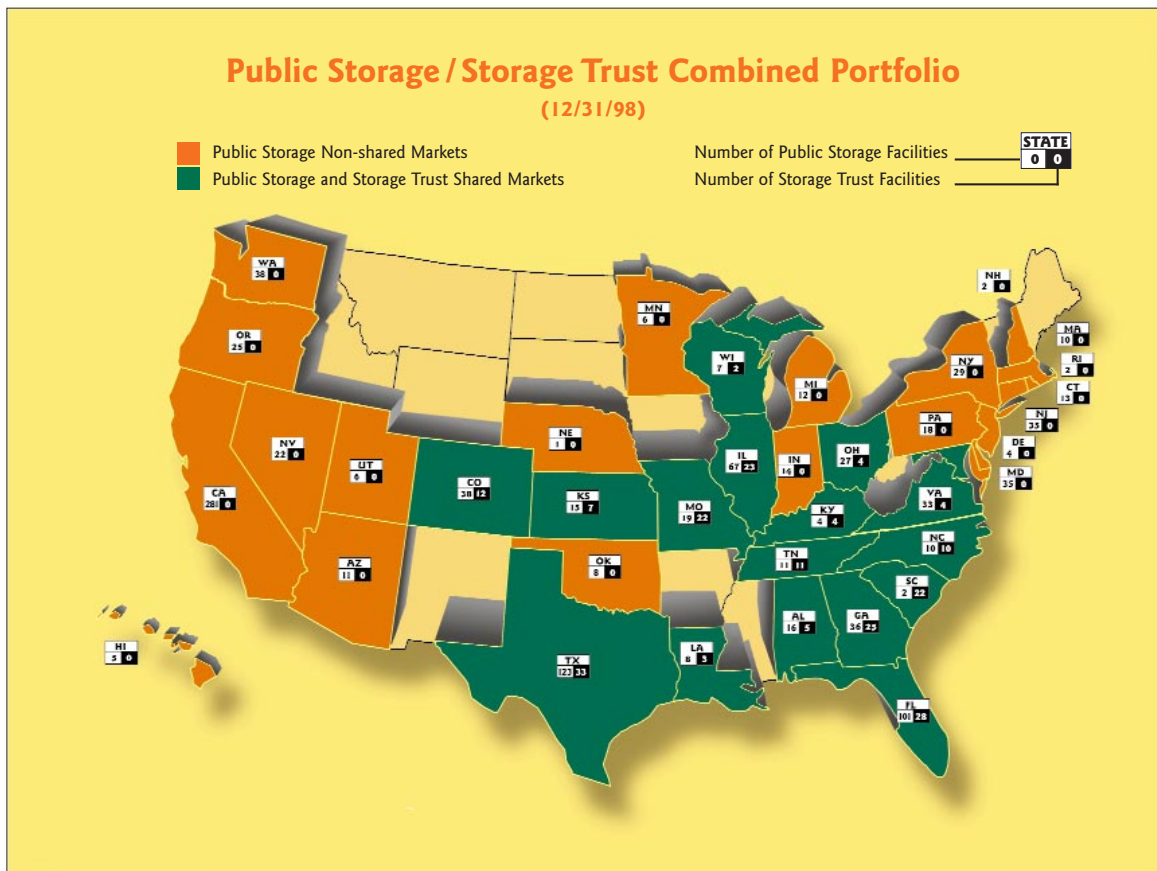


Harvey Lenkin  
President

March 31, 1999



**How to Calculate the Growth of Our Business:**  
Add up the strong demand for our properties and services and multiply that by about 700,000 customers. This growth was built over 25 years of investing in our business.



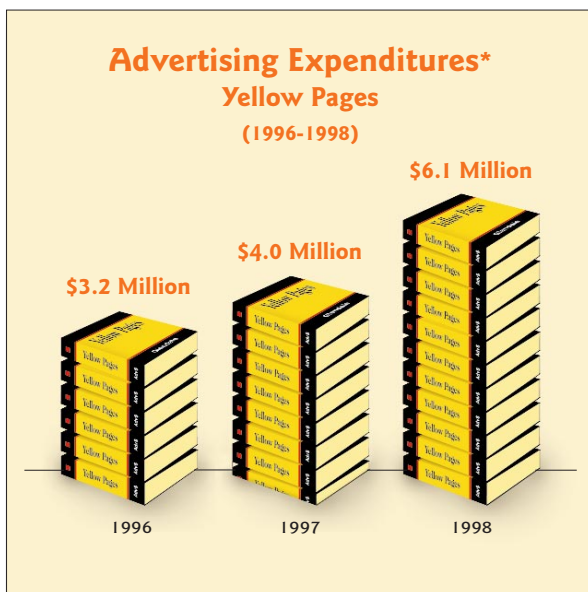
## Self-Storage Plus: A Strategy for Sustained Growth

In an environment where customer demands predominate because of intense competitive pressures, Public Storage is concentrating on fundamentals we believe can respond to our *Self-Storage Plus* strategy:

- Quality of property management.
- Differentiating technologies and businesses.
- Profitability management.
- Capital and asset base expansion.

### Providing superior property management

The basis of our *Self-Storage Plus* strategy — which ultimately aims to cultivate a customer base that is satisfied with our product and services — is our efficient property management team. We know the quality of our property management professionals affects financial performance. One reason for this is that self-storage operation is management intensive. Another is that with rising customer demands, the relative value of a high-quality property management system rises as well. A sometimes unrecognized benefit of a strong management system is new product launch capability. A superior property management team and system can provide needed support as a new business or technology transitions from start-up to profitability. Although self-storage properties are our primary business, our subsidiaries have expanded into portable container storage, truck rentals and retail stores. A factor contributing to our ability to develop such complementary businesses is our confidence in our management system. As competitive pressures mount and



\*Same Store properties (984) and PSPUD. Directory advertising is the most important print media for advertising our services. Approximately 30 percent of our customers locate a property through our directory ads.



The industry's most recognized name.

differentiation declines in our industry, the relative effect of a superior property management team grows.

We expect our extensive property management systems and controls, performance standards, operating procedures and cutting-edge technologies will provide advantages in the day-to-day demands of our national enterprise. However, such efficiencies can be duplicated by competitors; competitive advantages can slip away. Presently, we maintain a significant edge in our ability to use a powerful marketing and inventory control tool, the national reservation system, operated by our subsidiary and staffed by approximately 225 trained agents located at corporate headquarters in Los Angeles. Customers calling either our toll-free telephone referral system (800) 44-STORE, or a self-storage property can converse with a representative in the national reservation center who will analyze the customer's space requirements and price and location preferences in conjunction with informing the customer about other products and services Public Storage and its subsidiaries provide. The national reservation system is now able to process approximately 250,000 calls per month during the peak periods of self-storage demand, spring and summer.

We anticipate augmenting the advantages we currently gain with our national reservation center by opening an additional reservation facility during mid-1999. The additional reservation center, staffed by approximately 200 trained men and women, will be located in Plano, Texas.

### Differentiating Public Storage from its competitors

Operating complementary businesses through our subsidiaries provides important cross-marketing opportunities. First, we gain by using our core activity — owning and operating self-storage properties — to facilitate other activities. Second, with our national reservation center as the cornerstone, we can cross competitive boundaries as we build new revenue sources. For example, retailing locks, tape, boxes and other move-related merchandise provides point-of-purchase convenience, eliminating any need for our

customers to travel to hardware stores or similar suppliers. Public Storage Pickup & Delivery,<sup>SM</sup> (PSPUD) also exemplifies the crossover marketing concept. This emerging business rents portable storage containers to customers for storage in central warehouses, allowing customers to avoid renting and driving moving trucks.

We are also using high technology to help differentiate us from competitors and to develop additional avenues for advertising, marketing and customer interaction. We are creating an Internet Marketing Department as we expand into e-commerce in the marketing of storage products. Public Storage intends to lead the nation in one-stop shopping for storage needs, with the online solution for storage, truck rentals, move-related merchandise and portable container storage. We have entered into an agreement with Apollo Interactive, a firm that has designed web sites for THE WB Television Network, Jack in the Box Restaurants and the Hard Rock Hotel and Casino. This is our first step in more fully capitalizing on the marketing power of the Internet.

#### A formula for profitability

We are confident about our long-term prospects to grow in the competitive self-storage marketplace, building on our *Self-Storage Plus* approach. One way we are implementing the strategy is by deleveraging. By paying off debt early, we further strengthen our balance sheet. Our balance sheet reflects our declining total debt. All of the debt is fixed rate, eliminating uncertainties commonly associated with floating rate debt. There were no borrowings as of December 31, 1998 on our \$150 million unsecured line of credit. Total debt and related interest expense is low in relation to our overall asset base. As of December 31, 1998, Public Storage's assets totaled approximately \$3.4 billion, a \$92 million increase from approximately \$3.3 billion one year earlier. The ratio of debt-to-equity equaled 2.6 percent at December 31, 1998, compared to 3.6 percent one year earlier. An advantage of carrying low debt is our ability to concentrate on investment opportunities within the self-storage industry, such as the merger with Storage Trust Realty.

Our liquidity provides significant discretionary investment resources, a major advantage compared to other self-storage real estate investment trusts. We believe our conservative capital structure, including minimizing distributions and repurchasing stock are adding to long-term shareholder value.

#### Industry leadership through capital and asset base expansion

Our *Self-Storage Plus* strategy also creates access to capital. Since 1992, we have issued approximately \$1.7 billion of common equity

and perpetual preferred stock in public offerings. We believe our access to capital stems from a number of strengths, including our trade name. A centerpiece of *Self-Storage Plus* is consumer recognition of the Public Storage name. We have invested tens of millions of dollars over the last 25+ years in our trade name through media including Yellow Pages, television and radio advertising. In addition, our access to capital at favorable costs is connected to our quality properties in prime locations, industry position, experienced executives and directors, real estate development/acquisition expertise, long history of successful operations, property management operational systems, innovation and flexibility and conservative distribution policy.

Access to capital at favorable costs is not the only chapter in the story; we benefit from being able to get capital invested. Our real estate development and acquisition department provides comprehensive real estate expertise. The property development decision calls upon disciplines including engineering, design and architecture, subcontractor bidding, construction scheduling, construction supervision and cost control. Properties are selected for development by thorough market analysis of key elements including population, traffic counts, accessibility, visibility, growth patterns, zoning, comparable land values, area economics and the mix and density of nearby residential, commercial and industrial development. Major areas for financial analysis regarding acquiring existing properties include financial information such as rental income, operating expenses, property level debt, tenants and tenant leases, quality and appearance of the property's construction and geographic and demographic data. Our developed and acquired properties benefit from one of the most technologically advanced property management systems in the self-storage industry, enabling new properties to be absorbed efficiently.



Self-storage properties such as this facility in Orlando, Florida can incorporate state-of-the-art design, climate controlled spaces, retail outlets and truck rental operations.



## Analyzing Financial Performance

Revenues for 1998 increased to \$582,151,000 compared to \$470,844,000 in 1997, an increase of \$111,307,000 or 24 percent. Net income for 1998 was \$227,019,000 compared to \$178,649,000 in 1997, an increase of \$48,370,000 or 27 percent. The increase in net income for 1998 compared to 1997 was primarily the result of improved property operations and the acquisition of additional real estate facilities and partnership interests during 1997 and 1998.

Net income allocable to common shareholders was \$148,644,000 or \$1.30 per common share on a diluted basis (based upon 114,357,000 weighted average diluted shares) for the year ended December 31, 1998 compared to \$90,256,000 or \$0.91 per common share on a diluted basis (based upon 98,961,000 weighted average diluted shares) for the same period in 1997. In computing net income per common share, dividends to the Company's preferred shareholders (\$78,375,000 and \$88,393,000 for the year ended December 31, 1998 and 1997, respectively) have been deducted from net income in determining net income allocable to the Company's common shareholders. Operating losses from the portable self-storage business for the year ended December 31, 1998 were \$31,022,000 or approximately \$0.27 per common share, compared to \$31,665,000 or approximately \$0.32 per common share for the same period in 1997. For the year ended December 31, 1997, net income allocable to common shareholders was reduced by \$13,412,000 or \$0.14 per common share as a result of a special one-time dividend paid to the holder of the Series CC Convertible Preferred Stock.

Funds from operations per common share on a fully-diluted basis for 1998 were \$2.24, compared to \$1.97 for 1997, increasing \$0.27 per common share. Funds from operations per common share on a fully-diluted basis for 1998 were negatively affected by the dilutive effects of start-up losses from Public Storage Pickup & Delivery,<sup>SM</sup> (PSPUD). PSPUD incurred approximately \$31,022,000 of operating losses for the year ended December 31, 1998, compared to operating losses of approximately \$31,665,000 for the previous year. Operating losses for this business are declining, reflected by results for the 1998 fourth quarter, \$5,865,000 in losses versus results for the 1997 fourth quarter, \$10,480,000 in such losses. As PSPUD has strengthened its infrastructure and efficiencies, operating effectiveness has risen; we believe operating losses from PSPUD will continue to decrease.

*Same stores benefit from a winning strategy.* Rental income and net operating income are two of the notable measurements of financial performance that responded to our *Self-Storage Plus* strategy. For 1998, occupancy at the self-storage properties on a Same Store basis averaged 92.5 percent, compared to 91.7 percent during 1997. Same Store average annual realized rents were \$9.84 per square foot for 1998, a 6.8 percent increase compared to \$9.21 per square foot for 1997. Realized rent per square foot represents the actual revenue earned per occupied square foot, a more relevant measure than posted or scheduled rates, because posted rates can be discounted through promotions. Same Store rental income increased to \$523,394,000 for 1998, compared to \$486,510,000 for 1997, a 7.6 percent rise. Same Store cost of operations increased 6.5 percent, to \$183,629,000 for 1998, from \$172,455,000 for 1997. Net operating income equaled \$339,765,000 for 1998, compared to \$314,055,000 for 1997.

*Dividend.* The Board of Directors declared a \$0.22 per common share quarterly dividend on March 4, 1999, along with quarterly dividends on the Company's various series of preferred stock. Distributions are payable on March 31, 1999 to shareholders of record as of the close of business on March 15, 1999. Dividends of \$0.88 per share were paid on the common stock in 1998.

Minimizing distributions is one method available to us to enhance common shareholder value. Retaining a substantial portion of funds from operations (after funding distributions and capital improvements) enables us to acquire and develop properties, invest in our other operations and reduce debt using internal cash resources. This is an example of our *Self-Storage Plus* strategy benefiting shareholders. We distributed 39 percent of funds from operations available to common shareholders for 1998 and 44 percent for 1997. Through this relatively moderate payout ratio in 1998, we retained \$128,000,000 of funds to purchase and develop properties and invest in our other operations.

*An efficient external growth strategy.* Our development joint venture minimizes earnings dilution and provides a portfolio of properties we can purchase in the future. We formed the joint venture partnership with a state pension fund to develop up to \$220,000,000 of self-storage facilities. The venture is funded solely with equity capital provided 30 percent by the Company and 70 percent by the state pension fund. The Company has invested approximately \$42,500,000 in the joint venture at December 31, 1998.

During the year ended December 31, 1998, the joint venture partnership opened 17 new self-storage facilities that it had developed. As of December 31, 1998, the joint venture partnership was committed to developing six additional facilities that were in process, with total costs incurred of about \$28,600,000 and estimated remaining costs to complete of about \$3,900,000.

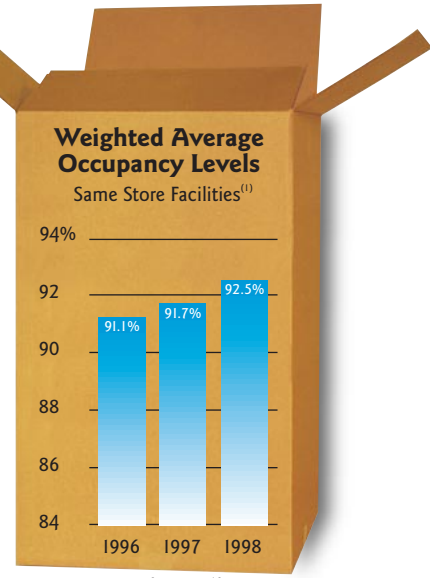
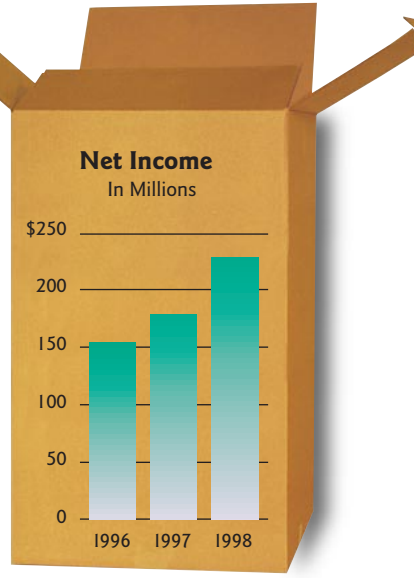
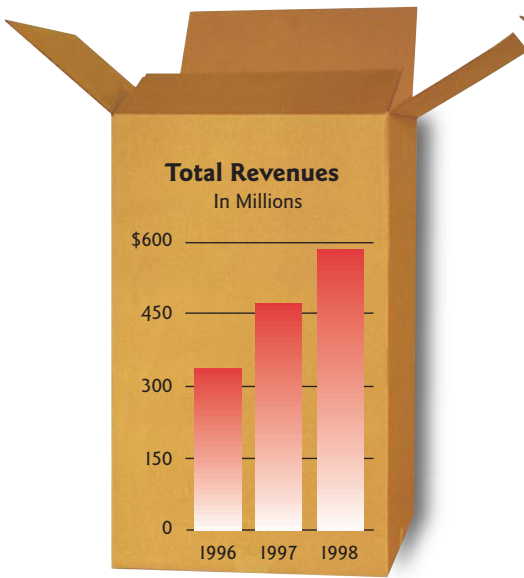
The joint venture partnership is reviewing the final 20 projects and upon approval the joint venture will be fully committed. These properties are currently being developed by the Company until they are approved by the joint venture partnership. As of December 31, 1998, the Company has incurred total development costs of approximately \$44,800,000 (estimated remaining costs to complete of approximately \$49,700,000) with respect to these 20 projects.

The Company has identified 34 additional self-storage development projects with total estimated development costs of approximately \$143,200,000. These projects are subject to significant contingencies.

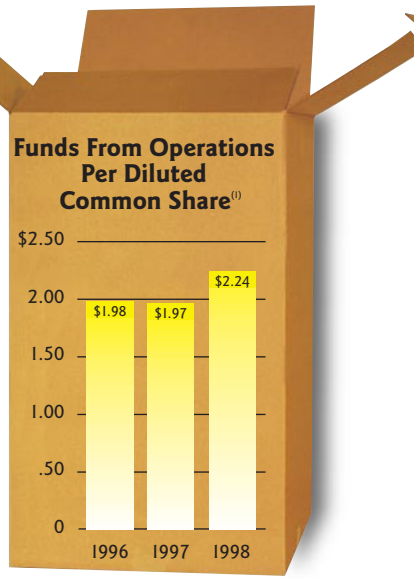
The 10 facilities which have been opened by the joint venture partnership or the Company between January 1, 1996 and July 1, 1997 have occupancies averaging 81.9 percent at December 31, 1998. The 19 facilities which opened between July 1, 1997 and December 1, 1998 have been open an average of 7 months and have occupancies averaging 49.4 percent at December 31, 1998.

*Improving market value of outstanding shares.* Last year, the Company's Board of Directors authorized the repurchase from time to time of up to 10,000,000 shares of the Company's common stock on the open market or in privately negotiated transactions. Through December 31, 1998 the Company has repurchased a total of 2,819,400 shares of common stock at an aggregate cost of approximately \$72,300,000.

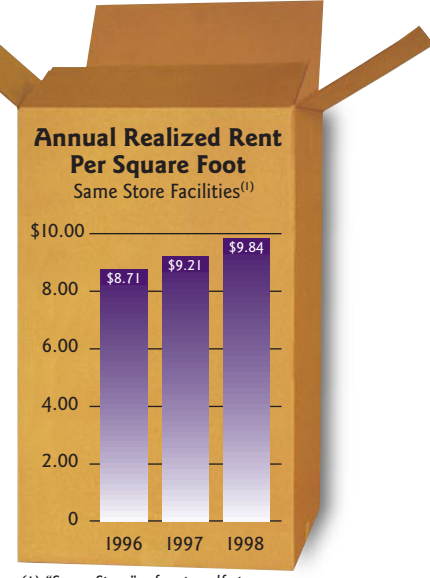




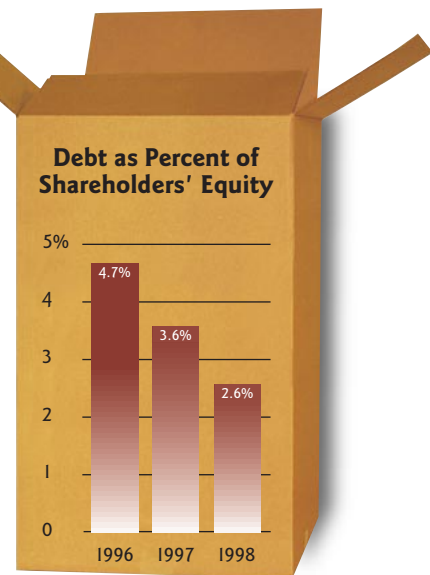
(1) "Same Store" refers to self-storage facilities in which the Company had an interest since January 1, 1994.



(1) Assumes conversion of the Company's Convertible Preferred Stock into common stock.



(1) "Same Store" refers to self-storage facilities in which the Company had an interest since January 1, 1994.



## Property Locations (12/31/98)

428 Commons Drive	Birmingham	AL	15285 Hesperian Boulevard	San Leandro	CA	5515 Walker Street	Ventura	CA
8 W. Oxmoor Road	Birmingham	AL	2587 Marin Street	San Francisco	CA	509 Salmar Avenue	Campbell	CA
1224 Old Monrovia Road	Huntsville	AL	190 10th Street	San Francisco	CA	42101 Albrae Street	Fremont	CA
9856 Parkway East	Birmingham	AL	240 E. Whittier Boulevard	Montebello	CA	9011 Bermudez Street	Pico Rivera	CA
1224 27th Place South	Birmingham	AL	2317 Main Street	Chula Vista	CA	2167 First Street	Simi Valley	CA
1900 Mini Warehouse Road	Birmingham	AL	12345 Ventura Court	Studio City	CA	22992 El Pacifico	Laguna Hills	CA
6917 Oporto-Madrid Boulevard South	Birmingham	AL	2350 Monument Boulevard	Concord	CA	9550 Kearny Mesa Road	San Diego	CA
1055 Pebble Creek Parkway	Birmingham	AL	200 Calle Del Oaks	Monterey	CA	12510 Raymer Street	North Hollywood	CA
1120 Huffman Road	Birmingham	AL	380 Merrydale Road	Long Beach	CA	7500 Whitsett Avenue	North Hollywood	CA
1147 Gadsden Highway	Birmingham	AL	2590 San Ramon Valley Boulevard	San Ramon	CA	1080 Pecten Court	Milpitas	CA
209 Oxmoor Boulevard	Birmingham	AL	380 Merrydale Road	San Rafael	CA	2500 Santa Rita Road	Pleasanton	CA
3232 Lorna Road	Birmingham	AL	18440 Burbank Boulevard	Tarzana	CA	1725 Pomona Avenue	Costa Mesa	CA
575 Bessemer Super Highway	Midfield	AL	1600 Watson Court	Milpitas	CA	2750 E. Imperial Highway	Brea	CA
3052 Leeman Ferry Road	Huntsville	AL	5941 Venice Boulevard	Los Angeles	CA	11838 Sheldon Street	Sun Valley	CA
2902 Drake Avenue	Huntsville	AL	1199 Western Street	Fairfield	CA	30921 W. Agoura Road	Westlake Village	CA
4314 Whiteside Drive	Anniston	AL	245 Hookston Road	Pleasant Hill	CA	6938 Franklin Boulevard	Sacramento	CA
1265 Hillcrest Road	Mobile	AL	1987 Old Middlefield Road	Mountain View	CA	2300 Purdue Avenue	Los Angeles	CA
664 Azalea Road	Mobile	AL	88 Blossom Hill Road	San Jose	CA	4555 Peralta Boulevard	Fremont	CA
5100 Moffat Road	Mobile	AL	13300 Paxton Street	Pacoima	CA	13333 Osborne Street	Arleta	CA
6200 Grelot Road	Mobile	AL	836 East Airway Boulevard	Livermore	CA	15920 Amar Road	City of Industry	CA
4253 Government Boulevard	Mobile	AL	475 Tully Road	San Jose	CA	1290 N. Lakeview Avenue	Anaheim	CA
669 W. Union Hills Dr & 7th Avenue	Phoenix	AZ	5175 Pacific Highway	San Diego	CA	611 Second Street	San Francisco	CA
1910 E. Broadway	Tempe	AZ	3716 Stanley Boulevard	Pleasanton	CA	550 S. San Gabriel Boulevard	San Gabriel	CA
4717 N. 43rd Avenue	Phoenix	AZ	2445 Grove Way	Castro Valley	CA	3010 Wilshire Boulevard	Santa Monica	CA
2421 N. Black Canyon Highway	Phoenix	AZ	16212 Gothard Street	Huntington Beach	CA	12320 E. Whittier Boulevard	Whittier	CA
810 S. Country Club Drive	Mesa	AZ	29824 Mission Boulevard	Hayward	CA	7660 Balboa Boulevard	Van Nuys	CA
1737 E. McKellips Road	Tempe	AZ	830 N. Rengstorff Avenue	Mountain View	CA	5892 Mc Fadden Avenue	Huntington Beach	CA
11236 19th Avenue	Phoenix	AZ	6007 Venice Boulevard	Los Angeles	CA	4400 Ramona Boulevard	Monterey Park	CA
3851 N. Romero Road	Tucson	AZ	12302 Bellflower Boulevard	Downey	CA	12245 Woodruff Avenue	Downey	CA
3027 N. 70th Street	Scottsdale	AZ	107 Lincoln Road West	Vallejo	CA	19102 Walnut Drive	Rowland Heights	CA
4140 E. Chandler Boulevard	Phoenix	AZ	1761 Adrian Road	Burlingame	CA	3901 N. West Lane	Stockton	CA
7990 East Tanque Verde	Tucson	AZ	640 San Pablo Avenue	Pinole	CA	4460 Del Amo Boulevard	Torrance	CA
2065 Placentia Avenue	Costa Mesa	CA	5005 Firestone Place	South Gate	CA	1421 E. Del Amo Boulevard	Carson	CA
15360 Oxnard Street	Van Nuys	CA	1395 Mabury Road	San Jose	CA	5045 N. Gates Avenue	Fresno	CA
8551 Beverly Boulevard	Pico Rivera	CA	13822 E. Valley Boulevard	La Puente	CA	1685 Aborn Road	San Jose	CA
211 W. Allen Avenue	San Dimas	CA	231 W. Capitol Expressway	San Jose	CA	6801 Santa Monica Boulevard	West Hollywood	CA
4140 Cherry Avenue	Long Beach	CA	4568 E. Los Angeles Avenue	Simi Valley	CA	10400 Sunland Boulevard	Sunland	CA
4889 Valley Boulevard	Los Angeles	CA	8200 Balboa Boulevard	San Jose	CA	311 N. 16th Street	Sacramento	CA
2811 Eagle Rock Boulevard	Los Angeles	CA	15951 Hesperian Boulevard	Van Nuys	CA	14820 San Pablo Avenue	San Pablo	CA
1240 N. Lincoln Avenue	Pasadena	CA	1747 N. Eastern Avenue	Los Angeles	CA	1724 S. Crenshaw Boulevard	Torrance	CA
2050 Workman Mill Road	Whittier	CA	3636 Beverly Mill Road	Los Angeles	CA	120 West Easy Street	Simi Valley	CA
4444 Enterprise Street	Fremont	CA	398 Carlson Boulevard	Richmond	CA	11635 Artesia Boulevard	Artesia	CA
1601 Watson Court	Milpitas	CA	680 Hegenberger Road	Oakland	CA	12340 Lower Azusa Road	Arcadia	CA
501 East Pacific Coast Highway	Wilmington	CA	12299 Saratoga/Sunnyvale Road	Saratoga	CA	1702 S. San Pedro Street	Los Angeles	CA
9036 Glenoaks Boulevard	Sun Valley	CA	18 Hughes	Irvine	CA	6202 Willoughby Avenue	Los Angeles	CA
1510 Pomona Road	Corona	CA	3501 Lomita Boulevard	Torrance	CA	1012 S. Maple Avenue	Montebello	CA
2567 Hamner Avenue	Norco	CA	798 Baywood Drive	Petaluma	CA	265 Mini Drive	Vallejo	CA
10810 Vanowen Street	North Hollywood	CA	20140 Sherman Way	Canoga Park	CA	1925 54th Street	San Diego	CA
1350 Concord Avenue	Concord	CA	3491 Santa Rosa Avenue	Santa Rosa	CA	1712 Glendale Boulevard	San Diego	CA
14861 Franklin Avenue	Tustin	CA	1900 El Camino Real	South San Francisco	CA	315 S. 4th Avenue	Venice	CA
150 N. Halstead Street	Pasadena	CA	171 S. Arroyo Parkway	Pasadena	CA	6435 Ventura Boulevard	Ventura	CA
791 S. Azusa Avenue	Azusa	CA	4820 San Fernando Road	Glendale	CA	10830 Ventura Boulevard	Studio City	CA
1781 Industrial Park Avenue	Redlands	CA	17792 Cowan	Irvine	CA	11102 La Cienega Boulevard	Lennox	CA
6379 Mission Boulevard	Riverside	CA	2690 Geary Boulevard	San Francisco	CA	7521 N. San Fernando Road	Burbank	CA
6201 San Leandro Street	Oakland	CA	175 S. Curtner Avenue	Campbell	CA	2624 Appian Way	Pinole	CA
3235 Jacuzzi Street	Richmond	CA	115 Capitola Extension	Santa Cruz	CA	6501 Shellmound Street	Emeryville	CA
630 Laurelwood Road	Santa Clara	CA	17300 Newhope Street	Fountain Valley	CA	180 Calle Del Oaks	Del Rey Oaks	CA
375 Shoreway Road	San Carlos	CA	5055 S. Front Road	Livermore	CA	14280 Washington Boulevard	San Leandro	CA
1940 Howe Avenue	Sacramento	CA	1500 Story Road	San Jose	CA	6676 Mission Street	Daly City	CA
3961 West Capitol Avenue	West Sacramento	CA	601 Sunset Drive	Antioch	CA	130 Landing Court	Novato	CA
6324 Flonin Road	Sacramento	CA	2656 Sunrise Boulevard	Rancho Cordova	CA	1327 International Boulevard	Oakland	CA
1 Dairy Lane	Belmont	CA	12235 Whittier Boulevard	Whittier	CA	1011 E. March Lane	Stockton	CA
160 S. Spruce Avenue	South San Francisco	CA	3200 Mather Field Road	Rancho Cordova	CA	3821 Jefferson Boulevard	San Diego	CA
39501 5th Street West	Palmdale	CA	24180 S. Vermont Avenue	Harbor City	CA	2703 Martin Luther King Boulevard	Los Angeles	CA
888 S. Fair Oaks Avenue	Pasadena	CA	1820 Frienza Avenue	Sacramento	CA	15984 East 14th Street	San Leandro	CA
6536 Fair Oaks Boulevard	Carmichael	CA	760 South Beach Boulevard	La Habra	CA	5410 Vineland Avenue	North Hollywood	CA
1734 East Carson Street	Carson	CA	990 Beck Avenue	Fairfield	CA	3840 Portola Avenue	Santa Cruz	CA
965 Felipe Avenue	San Jose	CA	6380 Tupelo Drive	Citrus Heights	CA	7420 San Ramon Road	Dublin	CA
2380 Quimby Road	San Jose	CA	3620 Snell Avenue	San Jose	CA	920 Humboldt Street	Vallejo	CA
1925 San Ramon Valley Boulevard	San Ramon	CA	10792 Knott Avenue	Stanton	CA	47209 Warm Springs Boulevard	Fremont	CA
23572 Moulton Parkway	Laguna Hills	CA	6433 Verner Avenue	Sacramento	CA	20292 Cooks Bay Drive	Lake Forest	CA
3911 Snell Avenue	San Jose	CA	1230 Olive Drive	Davis	CA	1961 E. Bayshore Road	East Palo Alto	CA
195 Tully Road	San Jose	CA	11625 Olympic Boulevard	Los Angeles	CA	1546 W. El Segundo	Gardena	CA
145 Shoreway Road	San Carlos	CA	1121 Triton Drive	Foster City	CA	1551 Mac Arthur Boulevard	Oakland	CA
1055 San Leandro Avenue	Mountain View	CA	10100 S. La Cienega Boulevard	Lennox	CA	14107 Crenshaw Boulevard	Hawthorne	CA
20565 Valley Green Drive	Cupertino	CA	560 16th Street	San Diego	CA	3770 Crenshaw Boulevard	Los Angeles	CA
11303 Sorrento Valley Road	San Diego	CA	649 S. Boyle Avenue	Los Angeles	CA	6467 Foothill Boulevard	Tujunga	CA
13241 Jeffrey Road	Irvine	CA	801 57th Street	Sacramento	CA	21321 Vanowen	Canoga Park	CA
2105 South Myrtle Avenue	Monrovia	CA	5917 Burchard Avenue	Los Angeles	CA	1776 Blake Street	Los Angeles	CA
9350 Topanga Canyon Boulevard	Chatsworth	CA	5570 Airdrome Street	Los Angeles	CA	3017 San Fernando Road	Los Angeles	CA
9341 Shirley Avenue	Northridge	CA	914 Hopper Avenue	Santa Rosa	CA	1829 Webster Street	Alameda	CA
881 Duane Avenue	Santa Clara	CA	2065 Placentia Avenue	Costa Mesa	CA	1870 Arnold Industrial Place	Concord	CA
1 Oyster Point Boulevard	South San Francisco	CA	6041 Sunrise Vista Drive	Citrus Heights	CA	4880 E. La Palma Avenue	Anaheim	CA
19102 Walnut Drive	Rowland Heights	CA	2012 West Bggsmore Avenue	Modesto	CA	1247 Sweetwater Road	Spring Valley	CA
8118 Mariners Drive	Stockton	CA	80 S. Spruce Avenue	South San Francisco	CA	38290 Cedar Boulevard	Newark	CA
2099 Placentia Avenue	Costa Mesa	CA	150 S. Buchanan Circle	Pacheco	CA	17952 Gothard Street	Huntington Beach	CA
1498 Oddstad Drive	Redwood City	CA	3470 Boulder Street	Pleasanton	CA	8000 Raytheon Road	San Diego	CA
985 Fairway Drive	Walnut	CA	6701 S. Sepulveda Boulevard	Los Angeles	CA	5566 Bolsa Avenue	Huntington Beach	CA
925 Felipe Avenue	San Jose	CA	365 W. Manchester Boulevard	Los Angeles	CA	19121 Parthenia Street	Northridge	CA
13249 Garvey Avenue	Baldwin Park	CA	35360 Fircrest Street	Newark	CA	33476 Alvarado Niles Road	Union City	CA
6240 Sylvan Road	Citrus Heights	CA	4415 Treat Boulevard	Concord	CA	6400 Foothill Boulevard	Tujunga	CA
2075 Newport Boulevard	Costa Mesa	CA	2250 S. Delaware Avenue	San Mateo	CA	573 Raleigh Avenue	El Cajon	CA
23811 Ventura Boulevard	Calabasas	CA	1120 2nd Street	Berkeley	CA	10212 E. Valley Boulevard	El Monte	CA
7719 Fair Oaks Boulevard	Carmichael	CA	7640 Fair Oaks Boulevard	Carmichael	CA	11550 Huron Street & 115th Avenue	Northglenn	CO
1018 Duane Avenue	Santa Clara	CA	1775 Industrial Way	Napa	CA	5005 W. 80th	Westminster	CO
5741 W. Jefferson Boulevard	Los Angeles	CA	6840 Santa Monica Boulevard	Los Angeles	CA	2190 S. Federal Boulevard	Denver	CO
5915 San Juan	Citrus Heights	CA	15146 E. Whittier Boulevard	Whittier	CA	5788 W. 6th Avenue	Lakewood	CO
127 S. Euclid Avenue	Upland	CA	525 California Avenue	Pittsburg	CA	5250 Tomah Drive	Colorado Springs	CO
601 N. Main Street	Orange	CA	2370 Colorado Boulevard	Los Angeles	CA	5500 W. Hampden & S. Frontage Road	Denver	CO
317 E. Weddell Drive	Sunnyvale	CA	3300 Northgate Boulevard	Sacramento	CA	7980 Southpark Way	Littleton	CO
1510 N. Magnolia	El Cajon	CA	1910 Hughes Way	El Segundo	CA	1150 S. Idalia	Aurora	CO
2361 W. Commonwealth Avenue	Fullerton	CA	2325 Soquel Drive	Santa Cruz	CA	1710 S. Abilene Street	Aurora	CO
3752 Cerritos Avenue	Los Alamitos	CA	740 Arcturus Avenue	Oxnard	CA	2100 Blake Street	Denver	CO
14209 Western Avenue	Gardena	CA	761 University Avenue	Los Gatos	CA	6161 West 48th Avenue	Wheat Ridge	CO
1096 North Fair Oaks Avenue	Sunnyvale	CA	12940 Saticoy Street	North Hollywood	CA	1801 W. Bellevue Avenue	Littleton	CO
4900 Roseville Road	North Highlands	CA	900 Transport Way	Petaluma	CA	4101 E. Evans Avenue	Denver	CO
4583 Huntington Drive South	Los Angeles	CA	5679 Santa Teresa Boulevard	San Jose	CA	16606 Smoky Hill Road	Aurora	CO
1220 Dempsey Road	Milpitas	CA	984 Sherman Street	San Diego	CA	6351 S. Kipling Street	Littleton	CO
4610 Van Nuys Boulevard	Sherman Oaks	CA	4101 North Figueroa Street	Los Angeles	CA	9600 East Costilla	Englewood	CO
2340 Central Avenue	Duarte	CA	7510 Folsom Boulevard	Sacramento	CA	11901 W. 44th Avenue	Wheat Ridge	CO

1293 W. 84th Avenue	Federal Heights	CO	1155 Belvedere Road	West Palm Beach	FL	2940 North Decatur Road	Decatur	GA
5005 E. Evans Avenue	Denver	CO	2701 Lake Worth Road	Lake Worth	FL	5487 Westmoreland Plaza	Douglasville	GA
4403 E. Platte Avenue	Colorado Springs	CO	10460 S.W. 72nd Street	Miami	FL	3679 McClroy Road	Doraville	GA
2761 Delta Drive	Colorado Springs	CO	4080 Tampa Road East	Oldsmar	FL	11195 Alpharetta Highway	Roswell	GA
565 Hanover Way	Aurora	CO	4501 SW 54th Street	Ft. Lauderdale	FL	3985 Atlanta Highway	Bogart	GA
5240 Edison Avenue	Colorado Springs	CO	7511 NW 73rd Street	Miami	FL	45 Whitlock Place SW	Marietta	GA
210 Mount View Lane	Colorado Springs	CO	2275 N. Semoran Boulevard	Orlando	FL	201 Cobb Parkway North	Marietta	GA
7333 York Street	Thornton	CO	4100 John Young Parkway	Orlando	FL	3055 Jones Mill Road	Norcross	GA
6611 Leetsdale Drive	Denver	CO	1313 45th Street	Orlando	FL	6770 Dawson Boulevard	Norcross	GA
3436 N. Sinton Road	Colorado Springs	CO	7996 N.W. South River Drive	Medley	FL	4889 Old Dixie Highway	Forest Park	GA
6055 Hollow Tree Court	Colorado Springs	CO	200 S.W. 2nd Street	Pompano Beach	FL	3748 Covington Highway	Decatur	GA
7701 W. 6th Avenue	Lakewood	CO	6800 W 4th Avenue	Hialeah	FL	11455 Maxwell Road	Alpharetta	GA
680 Sheridan Boulevard	Denver	CO	570 North Highway 17-92	Longwood	FL	632 North Main Street	Alpharetta	GA
4550 South Federal Boulevard	Englewood	CO	7190 South Highway 17-92	Fern Park	FL	2436 Bolton Road NW	Atlanta	GA
4405 South Quebec	Denver	CO	6665 Wiley Road	Jacksonville	FL	6255 Georgia Highway 85	Riverdale	GA
5080 Leetsdale	Denver	CO	911 S. State Road 7	Plantation	FL	3003 Rutledge Road	Kennewaw	GA
2600 Sheridan Boulevard	Denver	CO	15800 Old US 41	Naples	FL	495 Buford Drive	Lawrenceville	GA
4403 S. Tamarac Parkway	Denver	CO	7480 S. Military Trail	Lake Worth	FL	8490 Dura Lee Lane	Douglasville	GA
10201 W. Hampden Avenue & Frontage	Lakewood	CO	1351 West Brandon Boulevard	Brandon	FL	3313 Highway 5, Suite F	Douglasville	GA
10299 Centennial Road	Littleton	CO	12123 West Sample Road	Coral Springs	FL	4474 Jonesboro Road	Forest Park	GA
12351 W. 44th Avenue	Wheat Ridge	CO	14101 South Military Trail	Delray Beach	FL	1891 North Columbia Street	Milledgeville	GA
2331 Wedgewood Avenue	Longmont	CO	975 Military Trail	Jupiter	FL	2888 Waialae Avenue	Honolulu	HI
5929 South College Avenue	Ft. Collins	CO	1814 Lake Worth Road	Lake Worth	FL	99-819 Iwaana Street	Aiea	HI
2460 North Powers Boulevard	Colorado Springs	CO	3555 Radio Road	Naples	FL	45-1021 Kam Highway	Kaneohe	HI
3725 Parkmoor Village Drive	Colorado Springs	CO	6609 State Road 54	New Port Richey	FL	94-559 Ukee Street	Waipio	HI
3845 Van Teylingen Drive	Colorado Springs	CO	2250 West Copans Road	Pompano Beach	FL	4100 Waialae Avenue	Honolulu	HI
1492 South Clinton Street	Denver	CO	2905 South Orlando Drive	Sanford	FL	777 W. Wise Road	Schaumburg	IL
7700 North Washington Street	Denver	CO	21000 Boca Rio Road	Boca Raton	FL	8220 Skokie Boulevard	Skokie	IL
5055 Centennial Boulevard	Colorado Springs	CO	1120 S. U.S. 41 By-Pass	Venice	FL	2433 S. Washington Street	Naperville	IL
115 Park Avenue	Basalt	CO	235 E. Oakridge Road	Orlando	FL	412 W. North Avenue	Lombard	IL
3440 Astrozon Court	Colorado Springs	CO	8226 South Highway 17-92	Fern Park	FL	12730 S. Pulaski Road	Alsip	IL
13999 West 64th Avenue	Arvada	CO	3400 S. Congress Avenue	Boynton Beach	FL	1001 N. Frontage Road	Darien	IL
1398 Simms Street	Golden	CO	151 N.W. 5th Street	Miami	FL	1010 E. Ogden Avenue	Naperville	IL
168 Bull Hill Lane	West Haven	CT	109 N.W. 20th Street	Boca Raton	FL	1414 S. Wabash Avenue	Chicago	IL
1296 Kings Highway Cutoff	Fairfield	CT	2250 Blount Road	Pompano Beach	FL	990 S. Milwaukee Road	Wheeling	IL
125 Railroad Avenue	West Haven	CT	1625 North Semoran Boulevard	Winter Park	FL	3501 Belvidere Road	Park City	IL
6 Summit Place	Branford	CT	5757 University Boulevard West	Jacksonville	FL	4430 N. Clark Street	Chicago	IL
120 Wilbur Cross Highway	Berlin	CT	920 Cortez Road West	Bradenton	FL	1385 E. Dundee Road	Palatine	IL
440 Tolland Turnpike	Manchester	CT	11800 Cleveland Avenue	Ft. Myers	FL	3327 W. 47th Street	Chicago	IL
100 Spring Street	Southington	CT	7930 W. 20th Avenue	Hialeah	FL	2626 W. Jefferson Street	Joliet	IL
113 Spring Street	Southington	CT	20865 U.S. Highway 19 North	Clearwater	FL	3835 W. 159th Place	Markham	IL
188 Roberts Street	East Hartford	CT	16079 U.S. Highway 19 North	Clearwater	FL	17204 S. Halsted Street	East Hazel Crest	IL
76 Captain Neville Drive	Waterbury	CT	399 Brent Lane	Pensacola	FL	297 W. Lake Frontage Road	Elmhurst	IL
115-D Elm Street	Enfield	CT	944 Creighton Road	Pensacola	FL	11110 E. Roosevelt Road	Lombard	IL
299 Wordin Avenue	Bridgeport	CT	210 Park Avenue	Orange Park	FL	1556 West Ogden Avenue	Naperville	IL
35 Hoyt Street	Norwalk	CT	8727 Phillips Highway	Jacksonville	FL	17208 S. Halsted Street	East Hazel Crest	IL
1230 South Capitol Street SE	Washington D.C.	DC	1615 North Highland Avenue	Clearwater	FL	1916 N. Elston	Chicago	IL
3801 Dupont Parkway	New Castle	DE	6401 Third Street/Stock Island	Key West	FL	2901 Touhy Avenue	Elk Grove Village	IL
653 Jellenic Boulevard	Dover	DE	1730 U.S. Highway 19	Tarpon Springs	FL	945 N. Farnsworth	Aurora	IL
425 New Churchmans Road	New Castle	DE	1131 Semoran Boulevard	Casselberry	FL	8484 S. South Chicago Avenue	Chicago	IL
201 Bellevue Road	Newark	DE	1200 U.S. Highway 1	Big Coppitt Key	FL	9700 W. Irving Park Road	Schiller Park	IL
2445 N.W. 38th Street	Miami	FL	38800 U.S. Highway 19 North	Tarpon Springs	FL	2345 173rd Street	Lansing	IL
10505 Marlin Road	Miami	FL	5036 S. Cleveland Avenue	Ft. Myers	FL	6990 W. 79th Street	Burbank	IL
3080 Pembroke Road	Hallandale	FL	5708 Ft. Caroline Road	Jacksonville	FL	3902 River Road	Schiller Park	IL
1480 N.W. 23rd Avenue	Ft. Lauderdale	FL	2275 South Semoran Boulevard	Orlando	FL	4072 N. Broadway	Chicago	IL
1020 N.W. 23rd Avenue	Ft. Lauderdale	FL	3424 Southside Boulevard	Jacksonville	FL	1505 Western Avenue	Chicago Heights	IL
3700 N.W. 29th Avenue	Miami	FL	155 South U.S. Highway 1	Ver Beach	FL	20 E. University Drive	Arlington Heights	IL
15760 N.W. 27th Avenue	Opa-Locka	FL	5295 Palm Valley Road	Ponte Vedra Beach	FL	5829 W. Ogden Avenue	Cicero	IL
900 S. Kirkman Road	Orlando	FL	6050 N.W. 153rd Street	Miami Lakes	FL	2101 W. Howard Street	Chicago	IL
301 Sunny Isles Boulevard	North Miami Beach	FL	3350 S.W. 10th Street	Deerfield Beach	FL	2835 North Western Avenue	Chicago	IL
3150 N. Hiwassee Road	Hiwassee	FL	2431 South Orange Blossom Trail	Apopka	FL	5778 North Northwest Highway	Chicago	IL
360 State Road 434 East	Longwood	FL	5408 South University Drive	Davie	FL	1129 N. Wells Street	Chicago	IL
9210 Lazy Lane	Tampa	FL	5401 L.B. McLeod Road	Orlando	FL	5838 N. Pulaski Road	Chicago	IL
6940 N. 56th Street	Tampa	FL	6219 Roosevelt Boulevard	Jacksonville	FL	2040 S. 25th Avenue	Broadview	IL
8230 N. Dale Mabry Highway	Tampa	FL	14060 S.W. 84th Street	Miami	FL	4849 W. 115th Street	Alsip	IL
3900 W. Colonial Drive	Orlando	FL	331 69th Street	Miami Beach	FL	7000 S. Cicero Avenue	Bedford Park	IL
6333 Arlington Expressway	Jacksonville	FL	1301 Dade Boulevard	Miami Beach	FL	903 E. Algonquin Road	Arlington Heights	IL
2415 Phillips Highway	Jacksonville	FL	4729 S. Orange Blossom Trail	Orlando	FL	2640 W. 79th Street	Chicago	IL
11810 N. Nebraska Avenue	Tampa	FL	0821 N.W. 14th Street	Miami	FL	5643 N. Broadway	Chicago	IL
6543 34th Street North	Pinellas Park	FL	0855 N.W. 7th Avenue	Miami	FL	1001 W. 111th Street	Chicago	IL
903 S. Semoran Boulevard	Orlando	FL	1795 Cobb Parkway	Marietta	GA	8050 McCormick Boulevard	Skokie	IL
7421 W. Hillsborough Avenue	Tampa	FL	1438 Montreal Road	Tucker	GA	17 W. 170 Roosevelt Road	Oakbrook Terrace	IL
7550 McNab Road	North Lauderdale	FL	1844 Mtn. Industrial Boulevard	Tucker	GA	2115 Bernice Road	Lansing	IL
4660 Babcock Street	Palm Bay	FL	3291 Camp Creek Parkway	East Point	GA	8201 159th Street	Tinley Park	IL
7200 W. 20th Avenue	Hialeah	FL	1387 Northside Drive	Atlanta	GA	556 North York Road	Bensenville	IL
3505 N.W. 167th Street	Opa-Locka	FL	1700 Roswell Street S.E.	Smyrna	GA	8901 W. 159th Street	Orland Hills	IL
1801 Hypoluxo Road	Lantana	FL	6289 Jimmy Carter Boulevard	Norcross	GA	11644 S. Kedzie Avenue	Merrionette Park	IL
5221 Okeechobee Road	Fort Pierce	FL	10468 Alpharetta Street	Roswell	GA	2638 N. Pulaski Road	Chicago	IL
8150 State Road 84	Davie	FL	1790 Woodberry Avenue	East Point	GA	939 E. 95th Street	Chicago	IL
14401 S.W. 119th Avenue	Miami	FL	2791 Cumberland Bl., Suite #200	Smyrna	GA	5901 S. Harlem Avenue	Chicago	IL
5880 66th Street North	St. Petersburg	FL	6000 Lawrenceville Highway	Tucker	GA	341 Frontage Road	Burr Ridge	IL
350 N. Nova Road	Daytona Beach	FL	5038 Covington Highway	Decatur	GA	2351 N. Harlem Avenue	Chicago	IL
8305 Ulmerton Road	Largo	FL	3400 Lawrenceville Highway	Tucker	GA	615 E. Boughton Road	Bolingbrook	IL
8755 N. Military Trail	Palm Beach Gardens	FL	3369 Canton Road N.E.	Marietta	GA	1040 E. State Street	Geneva	IL
3000 N. Federal Highway	Delray Beach	FL	3687 Flat Shoals Road	Decatur	GA	440 E. Street Charles Road	Carol Stream	IL
5900 Lakehurst Drive	Orlando	FL	5301 S. Cobb Drive	Smyrna	GA	8550 West 83rd Street	Justice	IL
5014 S. Dale Mabry Highway	Tampa	FL	2519 Chantilly Drive	Atlanta	GA	1295 W. Lake Street	Roselle	IL
16970 NW 4th Avenue	Miami	FL	4200 Snappingler Woods Drive	Decatur	GA	8790 W. Golf Road	Des Plaines	IL
21288 Biscayne Boulevard	Aventura	FL	95 Arcado Road NW	Liburn	GA	8625 Waukegan Road	Morton Grove	IL
1400 34th Street South	St. Petersburg	FL	460 Beaver Ruin Road NW	Liburn	GA	3659 S. Ashland Avenue	Chicago	IL
18450 N.E. 5th Avenue	Miami	FL	4343 Covington Highway	Decatur	GA	2050 Greenbay Road	Evanston	IL
1801 W. Oak Ridge Road	Orlando	FL	4554 Jonesboro Road	Forest Park	GA	115 N. 25th Avenue	Melrose Park	IL
1500 North State Road 7	Lauderhill	FL	1067 Memorial Drive	Atlanta	GA	2401 Lois Drive	Rolling Meadows	IL
271 Blanding Boulevard	Orange Park	FL	1525 Crescent Drive	Augusta	GA	1000 West Lake Street	Hanover Park	IL
4500 34th Street North	St. Petersburg	FL	1780 S. Cobb Drive	Marietta	GA	1512 West Jarvis Avenue	Chicago	IL
1080 E. Altamonte Springs Drive	Altamonte Springs	FL	615 Indian Trail Road NW	Liburn	GA	5733 North Broadway Street	Chicago	IL
8523 Baymeadows Road	Jacksonville	FL	7493 Jonesboro Road	Jonesboro	GA	499 Phillips Court	Carol Stream	IL
6133 S. Tamiami Trail	Sarasota	FL	1679 Cobb Parkway South	Marietta	GA	28 W. 650 Roosevelt Road	Winfield	IL
979 S. Lane Avenue	Jacksonville	FL	4560 I-75 Frontage Road	Forest Park	GA	930 S. Roselle Road	Schaumburg	IL
5340 Catoma Street	Jacksonville	FL	134 John Wesley Dobbs Avenue NE	Atlanta	GA	16161 Brennan Highway	Tinley Park	IL
2001 S.W. 70th Avenue	Davie	FL	1471 Forest Parkway	Lake City	GA	2400 Palmer Drive	Schaumburg	IL
2990 S.W. 28th Lane	Miami	FL	3300 Austell Road SW	Marietta	GA	2324 Gary Avenue	Geneva	IL
5080 N. State Road 7	Ft. Lauderdale	FL	895 Cobb Parkway North	Marietta	GA	1852 LaSalle Avenue	Naperville	IL
141 W. State Road Route 434	Winter Springs	FL	5711 Roswell Road	Atlanta	GA	2222 North Natchez Avenue	Chicago	IL
13611 N. 15th Street	Tampa	FL	3265 Holcomb Bridge Road	Norcross	GA	4520 West Cermak Road	Chicago	IL
850 S. Dixie Highway	Pompano Beach	FL	1964 Rockbridge Road	Stone Mountain	GA	4220 West 47th Street	Chicago	IL
5503 N. Australian Avenue	Mangonia Park	FL	3350 Peach Orchard Road	Augusta	GA	280 South Main Place	Chicago	IL
5850 Powerline Road	Ft. Lauderdale	FL	3503 Old Petersburg Road	Augusta	GA	243 North Western Avenue	Carroll Stream	IL
3800 Jog Road	Green Acres	FL	6906 Tara Boulevard	Jonesboro	GA	1300 East Chicago Street	Elgin	IL
1600 W. Sample Road	Pompano Beach	FL	2080 Briarcliff Road NE	Atlanta	GA	665 Big Timber Road	Elgin	IL



## Property Locations (12/31/98) (continued)

7455 South Pulaski Road	Chicago	IL	2745 Dixie Highway	Waterford	MI	289 Old Post Road	Edison	NJ
184 Business 30	Aurora	IL	12900 Newburgh Road	Livonia	MI	96 Brick Boulevard	Brick	NJ
1700 North 5th Avenue	River Grove	IL	31505 Groesbeck Highway	Fraser	MI	295 S. Martin Luther King Boulevard	Las Vegas	NV
4100 East Main Street	St. Charles	IL	29250 John R. Road	Madison Heights	MI	4685 E. Tropicana Avenue	Las Vegas	NV
1500 Old Church Road	Streamwood	IL	24305 Mound Road	Warren	MI	2225 Green Valley Parkway	Henderson	NV
708 Central Road	Mt. Prospect	IL	5060 Coolidge Highway	Royal Oak	MI	1204 S. Valley View Boulevard	Las Vegas	NV
865 E. Washington Street	Indianapolis	IN	20950 Greenfield Road	Oak Park	MI	38 N. Lamb Boulevard	Las Vegas	NV
4305 Lafayette Road	Indianapolis	IN	15075 Foliage Avenue	Apple Valley	MN	4875 S. McCarron Boulevard	Reno	NV
4350 S. East Street	Indianapolis	IN	23000 Winnetka Avenue North	Golden Valley	MN	1900 N. Jones Boulevard	Las Vegas	NV
1920 N. Green River Road	Evansville	IN	1830 Buerkle Road	White Bear Lake	MN	1881 N. Decatur Boulevard	Las Vegas	NV
6817 W. Washington Street	Indianapolis	IN	10201 Woodcrest Drive	Coon Rapids	MN	3345 S. Rainbow	Las Vegas	NV
2410 First Avenue	Evansville	IN	2000 Old County Road/34th Place	Burnsville	MN	4300 Boulder Highway	Las Vegas	NV
1915 N. Cline Avenue	Griffith	IN	9033 Lyndale Avenue	Bloomington	MN	5050 W. Charleston Boulevard	Las Vegas	NV
4001 West 37th Avenue	Hobart	IN	9030 Watson Road	Crestwood	MO	1400 E. Tropicana Avenue	Las Vegas	NV
1801 W. Coliseum Boulevard	Fort Wayne	IN	3760 Pennridge Drive	Bridgeton	MO	2727 S. Decatur Boulevard	Las Vegas	NV
5020 Bluffton Road	Fort Wayne	IN	11580 Page Service Drive	St. Louis	MO	4425 S. Eastern Avenue / Harmon	Las Vegas	NV
5151 Pike Plaza	Indianapolis	IN	13620 East 42nd Terrace	Independence	MO	6601 W. Charleston Boulevard	Las Vegas	NV
5505 Elmwood Avenue	Indianapolis	IN	11837 Benham Road	St. Louis	MO	3550 S. Arvill	Las Vegas	NV
5519 Illinois Road	Fort Wayne	IN	9722 Gravois Road	St. Louis	MO	385 E. Charleston Boulevard	Las Vegas	NV
4015 Calumet Avenue	Hammond	IN	15505 S. 71 Highway	Belton	MO	351 S. Martin Luther King Boulevard	Las Vegas	NV
11240 Mastin Street	Overland Park	KS	7707 N. Oak Trafficway	Gladstone	MO	200 Telegraph Street	Reno	NV
7100 E. 8th Street	Topeka	KS	5601 E. 112th Street Terrace	Kansas City	MO	2830 E. Desert Inn	Las Vegas	NV
7100 W. Frontage Road	Merriam	KS	9820 Holmes	Kansas City	MO	4056 E. Sunset Road	Henderson	NV
1525 E. Spruce	Olathe	KS	109 E. 31st Street	Independence	MO	5925 W. Flamingo	Las Vegas	NV
12716 W. 63rd Street	Shawnee	KS	2629 S. Range Line	Joplin	MO	1055 Stewart Avenue	Garden City	NY
1850 S.W. 41st Street	Topeka	KS	3850 Forder Road	St. Louis	MO	817 Peninsula Boulevard	Hempstead	NY
1175 S. Rock Road	Wichita	KS	200 E. Kirkham Road	St. Louis	MO	605 Lee Road	Rochester	NY
6805 E. Harry	Wichita	KS	3940 Reavis Barracks Road	St. Louis	MO	4871 Transit Road	Williamsville	NY
1930 S. Woodlawn	Wichita	KS	2211 Barrett Station Road	Ballwin	MO	3671 Sheridan Drive	Amherst	NY
12127 E. Kellogg	Wichita	KS	1539 Old Highway 94 South	St. Charles	MO	50 Foreman Drive	Spring Valley	NY
1445 S. Tyler Road	Wichita	KS	831 Meramec Station Road	Valley Park	MO	7345 Oswego Road	Liverpool	NY
3515 W. Maple	Wichita	KS	6030 North Lindbergh Boulevard	Hazelwood	MO	1693 East Avenue	Rochester	NY
1201 West Carey Lane	Wichita	KS	1550 North Lindbergh Boulevard	St. Louis	MO	185-Route 59 & Remsin Street	Monsey	NY
206 E. Macarthur	Wichita	KS	11 North Vandeventer	St. Louis	MO	72 Southern Boulevard	Nesconset	NY
3150 S. 44th Street	Kansas City	KS	2956 North Lindbergh Boulevard	St. Ann	MO	47 Broad Hollow Road	Farmingdale	NY
2223 Haskell Avenue	Lawrence	KS	1795 North Highway 67	Floissant	MO	1107 Goethals Road North	Staten Island	NY
12501 Hemlock Street	Overland Park	KS	9291 West Floissant Avenue	St. Louis	MO	925 Spring Road	Pelham Manor	NY
8830 Long Street	Lenexa	KS	2403 Rangeline Street	Columbia	MO	72 Emerson Place	Brooklyn	NY
6855 Hedge Lane Terrace	Shawnee	KS	2310 Paris Road	Columbia	MO	601 W. Sunrise Highway	Patchogue	NY
6560 Foxridge Drive	Mission	KS	2420 St. Mary's Boulevard	Jefferson City	MO	1250 Rockaway Avenue	Brooklyn	NY
6600 State Avenue	Kansas City	KS	1723 East 12th Street	Springfield	MO	Box 597 Route 94	Vails Gate	NY
12100 Santa Fe Trail Drive	Lenexa	KS	11575 New Halls Ferry Road	Floissant	MO	2855 Niagara Falls Boulevard	Amherst	NY
4127 Bardstown Road	Louisville	KY	4653 World Parkway Circle	St. Louis	MO	7 S. Pascack Road	Spring Valley	NY
7551 Industrial Road	Florence	KY	4000 South Providence Road	Columbia	MO	550 Middle Country Road	Coram	NY
7866 Tanners Lane	Florence	KY	3500 I-70 Drive SE	Columbia	MO	4116 Austin Parkway	Island Park	NY
6714 Preston Highway	Louisville	KY	9104 East 47th Street	Kansas City	MO	955 Saw Mill River Road	Yonkers	NY
1601 Twilight Trail	Frankfort	KY	8601 East 67th Terrace	Kansas City	MO	24-01 Brooklyn-Queens Expressway	Woodside	NY
3120 Breckenridge Lane	Louisville	KY	9527 James A. Reed Road	Kansas City	MO	4040 Hempstead Turnpike	Bethpage	NY
4324 Poplar Road	Louisville	KY	2700 M291 Frontage Road	Independence	MO	400 Fort Salonga Road	Northport	NY
750 Winchester Road	Lexington	KY	7900 Woodson Road	Raytown	MO	1062 St. Johns Place	Brooklyn	NY
12320 I-10 Service Road/Bullard	New Orleans	LA	3440 Main Street	Kansas City	MO	363 Portion Road	Lake Ronkonkoma	NY
3440 S. Carrollton Avenue	New Orleans	LA	9600 Marion Ridge Drive	Kansas City	MO	137 Saw Mill River Road	Yonkers	NY
10010 E. I-10 Service Road/Read	New Orleans	LA	1250 South Third Street	St. Louis	MO	60 E. Kingsbridge Road	Mt. Vernon	NY
3000 Belle Chasse Highway	Gretna	LA	Bus Barn / South Third Street	Street Louis	MO	3677 E. Kemper	Sharonville	OH
2930 Clearview Parkway	Metairie	LA	1508 Ashley Road	Charlotte	NC	6010 N. Dixie Highway	Fairfield	OH
1015 Gould Drive	Bossier City	LA	4920 Capital Boulevard	Raleigh	NC	4511 Eastland Drive	Columbus	OH
4614 Barksdale Boulevard	Bossier City	LA	7233 South Boulevard	Charlotte	NC	11395 Brookpark Road	Parma	OH
1901 St. Charles Avenue	New Orleans	LA	5714 W. Market Street	Greensboro	NC	2250 W. 117th Street	Cleveland	OH
3900 Tchoupitoulas Street	New Orleans	LA	4329 South Boulevard	Charlotte	NC	4070 Mt. Carmel-Tobasco Road	Cincinnati	OH
4040 Tulane Avenue	New Orleans	LA	4605 W. Market Street	Greensboro	NC	7353 Dixie Highway	Fairfield	OH
1515 Church Street	Lake Charles	LA	3010 Electra Drive	Greensboro	NC	4060 Morse Road	Columbus	OH
351 Parker Street	Springfield	MA	2610 Yonkers Road	Raleigh	NC	4600 Kenny Road	Columbus	OH
240 Newbury Street Route. 1	Peabody	MA	5105 Departure Drive	Raleigh	NC	6401 Busch Boulevard	Columbus	OH
277 Littleton Road	Westford	MA	1079 Concord Parkway North	Concord	NC	786 Kinnear Road	Columbus	OH
31 Jamrog Drive	Chicopee	MA	8520 East W.T. Harris Boulevard	Charlotte	NC	4021 Marlane Drive	Grove City	OH
195 Ward Street	Revere	MA	5748 North Tryon Street	Charlotte	NC	2995 Gender Road	Reynoldsburg	OH
2030 Main Street	Brockton	MA	7921 South Boulevard	Charlotte	NC	2655 Billingsley Road	Columbus	OH
432 Washington Street	Weymouth	MA	810 Oregon Street	Kannapolis	NC	5711 Westerville Road	Westerville	OH
595 Lynnway	Lynn	MA	620 East Club Boulevard	Durham	NC	4780 Arlington Centre Boulevard	Upper Arlington	OH
87 Warren Street	Randolph	MA	3933 North Duke Street	Durham	NC	601 W. Lefell Lane	Springfield	OH
800 River Street	Boston	MA	3500 Maitland Drive	Raleigh	NC	3560 Needmore Road	Dayton	OH
1904 West Street	Annapolis	MD	3206 N. O'Hery Boulevard	Greensboro	NC	6207 Executive Boulevard	Dayton	OH
8396 Veterans Highway, Ste. 200	Millersville	MD	2675 South York Road	Gastonia	NC	2555 E. Kemper Road	Cincinnati	OH
1701 Whitehead Road	Baltimore	MD	3600 Kangaroo Drive	Durham	NC	9660 Colerain Avenue	Cincinnati	OH
500 E. Diamond Avenue	Gaithersburg	MD	6425 S. 86th Street	Omaha	NE	4990 Sinclair Road	Columbus	OH
396 Prospect Boulevard	Frederick	MD	3035 S. Willow Street	Manchester	NH	27533 Helen Drive	Perrysburg	OH
3700 St. Barnabas Road	Suitland	MD	2028 S. Willow Street	Manchester	NH	6750 Amleside Drive	Columbus	OH
842 Hillen Street	Baltimore	MD	168 Route 17 North	Rochelle Park	NJ	22800 Miles Road	Bedford Heights	OH
7700 Central Avenue	Cheverly	MD	3825 Highway 1	South Brunswick	NJ	1561 Brittain Road	Akron	OH
7050 Old Waterloo Road	Baltimore	MD	950 Shrewsbury Avenue	Tinton Falls	NJ	2120 Harshman Road	Dayton	OH
9201 Liberty Road	Randallstown	MD	50 Milltown Road	East Brunswick	NJ	2719 Morse Road	Columbus	OH
7 Wever Road	Baltimore	MD	3828 Quakerbridge Road	Mercerville	NJ	6068 Branch Hill Guinea Pike	Milford	OH
370 Christopher Avenue	Gaithersburg	MD	1204 How Lane	North Brunswick	NJ	5201 Dixie Highway	Fairfield	OH
7800 Fenton Street	Silver Spring	MD	2100 Tonnelle Avenue	North Bergen	NJ	3220 Westbourne Drive	Cincinnati	OH
8550 Catalpa Street	Laurel	MD	Box 447 - Road40 Erial Road	Blackwood	NJ	5016 W. Reno Avenue / Route 5	Oklahoma City	OK
4215 Shannon Drive	Laurel	MD	593 Route 38 West	Maple Shade	NJ	7220 West Reno / Route 5	Oklahoma City	OK
14950 Bowie Road	Laurel	MD	110 Route 73 North	Marlton	NJ	11120 N. Pennsylvania Avenue	Oklahoma City	OK
8701 Central Avenue	Capitol Heights	MD	6 Dobb's Lane	Cherry Hill	NJ	2120 N.W. 39th Expressway	Oklahoma City	OK
3607 Fort Meade Road	Laurel	MD	4351 Route 130 South	Edgewater Park	NJ	802 W. Helner	Oklahoma City	OK
16001 Frederick Road	Rockville	MD	2629 Brunswick Avenue	Lawrenceville	NJ	2809 W. 1-240 Service Road #100	Oklahoma City	OK
7130 Furnace Branch Road	Glen Burnie	MD	328-332 Route 22	Greenbrook	NJ	8012 S. Santa Fe	Oklahoma City	OK
3005 Kenilworth Avenue	Hyttsville	MD	2820 State Highway No.42	Sicklerville	NJ	4105 S. May	Oklahoma City	OK
5000 Indianhead Highway	Oxon Hill	MD	55 Harker Avenue	Berlin	NJ	11995 S.W. Corby Drive	Portland	OR
5800 Woodcliff Road	Bowie	MD	515 Glenwood Street	Clifton	NJ	10905 S. W. Denny Road	Beaverton	OR
7901 Malcolm Road	Clinton	MD	669 Broadwood Avenue	Hillside	NJ	19350 S.W. Shaw	Aloha	OR
5420 Randolph Road	Rockville	MD	51 Peters Lane	Blackwood	NJ	2730 N.W. Division Street	Gresham	OR
1000 West Patapsco Avenue	Baltimore	MD	4001 Route 130 South	Delran	NJ	11800 S.E. 40th Avenue	Milwaukie	OR
10717 Hillwood Drive	Silver Spring	MD	124 Rudderow Avenue / Rte 38	Mapleshade	NJ	6525 N. Lombard Street	Portland	OR
5423 Butler Road	Bethesda	MD	68 Groveville Road	Trenton	NJ	13515 N.E. Prescott Court	Portland	OR
8800 Wise Avenue	Dundalk	MD	341 Highway 35	Eatontown	NJ	7402 S.E. 92nd Avenue	Portland	OR
4343 York Road	Baltimore	MD	1861 Old Cuthbert	Cherry Hill	NJ	6500 S.W. 110th Court	Beaverton	OR
8355 Telegraph Road	Odenton	MD	541 Bypass - P.O. Box 37	Mt. Holly	NJ	1921 N. Gantenbein Avenue	Portland	OR
7807 Marlboro Pike	Forestville	MD	5900 State Highway No.42	Turnersville	NJ	2542 S.E. 105th Avenue	Portland	OR
455 E. Gude Drive	Rockville	MD	550 Woodbury Glassboro Road	Sewell	NJ	1621 N.E. 71st Avenue (Halsey)	Portland	OR
2308 Chillum Road	Hyttsville	MD	460 South Fellowship Road	Maple Shade	NJ	17990 S.W. Mc Ewan	Tigard	OR
20080 Allen Road	Trenton	MI	1411 Parkside Avenue	Trenton	NJ	8928 N.E. Halsey Street	Portland	OR
3650 Enterprise Drive	Allen Park	MI	805 E. Main Street	Bridge Water	NJ	13325 Mc Loughlin Boulevard	Milwaukie	OR
35800 Mound Road	Sterling Heights	MI	282 U.S. Route 46	Rockaway	NJ	1608 N.E. 92nd Avenue	Portland	OR
24455 Schoenherr Road	Warren	MI	4 Orben Drive	Ledgewood	NJ	17501 S.E. McLoughlin	Milwaukie	OR
34050 9 Mile Road	Farmington	MI	1062 U.S. Route 22	Mountainside	NJ	11485 S.E. 82nd Avenue	Portland	OR



2190 N.W. Burnside	Gresham	OR	5016 E. Ben White Boulevard	Austin	TX	11810 Westheimer Road	Houston	TX
1203 S.E. Tualatin Valley Highway	Hillsboro	OR	3150 E. Pioneer Parkway	Arlington	TX	6899 Granbury Road	Fort Worth	TX
3508 S.W. Moody Street	Portland	OR	4901 Brentwood Stair	Fort Worth	TX	4341 Southwest Freeway	Houston	TX
13473 S.W. Pacific Highway	Tigard	OR	7780 Harwin Drive	Houston	TX	3540 Inwood Road	Dallas	TX
1421 E. Powell Boulevard	Gresham	OR	8430 Gulf Freeway	Houston	TX	799 East Loop 820	Fort Worth	TX
801 N. State Street	Lake Oswego	OR	7601 Airport Freeway	Richland Hills	TX	2422 Marsh Lane	Carrollton	TX
2600 N.W. Burnside Court	Gresham	OR	8801 W. Freeway	Fort Worth	TX	11550 Forest Central Drive	Dallas	TX
4021 Market Street	Aston	PA	2105 Winsted Drive	Dallas	TX	2531 South Cooper Street	Arlington	TX
2535 Maryland Road	Willow Grove	PA	406 S. Plano Road	Garland	TX	15114 Highway 3	Webster	TX
3751 Bristol Pike	Bensalem	PA	888 Eldridge Road	Sugar Land	TX	1545 E. 3900 South Street	Salt Lake City	UT
7571 Ridge Avenue	Philadelphia	PA	4401 S. Westmoreland	Dallas	TX	1829 West 3500 South Street	West Valley City	UT
245 West Chester Pike	Havertown	PA	10100 North I-35	Austin	TX	1560 West North Temple	Salt Lake City	UT
8401 Lansdowne Avenue	Upper Darby	PA	2715 Realty Drive	Carrollton	TX	9101 S. State Street	Sandy	UT
2025 Chemical Road	Plymouth Meeting	PA	655 E. Kingsley Road	Garland	TX	4065 W. Sams Blvd/5295 South Street	Kearns	UT
1251 Byberry Road	Philadelphia	PA	5342 E. Mockingbird Lane	Dallas	TX	2935 S. 3600 West	West Valley City	UT
6225 Oxford	Philadelphia	PA	4550 Louetta Road	Spring	TX	11885 Jefferson Avenue	Newport News	VA
1431 Ivy Hill Road	Wyndmoor	PA	2305 South Dairy Ashford	Houston	TX	1409 Diamond Springs Road	Virginia Beach	VA
6330 Market Street	Upper Darby	PA	2550 East Trinity Mills	Carrollton	TX	1489 General Booth Boulevard	Virginia Beach	VA
950 Jaymor Road	Southampton	PA	12670 Veterans Memorial Drive	Houston	TX	2921 Centreville Road	Herridon	VA
500 S. Flowers Mill Road	Langhorne	PA	1605 Vilbig Road	Dallas	TX	399 Old Jefferson Davis Highway	Arlington	VA
2750 Old Lincoln Highway	Trevose	PA	3501 Country Club Road North	Irving	TX	401 S. Pickett Street	Alexandria	VA
2700 Grant Avenue	Philadelphia	PA	3309 Alma Drive	Plano	TX	3005 Gallows Road	Falls Church	VA
1075 Bethlehem Pike	Montgomeryville	PA	3500 E. 14th Street	Plano	TX	13410 Warwick Boulevard	Newport News	VA
6301 Tacony Street	Philadelphia	PA	7412 Lemmon Avenue	Dallas	TX	4400 Backlick Road	Annapdale	VA
2977 Macarthur Road	Whitehall	PA	9110 Markville Drive	Dallas	TX	1510 Springhill Road	Mc Lean	VA
1130 Mineral Spring Avenue	North Providence	RI	20602 Gulf Freeway	Webster	TX	5610 General Washington Drive	Alexandria	VA
71 Freeway Drive	Cranston	RI	401 N.A.S.A., Road 1	Webster	TX	7400 Alban Station Boulevard	Springfield	VA
3415 Broad River Road	Columbia	SC	1822 West Kingsley Road	Garland	TX	3380 Holland Road	Virginia Beach	VA
3415 Broad River Road	Columbia	SC	1212 East Airport Freeway	Irving	TX	4805 Jefferson Davis Highway	Richmond	VA
3901 River Drive	Columbia	SC	2861 Walnut Hill Lane	Dallas	TX	10305 Balls Ford Road	Manassas	VA
401 Buckner Road	Columbia	SC	4925 Cockrell Hill Road	Dallas	TX	448 S. Independence Boulevard	Virginia Beach	VA
120 Decker Park Road	Columbia	SC	2301 E. Ben White	Austin	TX	9915 Richmond Highway	Lorton	VA
4479 Rosewood Drive	Columbia	SC	8525 N. Lamar	Austin	TX	12600 Jefferson Avenue	Newport News	VA
240 Orchard Drive	West Columbia	SC	4750 Hemphill	Fort Worth	TX	4312 Ravensworth Road	Annapdale	VA
1648 Airport Boulevard	West Columbia	SC	1147 West Hurst Boulevard	Hurst	TX	5728 Southern Boulevard	Virginia Beach	VA
1749 Whitehorse Road	Greenville	SC	7200 S. 1st Street	Austin	TX	1430 S. Military Highway	Chesapeake	VA
114 North Main Street	Mauldin	SC	13403 Wetmore Road	San Antonio	TX	1205 W. Pembroke Avenue	Hampton	VA
3112 Grand View Drive	Simpsonville	SC	4343 Callaghan	San Antonio	TX	880 Widgeon Road	Norfolk	VA
3129 Wade Hampton Boulevard	Taylors	SC	4910 S. Zanzamora	San Antonio	TX	1717 Bloom Lane	Richmond	VA
2560 Ashley Phosphate Road	Charleston	SC	2505 Hackberry	San Antonio	TX	5440 Midlothian Turnpike	Richmond	VA
5715 Dorchester Road	Charleston	SC	9529 Fredricksburg Road	San Antonio	TX	2918 Peters Creek Road	Roanoke	VA
6654 Dorchester Road	Charleston	SC	2840 S. Westmoreland	Dallas	TX	7901 Centreville Road	Manassas	VA
1833 Sam Rittenburg Boulevard	Charleston	SC	11038 Alvin Street	Dallas	TX	700 S. Pickett Street	Alexandria	VA
27 Office Park Road	Hilton Head Island	SC	1001 W. Beach Street	Fort Worth	TX	13887 Smoketown Road	Woodbridge	VA
229 Plumbers Road	Columbia	SC	1048 E. Seminary Drive	Fort Worth	TX	5819 Columbia Pike	Falls Church	VA
36 Pincknoll Road	Greenville	SC	3700 Cockrell Avenue	Fort Worth	TX	8523 Lee Highway	Fairfax	VA
5 Yacht Cove Drive	Hilton Head Island	SC	2377 E. Loop 820 South	Fort Worth	TX	14123 Jefferson Davis Highway	Woodbridge	VA
2155 Chesnee Highway	Spartanburg	SC	7501 Baker Boulevard	Richland Hills	TX	1365 Old Bridge Road	Woodbridge	VA
2373 Ashley River Road	Charleston	SC	8610 Glenvista Street	Houston	TX	3281 Western Branch Boulevard	Chesapeake	VA
3034 Broad River Road	Columbia	SC	9030 North Freeway	Houston	TX	14601 Lee Highway	Centreville	VA
28 Woods Lake Road	Greenville	SC	2850 Rogerdale Road	Houston	TX	1800 South Sterling Boulevard	Sterling	VA
4409 Summer Avenue	Memphis	TN	6615 S. Gessner	Houston	TX	8046 Sudley Road	Manassas	VA
7822 E. Brainerd Road	Chattanooga	TN	6336 Fairdale	Houston	TX	5806 221st Place Southeast	Issaquah	WA
6712 Ringgold Road	Chattanooga	TN	5200 Gulliton Drive	Houston	TX	1515 13th Avenue	Seattle	WA
142 Airport Plaza Drive	Alcoa	TN	8950 Westpark Drive	Houston	TX	10200 Highway 99 South	Everett	WA
1997 Elm Hill Pike	Nashville	TN	3555 S. Loop West	Houston	TX	15400 1st Avenue South	Burien	WA
4709 Chapman Highway	Knoxville	TN	9710 Plainfield Road	Houston	TX	6850 South 238th Street	Kent	WA
3125 Dickerson Pike	Nashville	TN	17050 North Freeway	Houston	TX	5200 180th Street Southwest	Lynnwood	WA
1546 North Gallatin Road	Madison	TN	11900 Old Katy Road	Houston	TX	25700 Pacific Highway South	Kent	WA
8713 Unicorn Drive	Knoxville	TN	9223 Long Point	Houston	TX	724 Eighth Street	Kirkland	WA
4811 Central Avenue Pike	Knoxville	TN	9205 Research Boulevard	Austin	TX	34701 Pacific Highway South	Federal Way	WA
1 Pryor Drive	Chattanooga	TN	555 West Sunset Road	San Antonio	TX	7133 Delridge Way Southwest	Seattle	WA
411 Lalayette Street	Nashville	TN	1314 Austin Highway	San Antonio	TX	14034 1st Avenue South	Seattle	WA
424 Metroplex Drive	Nashville	TN	16639 San Pedro	San Antonio	TX	11512 North Aurora Avenue	Seattle	WA
671 Myatt Drive	Madison	TN	937 Reinli	Austin	TX	12249 N.E. 124th Street	Kirkland	WA
5624 Highway 153	Hixson	TN	4202 Santiago	Austin	TX	10020 Martin Luther King Wy South	Seattle	WA
1015 Gadd Road	Hixson	TN	12343 E. Northwest Highway	Dallas	TX	13640 Bell-Red Road	Bellevue	WA
101 Harding Road	Red Bank	TN	12075 Denton Drive	Dallas	TX	23010 Highway 99	Edmonds	WA
408 Welshwood Drive	Nashville	TN	13300 Hempstead Highway	Houston	TX	2824 172nd Street Southwest	Lynnwood	WA
201 Williams Avenue	Madison	TN	2700 S. Shaver	Pasadena	TX	15244 Pacific Highway South	Seattle	WA
450 McNally Drive	Nashville	TN	175 S. Watson Road	Arlington	TX	1801 R Street Southeast	Auburn	WA
1412 Central Court	Hermitage	TN	500 E. Arapaho, Ste 1000	Richardson	TX	27000 Pacific Highway South	Kent	WA
5426 Cane Ridge Road	Antioch	TN	2603 Joel Wheaton Dr., Ste. 400	Houston	TX	10636 S.E. 174th Street	Renton	WA
12915 Research Boulevard	Austin	TX	4111 U.S. Highway 80	Mesquite	TX	20065 15th Avenue Northeast	Seattle	WA
1213 W. 6th Street	Austin	TX	9576 West F.M. 1960	Houston	TX	4103 Orchard Street South	Tacoma	WA
3703 Westheimer Boulevard	Houston	TX	3732a Westheimer Road	Houston	TX	9901 S.E. Millplain Boulevard	Vancouver	WA
8555 Larkwood Drive	Houston	TX	5615 Westheimer Road	Houston	TX	6720 24th Street West	Tacoma	WA
3443 Sorrento Drive	Mesquite	TX	11085 Kingsley Road	Dallas	TX	8520 Phillips Road Southwest	Tacoma	WA
10540 Walnut Street	Dallas	TX	1033 E. 41st Street	Austin	TX	9011 Evergreen Way	Everett	WA
8101 North Lamar Boulevard	Austin	TX	4921 Davis Boulevard	North Richland Hills	TX	10404 Martin Luther King Wy South	Seattle	WA
7112 South Congress Avenue	Austin	TX	1616 W. Airport Freeway	Irving	TX	2215 196th Street Southwest	Lynnwood	WA
8129 North Lamar Boulevard	Austin	TX	6502 Highway 6 South	Houston	TX	3624 Auburn Way North	Auburn	WA
5151 S. Shaver Street	Houston	TX	6014 N.W. Loop 410	San Antonio	TX	23600 Military Road South	Kent	WA
1205 North Loop 12	Irving	TX	5204 McC Art Avenue	Fort Worth	TX	18023 Des Moines Memorial Drive	Seattle	WA
10931 Research Boulevard	Austin	TX	10944 Millidge North Drive	Houston	TX	12465 Northrup Way	Bellevue	WA
3750 Marsh Lane	Carrollton	TX	3521 W. Pioneer Parkway Ste. A	Pantego	TX	8611 S. 222nd.	Kent	WA
2300 West Park Row	Pantego	TX	3008 West Division Street	Arlington	TX	21818 66th Avenue West	Mountlake Terrace	WA
100 N. Collins #101	Arlington	TX	732 South Cedar Ridge Drive	Duncanville	TX	3600 Stone Way North	Seattle	WA
12335 Bellaire Boulevard	Houston	TX	1225 West Trinity Mills Road	Carrollton	TX	1618 Blacklake Boulevard Southwest	Olympia	WA
8128 Lamar Boulevard	Austin	TX	380 Bolen Road	Kennedale	TX	7421 S. 180th Street	Kent	WA
6456 Highway 6 North	Houston	TX	14880 Wallisville Road	Houston	TX	5730 N. Lovers Lane Road	Milwaukee	WI
12710 Nacogdoches Road	San Antonio	TX	12400 Fondren Road	Houston	TX	8824 W. Brown Deer Road	Milwaukee	WI
1425 Austin Highway	San Antonio	TX	5460 Addicks Satsuma Road	Houston	TX	4750 S. 108th Street	Greenfield	WI
3550 West Mockingbird Lane	Dallas	TX	14729 Inwood Road	Addison	TX	900 W. Layton Avenue	Milwaukee	WI
11020-A Audelia Road	Dallas	TX	6222 S.W. Freeway	Houston	TX	6414 Coppas Avenue	Madison	WI
1408 N.W. 19th Street	Grand Prairie	TX	4333 Jackson Drive	Garland	TX	535 S. 84th Street	Milwaukee	WI
11770 S.W. Freeway	Houston	TX	321 East Buckingham Road	Garland	TX	6676 W. Appleton Avenue	Milwaukee	WI
14050 N.W. Freeway	Houston	TX	9420 Main Street	Houston	TX	7415 West Dean Road	Milwaukee	WI
8400 W. Highway 80	Fort Worth	TX	3401 Avenue K	Plano	TX	W229 N590 Foster Court	Waukesha	WI
1507 East Beltway 8	Pasadena	TX	5707 Bingle Road	Houston	TX			
2801 Avenue K	Plano	TX	2415 Mangum Road	Houston	TX			
12090 Fondren	Houston	TX	2055 Hayes Road	Houston	TX			
1707 I-35 East	Carrollton	TX	150 Dominion Drive	Katy	TX			
8939 East R.L. Thornton Freeway	Dallas	TX	2510 FM 1960 Road West	Houston	TX			
9811 North Freeway	Houston	TX	2930 FM 528 Road	Webster	TX			
11434 Sprowles Street	Dallas	TX	16303 Loch Katrine Lane	Houston	TX			
1419 S. Stemmons	Lewisville	TX	5323 Milwee Street	Houston	TX			
14451 Tomball Parkway	Houston	TX	690 East Highway 121	Lewisville	TX			
5685 De Soto Drive	Houston	TX	1100 North Central Expressway	Richardson	TX			
10950 I-10 East Freeway	Houston	TX	7770 Highway 6 South	Houston	TX			

Total Properties = 1,309 (12/31/98)

## Consolidated Balance Sheets

(Amounts in thousands, except share data)	December 31, 1998	December 31, 1997
<b>Assets</b>		
Cash and cash equivalents	\$ 51,225	\$ 41,455
Real estate facilities, at cost:		
Land	803,226	845,299
Buildings	2,159,065	2,232,230
	<u>2,962,291</u>	<u>3,077,529</u>
Accumulated depreciation	(411,176)	(378,248)
	<u>2,551,115</u>	<u>2,699,281</u>
Construction in process	83,138	42,635
	<u>2,634,253</u>	<u>2,741,916</u>
Investment in real estate entities	450,513	225,873
Intangible assets, net	203,635	212,944
Mortgage notes receivable from affiliates	5,415	21,807
Other assets	58,863	67,650
Total assets	<u>\$3,403,904</u>	<u>\$3,311,645</u>
<b>Liabilities and Shareholders' Equity</b>		
Revolving line of credit	\$ —	\$ 7,000
Notes payable	81,426	96,558
Accrued and other liabilities	63,813	70,648
Total liabilities	<u>145,239</u>	<u>174,206</u>
Minority interest	139,325	288,479
Commitments and contingencies		
<b>Shareholders' Equity:</b>		
Preferred Stock, \$0.01 par value, 50,000,000 shares authorized, 11,129,650 shares issued and outstanding (13,261,984 issued and outstanding at December 31, 1997), at liquidation preference:		
Cumulative Preferred Stock, issued in series	868,900	868,900
Convertible Preferred Stock	—	53,308
Common stock, \$0.10 par value, 200,000,000 shares authorized, 115,965,945 shares issued and outstanding (105,102,145 at December 31, 1997)	11,598	10,511
Class B Common Stock, \$0.10 par value, 7,000,000 shares authorized and issued	700	700
Paid-in capital	2,178,465	1,903,782
Cumulative net income	802,088	575,069
Cumulative distributions paid	(742,411)	(563,310)
Total shareholders' equity	<u>3,119,340</u>	<u>2,848,960</u>
Total liabilities and shareholders' equity	<u>\$3,403,904</u>	<u>\$3,311,645</u>

See accompanying notes.

## Consolidated Statements of Income

(Amounts in thousands, except per share data)

For each of the three years in the period ended December 31, 1998

	1998	1997	1996
<b>Revenues:</b>			
Rental income:			
Self-storage facilities	\$488,291	\$385,540	\$270,429
Commercial properties	23,112	40,575	23,576
Portable self-storage	24,466	7,893	421
Equity in earnings of real estate entities	26,602	17,569	22,121
Facility management fee	6,221	10,141	14,428
Interest and other income	13,459	9,126	7,976
	<u>582,151</u>	<u>470,844</u>	<u>338,951</u>
<b>Expenses:</b>			
Cost of operations:			
Self-storage facilities	149,376	117,963	82,494
Commercial properties	7,951	16,665	10,750
Portable self-storage	55,488	39,558	1,247
Cost of facility management	1,066	1,793	2,575
Depreciation and amortization	107,482	91,356	64,967
General and administrative	8,972	6,384	5,524
Interest expense	4,507	6,792	8,482
	<u>334,842</u>	<u>280,511</u>	<u>176,039</u>
Income before minority interest	247,309	190,333	162,912
Minority interest in income	(20,290)	(11,684)	(9,363)
Net income	<u>\$227,019</u>	<u>\$178,649</u>	<u>\$153,549</u>
Net income allocation:			
Allocable to preferred shareholders	\$ 78,375	\$ 88,393	\$ 68,599
Allocable to common shareholders	148,644	90,256	84,950
	<u>\$227,019</u>	<u>\$178,649</u>	<u>\$153,549</u>
<b>Per common share:</b>			
Basic net income per share	<u>\$ 1.30</u>	<u>\$ 0.92</u>	<u>\$ 1.10</u>
Diluted net income per share	<u>\$ 1.30</u>	<u>\$ 0.91</u>	<u>\$ 1.10</u>
Basic weighted average common shares outstanding	<u>113,929</u>	<u>98,446</u>	<u>77,117</u>
Diluted weighted average common shares outstanding	<u>114,357</u>	<u>98,961</u>	<u>77,358</u>

See accompanying notes.

## Consolidated Statements of Shareholders' Equity

(Amounts in thousands, except share and per share amounts) For each of the three years in the period ended December 31, 1998	Preferred Stock		Common Stock
	Cumulative	Convertible	
<b>Balances at December 31, 1995</b>	\$450,150	\$ 85,970	\$ 7,152
Issuance of Preferred Stock, net of issuance costs:			
Series H and I (10,750 shares)	268,750	—	—
Convertible, Series CC (58,955 shares)	—	58,955	—
Issuance of Common Stock (15,134,241 shares)	—	—	1,514
Conversion of Convertible Participating Preferred Stock into Common Stock (1,611,265 shares)	—	(28,470)	161
Conversion of 8.25% Convertible Preferred Stock into Common Stock (102,721 shares)	—	(1,526)	10
Net income	—	—	—
Cash distributions:			
Preferred Stock	—	—	—
Common Stock, \$0.88 per share	—	—	—
<b>Balances at December 31, 1996</b>	718,900	114,929	8,837
Issuance of Preferred Stock, net of issuance costs:			
Series J (6,000 shares)	150,000	—	—
Issuance of Common Stock (14,376,218 shares)	—	—	1,438
Conversion of Series CC Convertible Preferred Stock into Common Stock (2,184,250 shares)	—	(58,955)	218
Conversion of 8.25% Convertible Preferred Stock into Common Stock (179,651 shares)	—	(2,666)	18
Net income	—	—	—
Cash distributions:			
Preferred Stock	—	—	—
Common Stock, \$0.88 per share	—	—	—
<b>Balances at December 31, 1997</b>	868,900	53,308	10,511
Issuance of Common Stock (10,093,648 shares)	—	—	1,010
Conversion of 8.25% Convertible Preferred Stock into Common Stock (3,589,552 shares)	—	(53,308)	359
Repurchase of Common Stock (2,819,400 shares)	—	—	(282)
Net income	—	—	—
Cash distributions:			
Preferred Stock	—	—	—
Common Stock, \$0.88 per share	—	—	—
<b>Balances at December 31, 1998</b>	\$868,900	\$ —	\$11,598

See accompanying notes.



Class B Common Stock	Paid-in Capital	Cumulative Net Income	Cumulative Distributions	Total Shareholders' Equity
\$ 700	\$1,100,088	\$242,871	\$(252,428)	\$1,634,503
—	(8,972)	—	—	259,778
—	—	—	—	58,955
—	333,956	—	—	335,470
—	27,799	—	—	(510)
—	1,516	—	—	—
—	—	153,549	—	153,549
—	—	—	(68,599)	(68,599)
—	—	—	(67,709)	(67,709)
700	1,454,387	396,420	(388,736)	2,305,437
—	(5,075)	—	—	144,925
—	393,085	—	—	394,523
—	58,737	—	—	—
—	2,648	—	—	—
—	—	178,649	—	178,649
—	—	—	(88,393)	(88,393)
—	—	—	(86,181)	(86,181)
700	1,903,782	575,069	(563,310)	2,848,960
—	293,708	—	—	294,718
—	52,949	—	—	—
—	(71,974)	—	—	(72,256)
—	—	227,019	—	227,019
—	—	—	(78,375)	(78,375)
—	—	—	(100,726)	(100,726)
\$ 700	\$2,178,465	\$802,088	\$(742,411)	\$3,119,340

## Consolidated Statements of Cash Flows

(Amounts in thousands)

For each of the three years in the period ended December 31, 1998

	1998	1997	1996
<b>Cash flows from operating activities:</b>			
Net income	\$ 227,019	\$ 178,649	\$ 153,549
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	107,482	91,356	64,967
Depreciation included in equity in earnings of real estate entities	13,884	11,474	17,450
Minority interest in income	20,290	11,684	9,363
Total adjustments	<u>141,656</u>	<u>114,514</u>	<u>91,780</u>
Net cash provided by operating activities	<u>368,675</u>	<u>293,163</u>	<u>245,329</u>
<b>Cash flows from investing activities:</b>			
Principal payments received on mortgage notes receivable	46,897	409	1,784
Acquisition of minority interests in consolidated real estate partnerships	(22,845)	(21,559)	(15,419)
Acquisition of mortgage notes receivable	(33,000)	—	(3,709)
Acquisition of real estate facilities	(46,064)	(65,225)	(198,404)
Acquisition cost of business combinations	(85,883)	(164,808)	(113,522)
Reduction in cash due to the deconsolidation of PS Business Parks (See Note 2)	(11,260)	—	—
Acquisition of interests in real estate entities	(99,934)	(46,151)	(83,893)
Construction in process	(79,132)	(45,865)	(46,097)
Investment in portable self-storage business	(2,571)	(29,997)	—
Capital improvements to real estate facilities	(31,714)	(35,117)	(20,366)
Other	19,732	(838)	(5,104)
Net cash used in investing activities	<u>(345,774)</u>	<u>(409,151)</u>	<u>(484,730)</u>
<b>Cash flows from financing activities:</b>			
Net (paydowns) borrowings on revolving line of credit	(7,000)	7,000	—
Net proceeds from the issuances of preferred stock	—	144,925	259,778
Net proceeds from the issuances of common stock	237,860	182,523	130,538
Repurchase of the Company's common stock	(72,256)	—	—
Principal payments on mortgage notes payable	(15,131)	(11,885)	(51,310)
Distributions paid to shareholders	(179,101)	(174,574)	(136,308)
Distributions from operations to minority interests in consolidated real estate entities	(32,312)	(20,929)	(20,853)
Net reinvestment by minority interests in consolidated real estate entities	54,809	3,527	3,976
Net cash (used in) provided by financing activities	<u>(13,131)</u>	<u>130,587</u>	<u>185,821</u>
Net increase (decrease) in cash and cash equivalents	9,770	14,599	(53,580)
Cash and cash equivalents at the beginning of the year	41,455	26,856	80,436
Cash and cash equivalents at the end of the year	<u>\$ 51,225</u>	<u>\$ 41,455</u>	<u>\$ 26,856</u>

See accompanying notes.

(Amounts in thousands)

For each of the three years in the period ended December 31, 1998

**SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING  
AND FINANCING ACTIVITIES:****Investing activities:**

	1998	1997	1996
Acquisition of real estate facilities in exchange for minority interests, common stock, the assumption of mortgage notes payable, the cancellation of mortgage notes receivable and the reduction of investment in real estate entities	\$ (42,047)	\$(119,279)	\$ (4,292)
Business combinations (Note 3):			
Real estate facilities	(224,999)	(657,347)	(531,794)
Investment in real estate entities	86,966	189,400	124,696
Other assets	(670)	(4,119)	(5,849)
Accrued and other liabilities	3,793	21,190	15,399
Minority interest	35,210	74,068	20,139
Effect of the deconsolidation of PS Business Parks (Note 2)			
Investments in real estate entities	(219,225)	—	—
Real estate facilities, net of accumulated depreciation	433,446	—	—
Other assets	2,048	—	—
Accrued and other liabilities	(10,106)	—	—
Notes payable	(14,526)	—	—
Minority interest	(202,897)	—	—
Acquisition of minority interest in exchange for common stock	(25,460)	—	—
Investment in real estate entities	(17,133)	30,406	—

**Financing activities:**

Cancellation of mortgage notes receivable to acquire real estate facilities		2,495	—
700			
Assumption of mortgage notes payable upon the acquisition of real estate facilities	14,526	—	1,701
Reduction of investment in real estate entities in exchange for real estate facilities	527	—	1,891
Reduction in construction in process — contribution to joint venture	—	(30,406)	—
Minority interest issued in exchange for real estate facilities	1,206	119,279	—
Issuance of Mandatory Convertible Preferred Stock, Series CC to acquire interest in consolidated real estate partnerships	—	—	58,955
Issuance of Common Stock:			
In connection with mergers	13,817	212,000	204,932
To acquire minority interests	25,908	—	—
Acquire partnership interests in real estate entities	17,133	—	—
In connection with conversion of Convertible Preferred Stock	53,308	61,621	29,486
Conversion of 8.25% Convertible Preferred Stock	(53,308)	(2,666)	(1,526)
Conversion of Mandatory Convertible Preferred Stock	—	(58,955)	(28,470)

See accompanying notes.

## Notes to Consolidated Financial Statements (December 31, 1998)

### Note 1. Description of the Business

Public Storage, Inc. (the "Company") is a California corporation which was organized in 1980. The Company is a fully integrated, self-administered and self-managed real estate investment trust ("REIT") that acquires, develops, owns and operates self-storage facilities which offer self-storage spaces for lease, usually on a month-to-month basis, for personal and business use.

The Company invests in real estate facilities primarily through the acquisition of wholly-owned facilities combined with the acquisition of equity interests in real estate entities owning real estate facilities. At December 31, 1998, the Company had direct and indirect equity interests in 1,206 properties located in 38 states, including 1,094 self-storage facilities and 107 commercial properties and five facilities for use in its portable self-storage operations. All of the self-storage facilities are operated by the Company under the "Public Storage" name.

In 1996 and 1997, the Company organized Public Storage Pickup and Delivery, Inc. as a separate corporation and a related partnership (the corporation and partnership are collectively referred to as "PSPUD") to operate a portable self-storage business that rents storage containers to customers for storage in central warehouses. At December 31, 1998, PSPUD operated 43 facilities in 11 states.

On January 2, 1997, the Company reorganized its commercial property operations into a separate private REIT (the "Private REIT"). The Private REIT contributed its assets to a newly created operating partnership (the "Operating Partnership") in exchange for a general partnership interest and limited partnership interests. The Company and certain partnerships in which the Company has a controlling interest contributed substantially all of their commercial properties to the Operating Partnership in exchange for limited partnership interests or to the Private REIT in exchange for common stock. On March 17, 1998, the Private REIT merged into Public Storage Properties XI, Inc., an affiliated publicly traded REIT and the name of the surviving corporation was changed to PS Business Parks, Inc. (the REIT and Operating Partnership are referred to hereafter as "PSB"). As of December 31, 1998, the Company owned approximately 40% of PSB. At December 31, 1998, PSB owned 106 properties located in 11 states. PSB also manages the commercial properties owned by the Company and certain of its unconsolidated affiliates.

### Note 2. Summary of Significant Accounting Policies

#### *Basis of presentation*

The consolidated financial statements include the accounts of the Company, PSPUD, and 21 controlled limited partnerships (the "Consolidated Entities"). Collectively, these entities own a total of 957 real estate facilities, consisting of 951 self-storage facilities, one commercial property, and five facilities for use by PSPUD.

At December 31, 1998, the Company also had equity investments in 26 other affiliated limited partnerships whose principal business is the ownership of 143 self-storage facilities in aggregate which are managed by the Company. The Company does not control these entities, accordingly, the Company's investments in these entities are accounted for using the equity method.

From the time of PSB's formation through March 31, 1998, the Company consolidated the accounts of PSB in its financial statements. During the second quarter of 1998, the Company's ownership interest in PSB was reduced below 50%, and accordingly, the Company ceased to have a controlling interest in PSB. As a result, the Company, effective April 1, 1998, no longer includes the accounts of PSB in its consolidated financial statements and has accounted for its investment during the nine months ended December 31, 1998 using the equity method. The consolidated statement of income for the year ended December 31, 1998 includes the consolidated operating results of PSB for the three months ended March 31, 1998, however, for the nine months ended December 31, 1998 the Company's investment is accounted for using the equity method.

#### *Use of estimates*

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

#### *Income taxes*

For all taxable years subsequent to 1980, the Company qualified and intends to continue to qualify as a REIT, as defined in Section 856 of the Internal Revenue Code. As a REIT, the Company is not taxed on that portion of its taxable income which is distributed to its shareholders provided that the Company meets certain tests. The Company believes it has met these tests during 1998, 1997 and 1996; accordingly, no provision for income taxes has been made in the accompanying financial statements.

#### *Financial instruments*

For purposes of financial statement presentation, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.



The carrying amount of cash and cash equivalents and mortgage notes receivable approximates fair value because with respect to cash and cash equivalents maturities are less than three months and with respect to the mortgage notes receivable applicable interest rates approximate market rates for these loans. The carrying amount of the Company's fixed rate long-term debt is estimated using discounted cash flow analyses based on incremental borrowing rates the Company believes it could obtain with similar terms and maturities.

#### *Real estate facilities*

Real estate facilities are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the buildings and improvements, which are generally between 5 and 25 years.

#### *Allowance for possible losses*

The Company has no allowance for possible losses relating to any of its real estate investments, long-lived assets and mortgage notes receivable. The need for such an allowance is evaluated by management by means of periodic reviews of its investment portfolio.

#### *Intangible assets*

Intangible assets consist of property management contracts (\$165,000,000) and the cost over the fair value of net tangible and identifiable intangible assets (\$67,726,000) acquired. Intangible assets are amortized straight-line over 25 years. At December 31, 1998 and 1997, intangible assets are net of accumulated amortization of \$29,091,000 and \$19,782,000, respectively. Included in depreciation and amortization expense is \$9,309,000 in each of the three fiscal years ended December 31, 1998 with respect to the amortization of intangible assets.

#### *Revenue and expense recognition*

Property rents are recognized as earned. Equity in earnings of real estate entities are recognized based on the Company's ownership interest in the earnings of each of the unconsolidated real estate entities. Advertising costs are expensed as incurred.

#### *Environmental costs*

The Company's policy is to accrue environmental assessments and/or remediation cost when it is probable that such efforts will be required and the related costs can be reasonably estimated. The Company's current practice is to conduct environmental investigations in connection with property acquisitions. As a result of environmental investigations of its properties, which commenced in 1995, the Company recorded an amount which, in management's best estimate, will be sufficient to satisfy anticipated costs of known investigation and remediation requirements. Although there can be no assurance, the Company is not aware of any environmental contamination of any of its facilities which individually or in the aggregate would be material to the Company's overall business, financial condition, or results of operations.

#### *Net income per common share*

In 1997, the Financial Accounting Standards Board issued Statement No. 128, *Earnings per Share*. Statement 128 replaced the calculation of primary and fully diluted net income per share with basic and diluted net income per share. Unlike primary net income per share, basic net income per share excludes any dilutive effects of options, warrants and convertible securities. Diluted net income per share is very similar to the previously reported fully diluted net income per share. All net income per share amounts for all periods have been presented and where appropriate, restated to conform to Statement 128 requirements.

Diluted net income per common share is computed using the weighted average common shares outstanding (adjusted for stock options). The Class B Common Stock is not included in the determination of net income per common share because all contingencies required for the conversion to common stock have not been satisfied as of December 31, 1998. In addition, the inclusion of the Company's convertible preferred stock in the determination of net income per common share has been determined to be anti-dilutive.

In computing earnings per common share, preferred stock dividends totaling \$78,375,000, \$88,393,000 and \$68,599,000 for the years ended December 31, 1998, 1997 and 1996, respectively, reduced income available to common stockholders.

#### *Stock-based compensation*

In October 1995, the FASB issued SFAS No. 123 "Accounting for Stock-Based Compensation" ("Statement 123") which provides companies an alternative to accounting for stock-based compensation as prescribed under APB Opinion No. 25 (APB 25). Statement 123 encourages, but does not require companies to recognize expense for stock-based awards based on their fair value at date of grant. Statement 123 allows companies to continue to follow existing accounting rules (intrinsic value method under APB 25) provided that pro-forma disclosures are made of what net income and earnings per share would have been had the new fair value method been used. The Company has elected to adopt the disclosure requirements of Statement 123 but will continue to account for stock-based compensation under APB 25.

### Note 3. Business Combinations

#### Mergers with affiliated REITs

During 1998, the Company completed merger transactions with two affiliated public REITs whereby the Company acquired all the outstanding stock of the REITs which it did not previously own in exchange for cash and common stock of the Company. The merger transaction with Public Storage Properties XI, Inc. was accomplished through a merger of Public Storage Properties XI, Inc. with the Private REIT. The aggregate acquisition cost of these mergers is summarized as follows (amounts in thousands):

Entity	Date of Merger	Merger Consideration			Total
		PSI Common Stock	Pre-Existing Investment	Cash	
Public Storage Properties XI, Inc.	March 17, 1998	\$ —	\$14,774	\$ —	\$14,774
Public Storage Properties XX, Inc.	May 8, 1998	13,817	3,797	4,744	22,358
		<u>\$13,817</u>	<u>\$18,571</u>	<u>\$4,744</u>	<u>\$37,132</u>

During 1997, the Company completed merger transactions with six affiliated public REITs whereby the Company acquired all the outstanding stock of the REITs for an aggregate cost of \$404,907,000, consisting of the issuance of 7,681,432 shares of the Company's common stock (\$212,000,000), a \$124,045,000 reduction of the Company's pre-existing investment and \$68,862,000 in cash.

#### Affiliated partnership acquisitions:

During 1998, the Company increased its ownership interest in three affiliated limited partnerships in which the Company is the general partner. Prior to the acquisitions, the Company accounted for its investment in each of the three partnerships using the equity method. As a result of increasing its ownership interest and obtaining control of the partnerships, the Company began to consolidate the accounts of the partnerships in the Company's consolidated financial statements. These transactions are summarized as follows (amounts in thousands):

Entity	Economic Interest after Acquisition	Month Purchased	Cash	Pre-existing Investment	Total
Mid-Atlantic I and II	95%	January 1998	\$ 5,710	\$ 1,551	\$ 7,261
Public Storage Institutional Fund III	98%	September 1998	75,429	66,844	142,273
			<u>\$81,139</u>	<u>\$68,395</u>	<u>\$149,534</u>

During 1997, the Company increased its ownership interest in twelve affiliated limited partnerships in which the Company is the general partner. Prior to the acquisitions, the Company accounted for its investment in each of the twelve partnerships using the equity method. As a result, commencing in 1997, the Company began to consolidate the accounts of these partnerships for financial statement purposes. The aggregate amount of the interests acquired totaled \$161,301,000 consisting of a \$65,355,000 reduction of the Company's pre-existing investment and cash of \$95,946,000.

Each of the above mergers with affiliated REITs and acquisitions of partnership interests discussed above has been accounted for as a purchase; accordingly, allocations of the total acquisition cost to the net assets acquired were made based on the fair value of such assets and liabilities as of the dates of each respective transaction. The fair market values of the assets acquired and liabilities assumed with respect to the transactions occurring in 1998 and 1997 are summarized as follows:

(amounts in thousands)	REIT Mergers	Partnership Acquisitions	Total
1998 business combinations:			
Real estate facilities	\$ 73,971	\$151,028	\$224,999
Other assets	271	399	670
Accrued and other liabilities	(2,280)	(1,513)	(3,793)
Minority interest	<u>(34,830)</u>	<u>(380)</u>	<u>(35,210)</u>
	<u>\$ 37,132</u>	<u>\$149,534</u>	<u>\$186,666</u>
1997 business combinations:			
Real estate facilities	\$413,597	\$243,750	\$657,347
Other assets	2,424	1,695	4,119
Accrued and other liabilities	(11,114)	(10,076)	(21,190)
Minority interest	<u>—</u>	<u>(74,068)</u>	<u>(74,068)</u>
	<u>\$404,907</u>	<u>\$161,301</u>	<u>\$566,208</u>

The historical operating results of the above acquisitions prior to each respective acquisition date have not been included in the Company's historical operating results. Pro forma data (unaudited) for the years ended December 31, 1998 and 1997 as though the business combinations above had been effective at the beginning of fiscal 1997 are as follows:

(in thousands except per share data)  
For the year ended December 31,

	1998	1997
Revenues	\$593,180	\$496,977
Net income	\$226,353	\$176,716
Net income per common share (Basic)	\$ 1.30	\$ 0.89
Net income per common share (Diluted)	\$ 1.29	\$ 0.89

The pro forma data does not purport to be indicative either of results of operations that would have occurred had the transactions occurred at the beginning of fiscal 1997 or future results of operations of the Company. Certain pro forma adjustments were made to the combined historical amounts to reflect (i) expected reductions in general and administrative expenses, (ii) estimated increased interest expense from bank borrowings to finance the cash portion of the acquisition cost and (iii) estimated increase in depreciation and amortization expense.

#### Note 4. Real Estate Facilities

Activity in real estate facilities during 1998, 1997 and 1996 is as follows:

(amounts in thousands)	1998	1997	1996
Operating facilities, at cost:			
Beginning balance	\$3,077,529	\$2,185,498	\$1,405,155
Property acquisitions			
Business combinations (Note 3)	224,999	657,347	531,794
Other acquisitions	64,818	184,504	202,696
Developed facilities	38,629	8,639	18,261
Acquisition of minority interest (Note 8)	23,293	8,904	7,226
Capital improvements	31,714	35,117	20,366
PSB deconsolidation (see below)	(498,691)	(2,480)	—
Ending balance	<u>2,962,291</u>	<u>3,077,529</u>	<u>2,185,498</u>
Accumulated depreciation:			
Beginning balance	(378,248)	(297,655)	(241,966)
Additions during the year	(98,173)	(82,047)	(55,689)
PSB deconsolidation (see below)	65,245	1,454	—
Ending balance	<u>(411,176)</u>	<u>(378,248)</u>	<u>(297,655)</u>
Construction in progress:			
Beginning balance	42,635	35,815	7,979
Current development cost	79,132	45,865	46,097
Property contribution to real estate entities	—	(30,406)	—
Newly opened development facilities	(38,629)	(8,639)	(18,261)
Ending balance	<u>83,138</u>	<u>42,635</u>	<u>35,815</u>
Total real estate facilities	<u>\$2,634,253</u>	<u>\$2,741,916</u>	<u>\$1,923,658</u>

During 1998, the Company acquired a total of 53 real estate facilities for an aggregate cost of \$224,999,000 in connection with certain business combinations (Note 3). In addition, the Company also acquired two self-storage facilities for an aggregate cost of \$9,384,000, consisting of the cancellation of mortgage notes receivable (\$2,495,000), the Company's existing investment (\$527,000), and cash (\$6,362,000) and three commercial facilities for an aggregate cost of \$55,434,000 consisting of the assumption of mortgage notes payable (\$14,526,000), the issuance of minority interests (\$1,206,000) and cash (\$39,702,000).

Effective April 1, 1998, the Company no longer included the accounts of PSB in its consolidated financial statements (Note 2). As a result of this change, real estate facilities and accumulated depreciation were reduced by \$498,691,000 and \$65,245,000, respectively, reflecting the cost basis of the PSB real estate facilities which are no longer included in the Company's consolidated financial statements.

During 1997, the Company acquired a total of 176 real estate facilities for an aggregate cost of \$657,347,000 in connection with certain business combinations (Note 3). The Company also acquired an additional 14 real estate facilities from third parties with an aggregate acquisition cost of \$184,504,000 consisting of the issuance of minority interests (\$119,279,000) and cash (\$65,225,000).

During 1996, the Company acquired a total of 154 real estate facilities for an aggregate cost of \$531,794,000 in connection with certain business combinations. The Company also acquired an additional 58 real estate facilities from third parties with an aggregate acquisition cost of \$202,696,000 consisting of the cancellation of mortgage notes receivable (\$700,000), cancellation of pre-existing investments (\$1,891,000), assumption of mortgage notes payable (\$1,701,000), and cash (\$198,404,000).

A substantial number of the real estate facilities acquired during 1998, 1997, and 1996 were acquired from affiliates in connection with business combinations with an aggregate acquisition cost of approximately \$224,999,000, \$657,347,000, and \$531,794,000 respectively.

Construction in progress consists of land and development costs relating principally to the development of self-storage facilities. In April 1997, the Company and an institutional investor created a joint venture partnership (the "Development Joint Venture") for the purpose of developing up to \$220 million of self-storage facilities. The Company owns 30% of the partnership interest and the institutional investor owns the remaining 70% interest. In connection with the formation of the Development Joint Venture, the Company contributed eight self-storage facilities (\$30,406,000), which were under construction, to the partnership in exchange for its partnership interest. The Company will periodically transfer newly developed properties, the cost of which were included in real estate, to the partnership as part of the Company's capital contribution to the partnership. The Company's investment in the partnership is accounted for using the equity method (See Note 5).

At December 31, 1998, the unaudited adjusted basis of real estate facilities for Federal income tax purposes was approximately \$2.2 billion.

### Note 5. Investments in Real Estate Entities

At December 31, 1998, the Company's investments in real estate entities consist generally of ownership interests in 26 partnerships. Such interests consists of noncontrolling interests of less than 50% and are accounted for using the equity method of accounting. Accordingly, earnings are recognized by the Company based upon the Company's ownership interest in each of the partnerships. During 1998, 1997, and 1996, the Company recognized earnings from its investments of \$26,602,000, \$17,569,000 and \$22,121,000, respectively, and received cash distributions totaling \$17,968,000, \$15,673,000 and \$27,326,000, respectively.

During 1998 and 1997, respectively, the Company's investment in real estate entities decreased principally as a result of business combinations whereby the Company eliminated approximately \$87.0 million and \$189.4 million, respectively, of pre-existing investments in real estate entity investments. Offsetting these decreases are additional investments made by the Company in other unconsolidated entities totaling \$319.1 million (including \$219.2 million due to the deconsolidation of PSB) and \$46.2 million in 1998 and 1997, respectively.

Summarized combined financial data with respect to those real estate entities in which the Company had an ownership interest at December 31, 1998 (amounts for the Development Joint Venture are from its formation on April 10, 1997) are as follows:

(amounts in thousands) For the year ended December 31, 1998:	Other Equity Investments	Development Joint Venture	PSB	Total
Rental income	\$ 65,813	\$ 6,003	\$ 88,320	\$ 160,136
Other income	1,755	555	1,940	4,250
Total revenues	<u>67,568</u>	<u>6,558</u>	<u>90,260</u>	<u>164,386</u>
Cost of operations	21,882	3,703	26,150	51,735
Depreciation and amortization	7,990	1,879	18,908	28,777
Other expenses	8,119	100	4,594	12,813
Total expenses	<u>37,991</u>	<u>5,682</u>	<u>49,652</u>	<u>93,325</u>
Net income before minority interest	29,577	876	40,608	71,061
Minority interest	—	—	(11,208)	(11,208)
Net income	<u>\$ 29,577</u>	<u>\$ 876</u>	<u>\$ 29,400</u>	<u>\$ 59,853</u>
At December 31, 1998:				
Real estate, net	\$169,775	\$138,948	\$698,137	\$1,006,860
Total assets	\$213,762	\$146,666	\$709,414	\$1,069,842
Total liabilities	\$ 76,657	\$ 4,927	\$ 66,494	\$ 148,078
Minority interest	\$ —	\$ —	\$153,015	\$ 153,015
Total equity	\$137,105	\$141,739	\$489,905	\$ 768,749
The Company's investment (book value) at December 31, 1998	\$175,383	\$ 42,522	\$232,608	\$ 450,513
The Company's effective average ownership interest at December 31, 1998	37%	30%	40%	33%

As indicated above, in April 1997, the Company and an institutional investor formed a joint venture partnership for the purpose of developing up to \$220 million of self-storage facilities. As of December 31, 1998, the joint venture partnership had completed construction on 24 self-storage facilities

with a total cost of approximately \$112.2 million, and had 6 facilities under construction with an aggregate cost incurred to date of approximately \$28.6 million and total additional estimated cost to complete of \$3.9 million. The partnership is funded solely with equity capital consisting of 30% from the Company and 70% from the institutional investor.

### Note 6. Revolving Line of Credit

The credit agreement (the "Credit Facility") has a borrowing limit of \$150 million and an expiration date of July 31, 2001. The expiration date may be extended by one year on each anniversary of the credit agreement. Interest on outstanding borrowings is payable monthly. At the option of the Company, the rate of interest charged is equal to (i) the prime rate or (ii) a rate ranging from the London Interbank Offered Rate ("LIBOR") plus 0.40% to LIBOR plus 1.10% depending on the Company's credit ratings and coverage ratios, as defined. In addition, the Company is required to pay a quarterly commitment fee of 0.250% (per annum) of the unused portion of the Credit Facility. The Credit Facility allows the Company, at its option, to request the group of banks to propose the interest rate they would charge on specific borrowings not to exceed \$50 million; however, in no case may the interest rate proposal be greater than the amount provided by the Credit Facility.

Under covenants of the Credit Facility, the Company is required to (i) maintain a balance sheet leverage ratio of less than 0.40 to 1.00, (ii) maintain net income of not less than \$1.00 for each fiscal quarter, (iii) maintain certain cash flow and interest coverage ratios (as defined) of not less than 1.0 to 1.0 and 5.0 to 1.0, respectively, and (iv) maintain a minimum total shareholders' equity (as defined). In addition, the Company is limited in its ability to incur additional borrowings (the Company is required to maintain unencumbered assets with an aggregate book value equal to or greater than three times the Company's unsecured recourse debt) or sell assets. The Company was in compliance with the covenants of the Credit Facility at December 31, 1998.

### Note 7. Notes Payable

Notes payable at December 31, 1998 and 1997 consist of the following:

(amounts in thousands)	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
7.08% unsecured senior notes, due November 2003	\$46,000	\$46,000	\$53,250	\$ 53,250
Mortgage notes payable:				
10.55% mortgage notes secured by real estate facilities, principal and interest payable monthly, due August 2004	28,401	30,942	30,355	34,571
7.134% to 11.00% mortgage notes secured by real estate facilities, principal and interest payable monthly, due at varying dates between May 1999 and September 2028	7,025	7,025	12,953	12,953
	<u>\$81,426</u>	<u>\$83,967</u>	<u>\$96,558</u>	<u>\$100,774</u>

The senior notes require interest and principal payments to be paid semi-annually and have various restrictive covenants, all of which have been met at December 31, 1998.

The 10.55% mortgage notes consist of five notes which are cross-collateralized by 19 properties and are due to a life insurance company. Although there is a negative spread between the carrying value and the estimated fair value of the notes, the notes provide for the prepayment of principal subject to the payment of penalties which exceed this negative spread. Accordingly, prepayment of the notes at this time would not be economically practicable.

Mortgage notes payable are secured by 25 of the Company's real estate facilities having an aggregate net book value of \$53.8 million at December 31, 1998.

At December 31, 1998, approximate principal maturities of notes payable are as follows:

(in thousands)	7.08% Unsecured Senior Notes	Fixed Rate Mortgage Debt (weighted average rate of 10.44%)	Total
1999	\$ 8,000	\$ 6,398	\$14,398
2000	8,750	2,622	11,372
2001	9,500	2,910	12,410
2002	9,750	3,229	12,979
2003	10,000	3,584	13,584
Thereafter	—	16,683	16,683
	<u>\$46,000</u>	<u>\$35,426</u>	<u>\$81,426</u>

Interest paid (including interest related to the borrowings on the Credit Facility) during 1998, 1997 and 1996 was \$7,690,000, \$8,884,000 and \$10,312,000, respectively. In addition, in 1998, 1997 and 1996, the Company capitalized interest totaling \$3,481,000, \$2,428,000 and \$1,861,000, respectively, related to construction of real estate facilities.



The maturities above do not include the notes payable assumed on March 12, 1999 by the Company in connection with the merger with Storage Trust in the unaudited principal amount of \$100 million (unaudited — \$14.7 million of which is due in 2003, with the remainder due thereafter). See Note 13 for further discussion of the merger.

### Note 8. Minority Interest

In consolidation, the Company classifies ownership interests other than its own in the net assets of each of the Consolidated Entities as minority interest on the consolidated financial statements. Minority interest in income consists of the minority interests' share of the operating results of the Company relating to the consolidated operations of the Consolidated Entities.

During 1998, the Company acquired limited partnership interests in the Consolidated Entities in several transactions for an aggregate cost of \$48,753,000. These transactions had the effect of reducing minority interest by approximately \$25,460,000 (the historical book value of such interests in the underlying net assets of the partnerships). The excess of the cost over the underlying book value (\$23,293,000) has been allocated to real estate facilities in consolidation. In 1997 and 1996, the Company acquired interests in the Consolidated Entities at an aggregate cost of \$21,559,000 and \$15,419,000, respectively, reducing minority interest by approximately \$12,655,000 and \$8,193,000, respectively. The excess of cost over underlying book values was allocated to real estate facilities in consolidation.

During 1998, 1997 and 1996, in connection with certain business combinations (Note 3) minority interest was increased by \$35,210,000, \$74,068,000 and \$20,139,000, respectively, representing the remaining partners' equity interests in the aggregate net assets of the Consolidated Entities.

### Note 9. Property Management

Throughout the three year period ended December 31, 1998, the Company, pursuant to property management contracts, managed real estate facilities owned by affiliated entities and to a lesser extent by third parties. The property management contracts generally provide for compensation equal to 6% of gross revenues of the facilities managed.

### Note 10. Shareholders' Equity

#### Preferred Stock

At December 31, 1998 and 1997, the Company had the following series of Preferred Stock outstanding (dollar amounts in thousands):

Series	Dividend Rate	At December 31, 1998		At December 31, 1997	
		Shares Outstanding	Carrying Amount	Shares Outstanding	Carrying Amount
Series A	10.000%	1,825,000	\$ 45,625	1,825,000	\$ 45,625
Series B	9.200%	2,386,000	59,650	2,386,000	59,650
Series C	Adjustable	1,200,000	30,000	1,200,000	30,000
Series D	9.500%	1,200,000	30,000	1,200,000	30,000
Series E	10.000%	2,195,000	54,875	2,195,000	54,875
Series F	9.750%	2,300,000	57,500	2,300,000	57,500
Series G	8.875%	6,900	172,500	6,900	172,500
Series H	8.450%	6,750	168,750	6,750	168,750
Series I	8.625%	4,000	100,000	4,000	100,000
Series J	8.000%	6,000	150,000	6,000	150,000
Total Senior Preferred Stock		11,129,650	868,900	11,129,650	868,900
Convertible Preferred Stock	8.250%	—	—	2,132,334	53,308
		11,129,650	\$ 868,900	13,261,984	\$922,208

On June 1, 1998, the Company exercised its option to redeem the Convertible Preferred Stock for common stock at the conversion rate of 1.6835 shares of common stock for each share of Convertible Preferred Stock. Pursuant to the redemption, which was effective July 1, 1998, the Company issued 3,503,303 shares of common stock.

On January 19, 1999, the Company issued 4.6 million depository shares (each representing 1/1,000 of a share) of its Preferred Stock, Series K, raising net proceeds of approximately \$111.4 million. On March 10, 1999, the Company issued 4.6 million depository shares (each representing 1/1,000 of a share) of its Preferred Stock, Series L, raising net proceeds of approximately \$111.4 million.

The Series A through Series L (collectively the "Cumulative Senior Preferred Stock") have general preference rights with respect to liquidation and quarterly distributions. With respect to the payment of dividends and amounts upon liquidation, all of the Company's Convertible Preferred Stock ranks junior to the Cumulative Senior Preferred Stock and any other shares of preferred stock of the Company ranking on a parity with or senior to the Cumulative Senior Preferred Stock.

Holders of the Company's preferred stock, except under certain conditions and as noted above, will not be entitled to vote on most matters. In the event of a cumulative arrearage equal to six quarterly dividends or failure to maintain a Debt Ratio (as defined) of 50% or less, holders of all outstanding series of preferred stock (voting as a single class without regard to series) will have the right to elect two additional members to serve on the Company's Board of Directors until events of default have been cured. At December 31, 1998, there were no dividends in arrears and the Debt Ratio was 2.4%.

Except under certain conditions relating to the Company's qualification as a REIT, the Senior Preferred Stock are not redeemable prior to the following dates: Series A — September 30, 2002, Series B — March 31, 2003, Series C — June 30, 1999, Series D — September 30, 2004, Series E — January 31, 2005, Series F — April 30, 2005, Series G — December 31, 2000, Series H — January 31, 2001, Series I — October 31, 2001, Series J — August 31, 2002, Series K — January 19, 2004, Series L — March 10, 2004. On or after the respective dates, each of the series of Senior Preferred Stock will be redeemable at the option of the Company, in whole or in part, at \$25 per share (or depositary share in the case of the Series H, Series I, Series J, Series K, and Series L), plus accrued and unpaid dividends.

### Common stock

During 1998, 1997 and 1996, the Company issued and repurchased shares of its common stock as follows:

(dollar amounts in thousands)	1998		1997		1996	
	Shares	Amount	Shares	Amount	Shares	Amount
Public offerings	7,951,821	\$234,521	6,600,000	\$181,448	6,151,200	\$128,501
In connection with mergers (Note 3)	433,526	13,817	7,681,432	212,000	8,839,181	204,932
Exercise of stock options	219,596	3,339	94,786	1,075	100,663	1,037
Issuance to affiliates	853,700	26,362	—	—	43,197	1,000
Conversion of Mandatory Convertible Preferred Stock	—	—	—	—	1,611,265	27,960
Conversion of Series CC Convertible Preferred Stock	—	—	2,184,250	58,955	—	—
Acquisition of interests in real estate entities	635,005	16,679	—	—	—	—
Repurchases of stock	(2,819,400)	(72,256)	—	—	—	—
Conversion of 8.25% Convertible Preferred Stock	3,589,552	53,308	179,651	2,666	102,721	1,526
	<u>10,863,800</u>	<u>\$275,770</u>	<u>16,740,119</u>	<u>\$456,144</u>	<u>16,848,227</u>	<u>\$364,956</u>

Shares of common stock issued to affiliates in 1998 were in exchange for interests in real estate entities. Shares of common stock issued to affiliates in 1996 were issued for cash. All the shares of common stock, with the exception of the shares issued in connection with the exercise of stock options, were issued at the prevailing market price at the time of issuance.

On June 12, 1998, the Company announced that the Board of Directors authorized the repurchase from time to time of up to 10,000,000 shares of the Company's common stock on the open market or in privately negotiated transactions. Through December 31, 1998 the Company has repurchased a total of 2,819,400 shares of common stock at an aggregate cost of approximately \$72,256,000.

At December 31, 1998, the Company had 4,935,642 shares of common stock reserved in connection with the Company's stock option plans (Note 11) and 7,000,000 shares of common stock reserved for the conversion of the Class B Common Stock.

On March 12, 1999, the Company issued approximately 13.0 million unaudited shares of common stock pursuant to the merger with Storage Trust Realty and reserved approximately 1.0 million additional unaudited shares for issuance upon conversion of units in Storage Trust Realty's operating partnership (Note 13).

### Class B Common Stock

The Class B Common Stock will (i) not participate in distributions until the later to occur of funds from operations ("FFO") per Common Share, as defined below, aggregating \$1.80 during any period of four consecutive calendar quarters, or January 1, 2000; thereafter, the Class B Common Stock will participate in distributions (other than liquidating distributions), at the rate of 97% of the per share distributions on the Common Stock, provided that cumulative distributions of at least \$0.22 per quarter per share have been paid on the Common Stock, (ii) not participate in liquidating distributions, (iii) not be entitled to vote (except as expressly required by California law) and (iv) automatically convert into Common Stock, on a share for share basis, upon the later to occur of FFO per Common Share aggregating \$3.00 during any period of four consecutive calendar quarters or January 1, 2003.

For these purposes, FFO means net income (loss) (computed in accordance with generally accepted accounting principles) 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 the Company's pro-rata share of depreciation and amortization of unconsolidated equity interests and amortization of

assets acquired in a merger, including property management agreements and goodwill), and (ii) less FFO attributable to minority interest. For these purposes, FFO per Common Share means FFO less preferred stock dividends (other than dividends on convertible preferred stock) divided by the outstanding weighted average shares of Common Stock assuming conversion of all outstanding convertible securities and the Class B Common Stock.

For these purposes, FFO per share of Common Stock (as defined) was \$2.11 for the year ended December 31, 1998.

### Equity Stock

The Company is authorized to issue 200,000,000 shares of Equity Stock. The Articles of Incorporation provide that the Equity Stock may be issued from time to time in one or more series and gives 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.

In June 1997, the Company contributed \$22,500,000 (225,000 shares) of its Equity Stock, Series A ("Equity Stock") to a partnership in which the Company is the general partner. As a result of this contribution, the Company obtained a controlling interest in the Partnership and began to consolidate the accounts of the Partnership and therefore the equity stock is eliminated in consolidation. The Equity Stock ranks on a parity with Common Stock and junior to the Company's Cumulative Senior Preferred Stock and Convertible Preferred Stock with respect to general preference rights and has a liquidation amount of ten times the amount paid to each Common Share up to a maximum of \$100 per share. Quarterly distributions per share on the Equity Stock are equal to the lesser of (i) 10 times the amount paid per Common Stock or (ii) \$2.20.

### Dividends

The unaudited characterization of dividends for Federal income tax purposes is made based upon earnings and profits of the Company, as defined by the Internal Revenue Code. Distributions declared by the Board of Directors (including distributions to the holders of preferred stock) in 1997 and 1996 were characterized entirely as ordinary income. For 1998, the Company's dividends for the first, third, and fourth quarter were characterized as ordinary income in their entirety. For the second quarter of 1998, 86.11% of the Company's dividends were characterized as ordinary income, and the remainder was characterized as a capital gain.

The following summarizes dividends paid during 1998, 1997 and 1996:

(in thousands, except per share data)	1998		1997		1996	
	Per share	Total	Per share	Total	Per share	Total
Series A	\$2.500	\$ 4,563	\$ 2.500	\$ 4,563	\$ 2.500	\$ 4,563
Series B	\$2.300	5,488	\$ 2.300	5,488	\$ 2.300	5,488
Series C	\$1.688	2,024	\$ 1.844	2,213	\$ 1.840	2,212
Series D	\$2.375	2,850	\$ 2.375	2,850	\$ 2.375	2,850
Series E	\$2.500	5,488	\$ 2.500	5,488	\$ 2.500	5,488
Series F	\$2.437	5,606	\$ 2.437	5,606	\$ 2.437	5,606
Series G	\$2.219	15,309	\$ 2.219	15,309	\$ 2.219	15,479
Series H	\$2.112	14,259	\$ 2.112	14,259	\$ 1.978	13,348
Series I	\$2.156	8,625	\$ 2.156	8,625	\$ 0.359	1,438
Series J	\$2.000	12,000	\$ 0.689	4,133	—	—
Convertible	\$1.032	2,163	\$ 2.062	4,531	\$ 2.063	4,679
Series CC	—	—	\$260.000	15,328	\$97.500	5,748
Mandatory Convertible Participating	—	—	—	—	\$54.487	1,700
		78,375		88,393		68,599
Common	\$0.880	100,726	\$ 0.880	86,181	\$ 0.880	67,709
		<u>\$179,101</u>		<u>\$174,574</u>		<u>\$136,308</u>

The dividend rate on the Series C Preferred Stock is adjusted quarterly and is equal to the highest of one of three U.S. Treasury indices (Treasury Bill Rate, Ten Year Constant Maturity Rate, and Thirty Year Constant Maturity Rate) multiplied by 110%. However, the dividend rate for any dividend period will not be less than 6.75% per annum nor greater than 10.75% per annum. The dividend rate with respect to the first quarter of 1999 will be equal to 6.75% per annum.

### Note 11. Stock Options

The Company has a 1990 Stock Option Plan (which was adopted by the Board of Directors in 1990 and approved by the shareholders in 1991) (the "1990 Plan") which provides for the grant of non-qualified stock options. The Company has a 1994 Stock Option Plan (which was adopted by the Board of Directors and approved by the shareholders in 1994) (the "1994 Plan") and a 1996 Stock Option and Incentive Plan (which was adopted by the Board of Directors and approved by the shareholders in 1996 (the "1996 Plan"), each of which provides for the grant of non-qualified options and incentive stock options. (The 1990 Plan, the 1994 Plan and the 1996 Plan are collectively referred to as the "Plans".) Under the Plans, the Company has granted non-qualified options to certain directors, officers and key employees and service providers to purchase shares of the Company's common

stock at a price equal to the fair market value of the common stock at the date of grant. Generally, options under the Plans vest over a three-year period from the date of grant at the rate of one-third per year and expire (i) under the 1990 Plan, five years after the date they became exercisable and (ii) under the 1994 Plan and 1996 Plan, ten years after the date of grant. The 1996 Plan also provides for the grant of restricted stock to officers, key employees and service providers on terms determined by the Audit Committee of the Board of Directors; no shares of restricted stock have been granted.

Information with respect to the Plans during 1998 and 1997 is as follows:

	1998		1997	
	Number of Options	Average Price per Share	Number of Options	Average Price per Share
Options outstanding January 1	1,696,215	\$20.03	1,752,169	\$19.02
Granted	590,000	28.23	111,000	28.59
Exercised	(219,596)	15.20	(94,786)	11.34
Canceled	(12,334)	28.66	(72,168)	20.73
Options outstanding December 31	<u>2,054,285</u>	<u>\$22.85</u>	<u>1,696,215</u>	<u>\$20.03</u>
		\$9.375		\$8.125
Option price range at December 31		to \$33.563		to \$30.00
Options exercisable at December 31	<u>1,044,249</u>	<u>\$19.94</u>	<u>778,012</u>	<u>\$17.74</u>
Options available for grant at December 31	<u>                    </u>	<u>2,881,337</u>	<u>                    </u>	<u>3,459,003</u>

In 1996, the Company adopted the disclosure requirement provision of SFAS 123 in accounting for stock-based compensation issued to employees. As of December 31, 1998 and 1997 there were 1,900,837 and 1,412,734 options outstanding, respectively, that were subject to SFAS 123 disclosure requirements. The fair value of these options was estimated utilizing prescribed valuation models and assumptions as of each respective grant date. Based on the results of such estimates, management determined that there was no material effect on net income or earnings per share for the years ended December 31, 1998 and 1997. The remaining contractual lives were 7.8 years and 7.9 years, respectively, at December 31, 1998 and 1997.

#### Note 12. Disclosures Regarding Segment Reporting

In July 1997, the FASB issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("FAS 131"), which establishes standards for the way that public business enterprises report information about operating segments. This statement is effective for financial statements for periods beginning after December 15, 1997. The Company has adopted this standard effective for the year ended December 31, 1998.

##### Description of each reportable segment

The Company's reportable segments reflect the Company's significant operating activities that are evaluated separately by management. The Company has three reportable segments: self-storage operations, commercial property operations, and portable self-storage operations.

The self-storage segment comprises the direct ownership, development, and operation of traditional self-storage facilities, management of these properties for third parties and affiliated entities, and the ownership of equity interests in entities that own self-storage properties. The commercial property segment reflects the Company's interest in the ownership, operation, and management of commercial properties. The vast majority of the Company's commercial property operations are conducted through PSB, and to a much lesser extent the Company and certain of its unconsolidated subsidiaries own commercial space, managed by PSB, within facilities that combine self-storage and commercial space for rent. The portable self-storage segment reflects the activities conducted entirely through PSPUD, the Company's subsidiary.

##### Measurement of segment profit or loss

The Company evaluates performance and allocates resources based upon the net segment income of each segment. Net segment income represents net income in conformity with Generally Accepted Accounting Principles and the Company's significant accounting policies as denoted in Note 2, before interest and other income, depreciation expense, interest expense, general and administrative expense, and minority interest in income. This net segment income is reflected on the Company's financial statements not only as rental income and cost of operations, but also as a component of equity in earnings of real estate entities. The accounting policies of the reportable segments are the same as those described in the Summary of Significant Accounting Policies.

Corporate general and administrative expense, interest expense, interest and other income, depreciation expense, and minority interest in income are not allocated to segments because management does not utilize them to evaluate the results of operations of each segment.

*Measurement of segment assets*

No segment data relative to assets or liabilities is presented by the Company, because management does not evaluate performance based upon the assets or liabilities of the segments. Management believes that the historical cost of the Company's real property does not have any significant bearing upon the performance of the commercial property and self-storage segments. In the same manner, management believes that the book value of investment in real estate entities as having no bearing upon the results of those investments. The only other types of assets that might be allocated to individual segments are trade receivables, payables, and other assets which arise in the ordinary course of business, but they are also not a significant factor in the measurement of segment performance. The Company performs post-acquisition analysis of various investments; however, such evaluations are beyond the scope of FAS 131.

*Presentation of segment information*

The Company's income statement provides most of the information required in order to determine the performance of each of the Company's three segments. The following tables reconcile the performance of each segment, in terms of segment revenues and segment income, to the consolidated revenues and net income of the Company. It further provides details of the segment components of the income statement item, "Equity in earnings of real estate entities."

(dollar amounts in thousands)	Year Ended December 31,			Year Ended December 31,		
	1998	1997	Change	1997	1996	Change
Reconciliation of Revenues by Segment:						
Self storage						
Self-storage property rentals	\$488,291	\$385,540	\$102,751	\$385,540	\$270,429	\$115,111
Facility management fees	6,123	9,706	(3,583)	9,706	13,474	(3,768)
Equity in earnings – self storage property operations	20,704	31,026	(10,322)	31,026	41,722	(10,696)
Self storage segment revenues	<u>515,118</u>	<u>426,272</u>	<u>88,846</u>	<u>426,272</u>	<u>325,625</u>	<u>100,647</u>
Portable self storage	<u>24,466</u>	<u>7,893</u>	<u>16,573</u>	<u>7,893</u>	<u>421</u>	<u>7,472</u>
Commercial properties						
Commercial property rentals	23,112	40,575	(17,463)	40,575	23,576	16,999
Facility management	98	435	(337)	435	954	(519)
Equity in earnings – commercial property operations	23,655	1,428	22,227	1,428	2,667	(1,239)
Commercial properties — segment revenues	<u>46,865</u>	<u>42,438</u>	<u>4,427</u>	<u>42,438</u>	<u>27,197</u>	<u>15,241</u>
Other items not allocated to segments:						
Equity in earnings — Depreciation (self storage)	(6,522)	(10,935)	4,413	(10,935)	(15,709)	4,774
Equity in earnings — Depreciation (commercial properties)	(7,362)	(539)	(6,823)	(539)	(1,741)	1,202
Equity in earnings — general and administrative and other	(3,873)	(3,411)	(462)	(3,411)	(4,818)	1,407
Interest and other income	13,459	9,126	4,333	9,126	7,976	1,150
Total other items not allocated to segments	<u>(4,298)</u>	<u>(5,759)</u>	<u>1,461</u>	<u>(5,759)</u>	<u>(14,292)</u>	<u>8,533</u>
Total consolidated Company revenues	<u>\$582,151</u>	<u>\$470,844</u>	<u>\$111,307</u>	<u>\$470,844</u>	<u>\$338,951</u>	<u>\$131,893</u>



(dollar amounts in thousands)	Year Ended December 31,			Year Ended December 31,		
	1998	1997	Change	1997	1996	Change
<b>Reconciliation of Net Income by Segment:</b>						
<b>Self storage</b>						
Self-storage properties	\$ 338,915	\$ 267,577	\$ 71,338	\$ 267,577	\$ 187,935	\$ 79,642
Facility management	5,069	8,257	(3,188)	8,257	11,654	(3,397)
Equity in earnings — self storage property operations	20,704	31,026	(10,322)	31,026	41,722	(10,696)
Total self storage segment income	364,688	306,860	57,828	306,860	241,311	65,549
Portable self storage segment income	(31,022)	(31,665)	643	(31,665)	(826)	(30,839)
<b>Commercial properties</b>						
Commercial properties	15,161	23,910	(8,749)	23,910	12,826	11,084
Facility management	86	91	(5)	91	199	(108)
Equity in earnings — commercial property operations	23,655	1,428	22,227	1,428	2,667	(1,239)
Total commercial property segment income	38,902	25,429	13,473	25,429	15,692	9,737
<b>Other items not allocated to segments:</b>						
Equity in earnings — depreciation (self-storage)	(6,522)	(10,935)	4,413	(10,935)	(15,709)	4,774
Equity in earnings — depreciation (commercial properties)	(7,362)	(539)	(6,823)	(539)	(1,741)	1,202
Equity in earnings — general and administrative and other	(3,873)	(3,411)	(462)	(3,411)	(4,818)	1,407
Depreciation — self storage	(102,537)	(82,165)	(20,372)	(82,165)	(59,757)	(22,408)
Depreciation — commercial properties	(4,945)	(9,191)	4,246	(9,191)	(5,210)	(3,981)
Interest and other income	13,459	9,126	4,333	9,126	7,976	1,150
General and administrative	(8,972)	(6,384)	(2,588)	(6,384)	(5,524)	(860)
Interest expense	(4,507)	(6,792)	2,285	(6,792)	(8,482)	1,690
Minority interest in income	(20,290)	(11,684)	(8,606)	(11,684)	(9,363)	(2,321)
Total other items not allocated to segments	(145,549)	(121,975)	(23,574)	(121,975)	(102,628)	(19,347)
Total consolidated company net income	\$ 227,019	\$ 178,649	\$ 48,370	\$ 178,649	\$ 153,549	\$ 25,100

### Note 13. Events Subsequent to Date of Report of Independent Auditors (unaudited)

On March 12, 1999, the Company and Storage Trust Realty ("Storage Trust"), a New York Stock Exchange listed REIT, completed a merger. As a result of the merger the Company acquired 215 self-storage facilities located in 16 states totaling approximately 12.0 million net rentable square feet and 104,000 units. In the merger, each share of beneficial interest of Storage Trust was exchanged for 0.86 shares of the Company's common stock (approximately 13.0 million shares of the Company's stock were issued and an additional approximately 1.0 million shares were reserved for issuance upon conversion of units in Storage Trust's operating partnership). This exchange ratio implied an enterprise value for Storage Trust of approximately \$600 million, including the assumption of approximately \$198 million of indebtedness. The merger was structured as a tax-free transaction, and will be accounted for using the purchase method of accounting.

The historical operating results of Storage Trust has not been included in the Company's historical operating results. Pro forma data (unaudited) for the years ended December 31, 1998 and 1997 as though the merger with Storage Trust had been effective at the beginning of fiscal 1997 is set forth below. These amounts are based upon the Company's historical amounts as adjusted for the impact of the merger with Storage Trust:

(in thousands except per share data) For the years ended December 31,	1998	1997
Revenues	\$661,932	\$546,510
Net income	\$240,364	\$196,202
Net income per common share (Basic)	\$ 1.28	\$ 0.97
Net income per common share (Diluted)	\$ 1.27	\$ 0.96

The pro forma data does not purport to be indicative either of results of operations that would have occurred had the transactions occurred at the beginning of fiscal 1997 or future results of operations of the Company. Certain pro forma adjustments were made to the historical amounts to reflect (i) expected reductions in general and administrative expenses, (ii) certain significant acquisitions made by Storage Trust throughout 1997 and 1998, (iii) estimated increased interest costs to finance the cash portion of the acquisition cost and (iv) estimated increase in depreciation and amortization expense.

## Note 14. Recent Accounting Pronouncements and Guidance

### *Reporting Comprehensive Income*

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("FAS 130"), which establishes standards for reporting and display of comprehensive income and its components. This statement requires a separate statement to report the components of comprehensive income for each period reported. The provisions of this statement are effective for fiscal years beginning after December 15, 1997. The Company has implemented FAS 130 for the fiscal year ended December 31, 1998, but the implementation has no impact because the Company has no items of comprehensive income (as defined by FAS 130).

### *Accounting for Derivative Instruments and Hedging Activities*

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"). This statement provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. The provisions of this statement are effective for years beginning after June 15, 1999, but companies can early adopt as of the beginning of any fiscal quarter that begins after June 1998. The Company expects that FAS 133 will have no impact upon the Company's financial statements because the Company has no financial instruments or hedging activities that are addressed by FAS 133.

### *Emerging Issues Task Force Discussion of Capitalization of Acquisition Costs*

In March 1998, The Emerging Issues Task Force ("EITF") of the FASB issued guidance (the "97-11 Guidance") with respect to Issue No. 97-11, "Accounting for Internal Costs Relating to Real Estate Property Acquisitions." The 97-11 Guidance provides that a Company shall expense internal preacquisition costs (such as costs of an internal acquisitions department) related to the purchase of an operating property. The Company does not capitalize such internal preacquisition costs with respect to the acquisition of operating real estate facilities. Accordingly, the 97-11 Guidance had no impact upon the Company's financial statements and would have had no impact upon the Company's financial statements for periods prior to the issuance of the 97-11 Guidance.

## Note 15. Commitments and Contingencies

### *Lease obligations*

Thirty-eight of the forty-three facilities operated by PSPUD as of December 31, 1998 are located in buildings leased from third parties. The lease terms range from four to nine years with renewal options at varying terms. Future minimum lease payments at December 31, 1998 under non-cancelable operating leases are as follows:

1999	\$10,480
2000	10,069
2001	9,221
2002	6,263
2003	1,531
Thereafter	1,867
	<u>\$39,431</u>

### *Legal proceedings*

During 1997, three cases were filed against the Company. Each of the plaintiffs in these cases is suing the Company on behalf of a purported class of California tenants who rented storage spaces from the Company and contends that the Company's fees for late payments under its rental agreements for storage space constitutes unlawful "penalties" under California law. None of the plaintiffs has assigned any dollar amount to the claims.

The lower court has dismissed one of the cases and the plaintiff in that case has appealed that dismissal. The Company is continuing to vigorously contest the claims in all three cases.

There are no other material proceedings pending against the Company or any of its subsidiaries, other than ordinary routine litigation incidental to their business.

**Note 16.** Supplementary Quarterly Financial Data (unaudited)

(in thousands, except per share data)	Three Months Ended			
	March 31, 1998	June 30, 1998	September 30, 1998	December 31, 1998
Revenues	\$142,566	\$141,041	\$149,969	\$148,575
Net income	\$ 48,364	\$ 57,199	\$ 62,286	\$ 59,170
Per Common Share (Note 2):				
Net income — Basic	\$0.26	\$0.33	\$0.37	\$0.35
Net income — Diluted	\$0.26	\$0.32	\$0.37	\$0.35

(in thousands, except per share data)	Three Months Ended			
	March 31, 1997	June 30, 1997	September 30, 1997	December 31, 1997
Revenues	\$100,740	\$109,345	\$126,007	\$134,752
Net income	\$ 42,318	\$ 44,251	\$ 46,548	\$ 45,532
Per Common Share (Note 2):				
Net income — Basic	\$0.26	\$0.14 <sup>(1)</sup>	\$0.27	\$0.24
Net income — Diluted	\$0.26	\$0.14 <sup>(1)</sup>	\$0.27	\$0.24

1. Includes the effect of a \$13,412,000 special dividend on the Company's Series CC Convertible Preferred Stock.

## Report of Independent Auditors

The Board of Directors and Shareholders

Public Storage, Inc.

We have audited the accompanying consolidated balance sheets of Public Storage, Inc. as of December 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Public Storage, Inc. at December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

Los Angeles, California

February 10, 1999, except for Note 10, as to which the date is March 10, 1999.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and notes thereto.

### 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 Exchange 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 Company 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 self-storage and commercial facilities which could impact rents and occupancy levels at the Company's facilities; the Company's ability to evaluate, finance, and integrate acquired and developed properties into the Company's existing operations; the Company's ability to effectively compete in the markets that it does business in; the impact of the regulatory environment as well as national, state, and local laws and regulations including, without limitation, those governing Real Estate Investment Trusts; the acceptance by consumers of the Pickup and Delivery concept; the impact of general economic conditions upon rental rates and occupancy levels at the Company's facilities; and the availability of permanent capital at attractive rates.

### Overview

The self-storage industry is highly fragmented and is composed predominantly of numerous local and regional operators. Competition in the markets in which the Company operates is significant and is increasing from additional development of self-storage facilities in many markets which may negatively impact occupancy levels and rental rates at the Company's self-storage facilities. However, the Company believes it possesses several distinguishing characteristics which enable it to compete effectively with other owners and operators.

The Company is the largest owner and operator of self-storage facilities in the United States with ownership interests as of December 31, 1998 in 1,094 self-storage facilities containing approximately 65.3 million net rentable square feet. All of the Company's facilities are operated under the "Public Storage" brand name, which the Company believes is the most recognized and established name in the self-storage industry. Located in the major metropolitan markets of 37 states, the Company's self-storage facilities are geographically diverse, giving it national recognition and prominence. This concentration establishes the Company as one of the most significant providers of storage space in each market in which it operates and enables it to use a variety of promotional activities, such as television and radio advertising as well as targeted discounting and referrals, which are generally not economically viable for its competitors. In addition, the Company believes that geographic diversity of the portfolio reduces the impact from regional economic downturns and provides a greater degree of revenue stability.

Commencing in early 1996, the Company implemented a national telephone reservation system designed to provide added customer service. Customers calling either the Company's toll-free telephone referral system, (800) 44-STORE, or a self-storage facility are directed to the national reservation system where a representative discusses with the customer space requirements, price and location preferences and also informs the customer of other products and services provided by the Company and its subsidiaries. The national telephone reservation system was not fully operational for most of the Company's facilities until the latter part of the fourth quarter of 1996. Currently, the national telephone reservation system receives approximately 175,000 calls per month and has approximately 225 representatives. The Company believes that the national telephone reservation system permits effective marketing for both self-storage and portable self-storage facilities and is primarily responsible for increasing occupancy levels and realized rental rates experienced at the self-storage facilities during the past three years.

The Company will continue to focus its growth strategies on: (i) improving the operating performance of its existing portfolio of properties, (ii) increasing its ownership of self-storage facilities through acquisitions of facilities owned by affiliates or third party owners, (iii) developing new self-storage facilities, (iv) improving the operations of its portable self-storage operations, and (v) to a limited extent through its existing ownership interest, participating in the growth of PS Business Parks, Inc. ("PSB"), a publicly traded real estate investment trust focusing on the ownership and operation of commercial properties.

On March 12, 1999, the Company completed a merger transaction with Storage Trust Realty ("Storage Trust"), a publicly traded real estate investment trust. In connection with the merger, the Company acquired 215 self-storage properties located in 16 states. The Company believes that the merger will benefit the shareholders of both companies by eliminating duplicative general and administrative expenses and creating economies of scale and cost efficiencies through greater critical mass. In addition, the Company believes that its national telephone reservation system will present an opportunity for increased revenues through higher occupancies of the properties acquired.



## Results of Operations

*Net income and earnings per common share:* Net income for 1998, 1997 and 1996 was \$227,019,000, \$178,649,000 and \$153,549,000, respectively. Net income allocable to common shareholders (net income less preferred stock dividends) for 1998, 1997 and 1996 was \$148,644,000, \$90,256,000 and \$84,950,000, respectively. On a diluted basis, net income per common share was \$1.30 per common share (based on weighted average shares outstanding of 114,357,000) for 1998, \$0.91 (based on weighted average shares outstanding of 98,961,000) for 1997 and \$1.10 per common share (based on weighted average shares outstanding of 77,358,000) for 1996.

The increase in net income per share for 1998 compared to 1997 was principally the result of improved real estate operations, combined with lower operating losses generated by PSPUD's portable self-storage business totaling \$31,022,000 or \$0.27 per diluted common share. The decrease in net income per share for 1997 compared to 1996 was principally the result of losses generated from PSPUD's portable self-storage business which generated operating losses totaling \$31,665,000 or \$0.32 per diluted common share and the effect of the special dividend, discussed below.

Net income allocable to common shareholders and net income per common share for the year ended December 31, 1997 was negatively impacted by a special dividend totaling \$13,412,000, paid on the Company's Series CC Convertible Preferred Stock ("Series CC") during the first quarter of 1997. As a result of this special dividend, the Company would not be required to pay another dividend with respect to this stock until the quarter ended March 31, 1999. During the second quarter of 1997, the Series CC stock converted into common stock of the Company. Accordingly during 1997, all of the \$13,412,000 (\$0.14 per common share, on a diluted basis) of dividends were treated as an allocation of net income to the preferred shareholders in determining the allocation of net income to the common shareholders. The special dividend eliminated the quarterly dividend of \$1.9 million (annual fixed charges of \$7.6 million).

Net income includes depreciation and amortization expense (including depreciation included in equity in earnings of real estate entities and excluding depreciation allocated to minority interests) of approximately \$109,344,000 (\$0.96 per common share on a diluted basis) for 1998, \$93,585,000 (\$0.95 per common share on a diluted basis) for 1997 and \$70,927,000 (\$0.92 per common share on a diluted basis) for 1996.

## Real Estate Operations

*Self-storage Operations:* The Company's self-storage operations are by far the largest component of the Company's operations, representing approximately 91% of total rental revenues generated during 1998. At the end of 1995, the Company had a total of 520 self-storage facilities included in its consolidated financial statements. Since that time, the Company through acquisition and development activities has increased the number of self-storage facilities by 431 (1996 — 201 facilities, 1997 — 173 facilities and 1998 — 57 facilities). As a result of significant acquisitions of self-storage facilities in each of the past three years, year-over-year comparisons as presented on the Company's consolidated statements of income are not meaningful.

In order to enhance the year-over-year comparisons, the following table summarizes the operating results (before depreciation) of (i) the 546 self-storage facilities (which includes the 520 facilities owned at the end of 1995 as well as facilities which were acquired on January 1, 1996) that were reflected in the Company's financial statements for the entire three years ended December 31, 1998 (the "Consistent Group") and (ii) all other facilities for which operations were not reflected in the Company's financial statement for the entire three years ended December 31, 1998 (the "Other Facilities"):

**Self-storage operations:**

(dollar amounts in thousands, except rents per square foot)	Year Ended December 31,		Percentage Change	Year Ended December 31,		Percentage Change
	1998	1997		1997	1996	
<b>Rental income:</b>						
Consistent Group	\$271,922	\$254,489	6.9%	\$254,489	\$239,717	6.2%
Other Facilities	216,369	131,051	65.1%	131,051	30,712	326.7%
	<u>488,291</u>	<u>385,540</u>	<u>26.7%</u>	<u>385,540</u>	<u>270,429</u>	<u>42.6%</u>
<b>Cost of operations:</b>						
Consistent Group	81,235	76,591	6.1%	76,591	72,983	4.9%
Other Facilities	68,141	41,372	64.7%	41,372	9,511	335.0%
	<u>149,376</u>	<u>117,963</u>	<u>26.6%</u>	<u>117,963</u>	<u>82,494</u>	<u>43.0%</u>
<b>Net operating income:</b>						
Consistent Group	190,687	177,898	7.2%	177,898	166,734	6.7%
Other Facilities	148,228	89,679	65.3%	89,679	21,201	323.0%
	<u>\$338,915</u>	<u>\$267,577</u>	<u>26.7%</u>	<u>\$267,577</u>	<u>\$187,935</u>	<u>42.4%</u>
<b>Consistent Group data:</b>						
Gross margin	70.1%	69.9%	0.2%	69.9%	69.6%	0.3%
Weighted average :						
Occupancy	91.9%	91.4%	0.5%	91.4%	90.6%	0.8%
Realized annual rent per square foot	\$9.25	\$8.69	6.4%	\$8.69	\$8.26	5.2%
Scheduled annual rent per square foot	\$9.57	\$9.21	3.9%	\$9.21	\$8.47	8.7%
<b>Number of facilities:</b>						
Consistent Group	546	546	—	546	546	—
Other Facilities	405	348	16.4%	348	175	98.9%
<b>Net rentable sq. ft.:</b>						
Consistent Group	31,979	31,979	—	31,979	31,979	—
Other Facilities	25,130	21,592	16.4%	21,592	11,438	88.8%

For the Consistent Group of facilities, year-over-year improvements in rental income of 6.9% in 1998 and 6.2% in 1997 are the result of increases in realized rent per square foot and weighted average occupancy levels, as reflected in the table above. The Company believes that the improvement in each of these areas is due to (i) the national telephone reservation system which was implemented during 1996 and the first part of 1997, (ii) increased scheduled rental rates, and (iii) media advertising and promotional activities.

As indicated above, the Company implemented a national telephone reservation system to provide added customer service. Customers calling either the Company's toll-free telephone referral system, (800) 44-STORE, or a local Public Storage facility, are directed to the national reservation system where a trained representative discusses with the customer space requirements, price and location preferences and also informs the customer of other products and services provided by the Company and its subsidiaries. Total cost of operations includes expenses with respect to the national telephone reservation center totaling \$7,021,000 in 1998, \$3,875,000 in 1997, and \$1,257,000 in 1996.

In the second half of 1996, the Company began to increase its scheduled rents charged to new customers (prior to promotional discounts) and to existing tenants where warranted. As a result, for fiscal 1997, scheduled rents per square foot increased compared to 1996. In connection with the national telephone reservation system, the Company experimented with pricing and promotional discounts designed to increase rental activity. Consistent Group promotional discounts (which are included as a reduction to gross rents to arrive at rental income) were \$3,401,000 in 1996, \$9,587,000 in 1997, and \$8,724,000 in 1998. Despite the impact of discounts, the Consistent Group of facilities experienced increased realized rents per square foot of 6.4% in 1998 compared to 1997 and 5.2% in 1997 compared to 1996.

In 1996, 1997, and 1998, the Company acquired a total of 431 self-storage facilities. Eight of these acquired facilities were newly developed facilities and 390 of these facilities were existing mature facilities that the Company previously managed. The Company has knowledge of the historical operations of the facilities it acquired that it previously managed, and has information as to the historical operating results of the 33 facilities (substantially all of which were existing mature facilities) it acquired that it did not previously manage. The following table summarizes the pro forma operating results of all of the Company's self-storage facilities at December 31, 1998 assuming that the Company owned all of the facilities as of January 1, 1996:

**Pro forma summary of self-storage operations:**

(amounts in thousands)	Year Ended December 31,		Change	Year Ended December 31,		Change
	1998	1997		1997	1996	
	Pro forma			Pro forma		
Rental income	\$497,699	\$464,244	7.2%	\$464,244	\$436,589	6.3%
Cost of operations	151,866	143,623	5.7%	143,623	135,537	6.0%
Net operating income	<u>\$345,833</u>	<u>\$320,621</u>	<u>7.9%</u>	<u>\$320,621</u>	<u>\$301,052</u>	<u>6.5%</u>

The above table excludes the property operations of the Company's eight newly developed properties (two opened in 1998, two opened in 1997 and four opened in 1996) which are in various stages of "fill-up." The aggregate development cost of these eight properties totaled approximately \$38.5 million.

**Commercial Property Operations:** The Company's commercial property operations principally consist of the Company's investment in PSB, an affiliated real estate investment trust, and to a much lesser extent commercial space owned by the Company and Consolidated Entities. The following table sets forth the historical commercial property amounts included in the Company's financial statements:

**Commercial Property Operations — Historical**

(amounts in thousands)	Year Ended December 31,		Change	Year Ended December 31,		Change
	1998	1997		1997	1996	
Rental income	\$23,112	\$40,575	(43.0)%	\$40,575	\$23,576	72.1%
Cost of operations	7,951	16,665	(52.3)%	16,665	10,750	55.0%
Net operating income	<u>\$15,161</u>	<u>\$23,910</u>	<u>(36.6)%</u>	<u>\$23,910</u>	<u>\$12,826</u>	<u>86.4%</u>

During the second quarter of 1998, the Company ceased to have a controlling interest in PSB. As a result, effective April 1, 1998, the Company no longer includes the accounts of PSB in its consolidated financial statements and has accounted for its investment during the nine months ended December 31, 1998 using the equity method (see "Equity in earnings of real estate entities"). The income statement for the year ended December 31, 1998 includes the consolidated operating results of PSB for the three months ended March 31, 1998. The significant decrease in rental income and cost of operations for the year ended December 31, 1998 reflects the Company's deconsolidation of PSB. The significant increase in rental income and cost of operations for 1997 reflects the impact of the Company's business combinations in 1996 and 1997, as well as property acquisitions completed by PSB in 1997.

The following table summarizes the pro forma commercial operations of the Company assuming that the operations of PSB were not consolidated with the Company's accounts (i.e., as if the Company had consistently used the equity method of accounting for its investment in PSB):

**Pro forma summary of commercial operations:**

(amounts in thousands)	Year Ended December 31,		Change	Year Ended December 31,		Change
	1998	1997		1997	1996	
		Pro forma		Pro forma		
Rental income	\$7,252	\$6,810	6.5%	\$6,810	\$6,169	10.4%
Cost of operations	2,840	2,966	(4.2)%	2,966	2,788	6.4%
Net operating income	<u>\$4,412</u>	<u>\$3,844</u>	<u>14.8%</u>	<u>\$3,844</u>	<u>\$3,381</u>	<u>13.7%</u>

**Equity in earnings of real estate entities:** In addition to its ownership of equity interests in PSB, the Company had general and limited partnership interests in 26 limited partnerships at December 31, 1998 (PSB and the limited partnerships are collectively referred to as the "Unconsolidated Entities"). Due to the Company's limited ownership interest and control of these entities, the Company does not consolidate the accounts of these entities for financial reporting purposes, and accounts for such investments using the equity method.

Equity in earnings of real estate entities for the year ended December 31, 1998 consists of the Company's pro rata share of the Unconsolidated Entities based upon the Company's ownership interest for the period. Similar to the Company, the Unconsolidated Entities generate substantially all of their income from their ownership of self-storage facilities which are managed by the Company. In the aggregate, the Unconsolidated Entities own a total of 249 real estate facilities, 143 of which are self-storage facilities. The following table sets forth the significant components of the Company's equity in earnings of real estate entities:

**Historical summary:**

(amounts in thousands)	Year Ended December 31,		Dollar Change	Year Ended December 31,		Dollar Change
	1998	1997		1997	1996	
<b>Property operations:</b>						
PSB	\$ 23,301	\$ —	\$ 23,301	\$ —	\$ —	\$ —
Development Joint Venture	729	86	643	86	—	86
Other investments — self storage	19,975	30,940	(10,965)	30,940	41,722	(10,782)
Other investments — commercial properties	354	1,428	(1,074)	1,428	2,667	(1,239)
	<u>44,359</u>	<u>32,454</u>	<u>11,905</u>	<u>32,454</u>	<u>44,389</u>	<u>(11,935)</u>
<b>Depreciation:</b>						
PSB	(7,303)	—	(7,303)	—	—	—
Development Joint Venture	(564)	(137)	(427)	(137)	—	(137)
Other investments — self storage	(5,958)	(10,798)	4,840	(10,798)	(15,709)	4,911
Other investments — commercial properties	(59)	(539)	480	(539)	(1,741)	1,202
	<u>(13,884)</u>	<u>(11,474)</u>	<u>(2,410)</u>	<u>(11,474)</u>	<u>(17,450)</u>	<u>5,976</u>
<b>Other:<sup>(1)</sup></b>						
PSB	(1,220)	—	(1,220)	—	—	—
Development Joint Venture	97	44	53	44	—	44
Other investments	(2,750)	(3,455)	705	(3,455)	(4,818)	1,363
	<u>(3,873)</u>	<u>(3,411)</u>	<u>(462)</u>	<u>(3,411)</u>	<u>(4,818)</u>	<u>1,407</u>
Total equity in earnings of real estate entities	<u>\$ 26,602</u>	<u>\$ 17,569</u>	<u>\$ 9,033</u>	<u>\$ 17,569</u>	<u>\$ 22,121</u>	<u>\$ (4,552)</u>

1. "Other" reflects the Company's share of general and administrative expense, interest expense, interest income, and other non-property, non-depreciation related operating results of these entities.

The increase in 1998 earnings compared to 1997 is principally the result of the deconsolidation of PSB whereby the accounts of PSB, effective April 1, 1998, were no longer consolidated with the Company's and the Company began to account for its investment in PSB using the equity method. This increase is partially offset by the impact of certain business combinations occurring in 1997 and 1998 whereby the Company acquired a controlling interest in certain affiliated entities and began to include the accounts of such entities in the Company's consolidated financial statements. Prior to the inclusion of these entities in the Company's consolidated financial statements, the Company used the equity method to report its share of the entities' earnings.

Likewise, the decrease in 1997 earnings compared to 1996 is principally the result of the Company acquiring during 1997 a controlling interest in certain entities and beginning to include the accounts of such entities in the Company's consolidated financial statements. Prior to the inclusion of these entities in the Company's consolidated financial statements, the Company used the equity method to report its share of these entities' earnings.

PSB is a publicly traded real estate investment trust organized by the Company on January 2, 1997. During 1997, the Company and certain partnerships in which the Company has a controlling interest contributed substantially all of their commercial properties to PSB in exchange for equity interests. At December 31, 1998, PSB owned 106 properties located in 11 states. PSB also manages the commercial properties owned by the Company and affiliated entities. As of December 31, 1998, the Company and certain partnerships in which the Company has a controlling interest owned approximately 40% of the equity interest of PSB.

During 1998, a significant portion of the Company's self-storage development activities have been conducted within the Development Joint Venture, a partnership created in April 1997 between the Company and an institutional investor to fund the development of approximately \$220 million of self-storage facilities. The Development Joint Venture is funded solely with equity capital consisting of 30% from the Company and 70% from the institutional investor. The Company's investment in the Development Joint Venture was \$42.5 million at December 31, 1998.

Since inception through December 31, 1998, the Development Joint Venture has developed and opened 24 self-storage facilities (approximately 1,470,000 square feet) and at December 31, 1998 had six facilities under development (approximately 384,000 square feet). Generally the construction period takes nine to 12 months followed by an 18 to 24 month fill-up process until the newly constructed facility reaches a stabilized occupancy level of approximately 90%. For fiscal 1998 and 1997, substantially all of the completed facilities were in the fill-up process and had not reached a stabilized occupancy level. The Company expects that its earnings with respect to its investment in the Development Joint Venture will continue to increase in 1999 as compared to 1998 as the existing properties continue to fill-up and newly completed properties are opened for business.

### Portable Self-Storage Operations

In August 1996, PSPUD, a subsidiary of the Company, made its initial entry into the portable self-storage business through its acquisition of a single facility operator located in Irvine, California. At December 31, 1998, PSPUD operated 43 facilities in 11 states. The facilities are located in major markets in which the Company has significant market presence with respect to its traditional self-storage facilities.

Due to the start-up nature of the business, PSPUD incurred operating losses totaling approximately \$31.0 million, \$31.7 million and \$826,000 for the years ended December 31, 1998, 1997 and 1996, respectively, summarized as follows.

#### Portable self-storage:

(dollar amounts in thousands)	Year Ended December 31,		Dollar Change	Year Ended December 31,		Dollar Change
	1998	1997		1997	1996	
Rental and other income	\$ 24,466	\$ 7,893	\$16,573	\$ 7,893	\$ 421	\$ 7,472
Cost of operations:						
Direct operating costs	39,302	20,645	18,657	20,645	1,022	19,623
Marketing and advertising	9,206	10,441	(1,235)	10,441	19	10,422
Depreciation	4,317	1,394	2,923	1,394	32	1,362
General and administrative	2,663	7,078	(4,415)	7,078	174	6,904
	55,488	39,558	15,930	39,558	1,247	38,311
Operating losses	\$(31,022)	\$(31,665)	\$ 643	\$(31,665)	\$ (826)	\$(30,839)



The Company believes that the quarterly losses from the PSPUD operations peaked during the third quarter of 1997. PSPUD's operating losses were approximately \$12.1 million for the third quarter of 1997, \$10.5 million for the fourth quarter of 1997, \$9.9 million for the first quarter of 1998, \$8.3 million for the second quarter of 1998, \$6.9 million for the third quarter of 1998, and \$5.9 million in the fourth quarter of 1998. The Company believes this trend of decreasing operating losses will continue with increases in PSPUD's revenues.

Five of the 13 facilities opened in 1998 were developed by and are owned by PSPUD, while the remaining facilities are operated in buildings which are leased from third parties. Included in direct operating cost is building lease expense of \$14.4 million, \$6.2 million and \$167,000 during 1998, 1997 and 1996, respectively. A typical facility generally has six employees (a manager, a warehouseman, and truck drivers), two trucks, and a corresponding number of forklifts. Substantially all the equipment is leased. Direct operating costs principally includes payroll, facility and equipment (truck and forklift) lease expense.

PSPUD believes that marketing and advertising activities positively impact move-in activity. Commencing in the third quarter of 1997, PSPUD began to advertise the portable self-storage product on television in selected markets. Television advertising was curtailed in the second half of 1998. Customers are directed to call the national reservation system where representatives discuss the customers' storage needs and are able to schedule delivery of containers to customers locations. During 1998, approximately \$6.6 million and \$2.6 million was incurred in television and yellow page advertising, respectively, compared to approximately \$9.2 million and \$1.2 million in television and yellow page advertising, respectively, incurred during 1997. Marketing and advertising activities have not been consistently implemented in all markets.

During 1998 and 1997, PSPUD incurred significant general and administrative costs related to recruiting and training personnel, equipment, computer software and professional fees in organizing this business. PSPUD will continue to expend funds during 1999 in connection with these activities. However, the amounts are expected to be less than in 1998.

The Company has not determined the number of new store openings in 1999; however, the Company expects that future openings will predominantly be in existing markets in which PSPUD currently operates. By opening in existing markets, PSPUD will seek to gain benefits from economies of scale. As of December 31, 1998, PSPUD is developing six facilities and has identified one additional site for development. All of these development projects are located in existing markets with expected opening dates commencing during 1999 and will predominantly replace existing PSPUD facilities which are currently being leased from third parties.

Until the PSPUD facilities are operating profitably, PSPUD's operations are expected to continue to adversely impact the Company's earnings and cash flow. PSPUD believes that its business is likely to be more successful in certain markets than in others. There can be no assurances as to the level of PSPUD's expansion, level of gross rentals, level of move-outs or profitability.

## Property Management Operations

At December 31, 1998, the Company managed 178 self-storage facilities (143 owned by Unconsolidated Entities and 35 owned by third parties) pursuant to property management contracts. The property management contracts generally provide for compensation equal to 6% of gross revenues of the facilities managed. Under the supervision of the property owners, the Company coordinates rental policies, rent collections, marketing activities, the purchase of equipment and supplies, maintenance activity, and the selection and engagement of vendors, suppliers and independent contractors. In addition, the Company assists and advises the property owners in establishing policies for the hire, discharge and supervision of employees for the operation of these facilities, including resident managers, assistant managers, relief managers and billing and maintenance personnel.

### Property management operations:

(dollar amounts in thousands)	Year Ended December 31,		Dollar Change	Year Ended December 31,		Dollar Change
	1998	1997		1997	1996	
Facility management fees:						
Self-storage	\$6,123	\$9,706	\$(3,583)	\$9,706	\$13,474	\$(3,768)
Commercial properties	98	435	(337)	435	954	(519)
	<u>6,221</u>	<u>10,141</u>	<u>(3,920)</u>	<u>10,141</u>	<u>14,428</u>	<u>(4,287)</u>
Cost of operations:						
Self-storage	1,054	1,449	(395)	1,449	1,820	(371)
Commercial properties	12	344	(332)	344	755	(411)
	<u>1,066</u>	<u>1,793</u>	<u>(727)</u>	<u>1,793</u>	<u>2,575</u>	<u>(782)</u>
Net operating income:						
Self-storage	5,069	8,257	(3,188)	8,257	11,654	(3,397)
Commercial properties	86	91	(5)	91	199	(108)
	<u>\$5,155</u>	<u>\$8,348</u>	<u>\$(3,193)</u>	<u>\$8,348</u>	<u>\$11,853</u>	<u>\$(3,505)</u>

Throughout the three year period ended December 31, 1998, the Company completed several acquisitions of self-storage facilities from affiliated entities and, as a result, self-storage properties which were managed by the Company became owned facilities and the related management fee income with respect to these facilities ceased. Accordingly, property management operations with respect to self-storage facilities has continuously decreased during the three year period ended December 31, 1998. Since the Company has acquired in the past, and may continue to seek to acquire in the future, real estate facilities owned by the Unconsolidated Entities, the Company's facility management income and related cost of operations should decrease in 1999 compared to 1998.

The decrease in property management operations with respect to commercial properties for 1998 as compared to 1997 is due to the deconsolidation of PSB, which eliminated commercial properties management fee income and cost of operations after April 1, 1998.

## Other Income and Expense Items

**Interest and other income:** In an effort to attract a wider variety of customers, to further differentiate the Company from its competition and to generate new sources of revenues, additional businesses are being developed through the Company's subsidiaries that complement the Company's self-storage business. These products include the sale of locks, boxes and packing supplies and the rental of trucks and other moving equipment through the implementation of a retail expansion program and truck rental program. The net results of these businesses are presented along with interest and other income, as "interest and other income." The components of interest and other income are detailed as follows:

(dollar amounts in thousands)	Year Ended December 31,		Dollar Change	Year Ended December 31,		Dollar Change
	1998	1997		1997	1996	
Sales of packaging material and truck rental income:						
Revenues	\$ 8,345	\$5,272	\$3,073	\$5,272	\$3,083	\$2,189
Cost of operations	6,625	4,134	2,491	4,134	2,171	1,963
Net operating income	<u>1,720</u>	<u>1,138</u>	<u>582</u>	<u>1,138</u>	<u>912</u>	<u>226</u>
Interest and other income	<u>11,739</u>	<u>7,988</u>	<u>3,751</u>	<u>7,988</u>	<u>7,064</u>	<u>924</u>
Total interest and other income	<u>\$13,459</u>	<u>\$9,126</u>	<u>\$4,333</u>	<u>\$9,126</u>	<u>\$7,976</u>	<u>\$1,150</u>

The strategic objective of the retail expansion program is to create a "Retail Store" that will (i) rent spaces for the attached self-storage facility, (ii) rent spaces for the other Public Storage facilities in adjacent neighborhoods, (iii) sell locks, boxes and packing materials to the general public, including tenants and (iv) rent trucks and other moving equipment, all in an environment that is more retail oriented. Retail stores will be retrofitted to existing self-storage facility rental offices or "built-in" as part of the development of new self-storage facilities, both in high traffic, high visibility locations. The increases in revenues and cost of operations reflect the opening of additional stores, as well as increases at the Company's existing stores.

Interest and other income is primarily attributable to interest income on cash balances and interest income from mortgage notes receivable. Interest income from mortgage notes receivable was \$1,878,000, \$2,938,000, \$2,710,000 in 1998, 1997 and 1996, respectively. The Company canceled mortgage notes receivable of approximately \$2,495,000 in 1998 and \$700,000 in 1996 in connection with the acquisition of the real estate facilities securing such notes. The Company also acquired notes receivable of \$3,709,000 in 1996 from affiliated parties. The other increases in interest income are primarily attributable to fluctuations in the level of invested cash balances, which are caused by the timing of investing equity offering proceeds in real estate assets.

**Depreciation and amortization:** Depreciation and amortization expense was \$107,482,000 in 1998, \$91,356,000 in 1997 and \$64,967,000 in 1996. These increases are principally due to the acquisition of additional real estate facilities in each period. Depreciation expense with respect to the real estate facilities was \$98,173,000 in 1998, \$82,047,000 in 1997, and \$55,689,000 in 1996; the increases are due to the acquisition of additional real estate facilities in 1996 through 1998. Amortization expense with respect to intangible assets totaled \$9,309,000 for each of the three years ended December 31, 1998.

**General and administrative expense:** General and administrative expense was \$8,972,000 in 1998, \$6,384,000 in 1997 and \$5,524,000 in 1996. The Company has experienced and expects to continue to experience increased general and administrative costs due to the following: (i) the growth in the size of the Company, and (ii) the Company's property acquisition and development activities have continued to expand, resulting in certain additional costs incurred in connection with the acquisition of additional real estate facilities. General and administrative costs for each year principally consist of state income taxes (for states in which the Company is a non-resident), investor relation expenses, and certain overhead associated with the acquisition and development of real estate facilities.

**Interest expense:** Interest expense was \$4,507,000 in 1998, \$6,792,000 in 1997 and \$8,482,000 in 1996. Reflecting the Company's reluctance to finance its growth with debt, debt and related interest expense remains relatively low compared to the Company's overall asset base. The Company capitalized interest expense of \$3,481,000 in 1998, \$2,428,000 in 1997 and \$1,861,000 in 1996 in connection with the Company's development activities. Interest expense before the capitalization of interest was \$7,988,000 in 1998, \$9,220,000 in 1997 and \$10,343,000 in 1996. The decrease in interest expense in 1997 as compared to 1996 principally is due to the retirement of debt in 1997 of approximately \$11.9 million. The decrease in interest expense in 1998 as compared to 1997 also includes the impact of the retirement of debt in 1998 of approximately \$15.1 million.

**Minority interest in income:** Minority interest in income represents the income allocable to equity interests in Consolidated Entities which are not owned by the Company. Since 1990, the Company has acquired portions of these equity interests through its acquisition of limited and general partnership interests in the Consolidated Entities. These acquisitions have resulted in reductions to the "Minority interest in income" from what it would otherwise have been in the absence of such acquisitions, and accordingly, have increased the Company's share of the Consolidated Entities' income. However, offsetting the reduction in minority interest in 1998 and 1997 caused by the acquisition of additional equity interests are the inclusion of additional partnerships in the Company's consolidated financial statements as well as improved property operations. During 1998 and 1997, the Company acquired sufficient ownership interest and control in three and twelve partnerships, respectively, and commenced including the accounts of these partnerships in the Company's consolidated financial statements which resulted in an increase in minority interest in income of approximately \$5,413,000 in 1998 and \$1,961,000 in 1997. Minority interest for the year ended December 31, 1998 also reflects additional minority interests with respect to PSB prior to April 1, 1998.

In determining income allocable to the minority interest for 1998, 1997 and 1996 consolidated depreciation and amortization expense of approximately \$12,022,000, \$9,245,000 and \$11,490,000, respectively, was allocated to the minority interest. The changes in depreciation allocated to the minority interest were principally the result of the factors denoted above with respect to minority interest in income.

### Supplemental Property Data and Trends

At December 31, 1998, there were approximately 47 ownership entities owning in aggregate 1,094 self-storage facilities, including the facilities which the Company owns and/or operates. At December 31, 1998, 143 of these facilities were owned by Unconsolidated Entities, entities in which the Company has an ownership interest and uses the equity method for financial statement presentation. The remaining 951 facilities are owned by the Company and Consolidated Entities, many of which were acquired through business combinations with affiliates during 1998, 1997 and 1996.

The following table summarizes the Company's investment in real estate facilities as of December 31, 1998, excluding the five real estate facilities used in PSPUD's operations:

	Number of Facilities in Which the Company Has an Ownership Interest			Net Rentable Square Footage (in thousands)		
	Self-Storage Facilities	Commercial Properties	Total	Self-Storage Facilities	Commercial Properties	Total
Wholly-owned facilities	628	1	629	38,419	9	38,428
Facilities owned by Consolidated Entities	323	—	323	18,690	—	18,690
Total consolidated facilities	951	1	952	57,109	9	57,118
Facilities owned by Unconsolidated Entities	143	106	249	8,169	10,930	19,099
Total facilities in which the Company has an ownership interest	1,094	107	1,201	65,278	10,939	76,217

In order to evaluate how the Company's overall portfolio has performed, management analyzes the operating performance of a consistent group of self-storage facilities representing 984 (57.5 million net rentable square feet) of the 1,094 self-storage facilities (herein referred to as "Same Store" self-storage facilities). The 984 facilities represent a consistent pool of properties which have been operated under the "Public Storage" name, at a stabilized level, by the Company since January 1, 1994. From time to time, the Company removes facilities from the "Same Store" pool as a result of expansions or other activities which make such facilities' results not comparable to previous periods. The Same Store group of properties includes 861 consolidated facilities (many of which were not included in the Company's consolidated financial statements throughout each of the three years presented) and 123 facilities owned by Unconsolidated Entities. The following table summarizes the pre-depreciation historical operating results of the Same Store self-storage facilities:

#### Same Store self-storage facilities:

(historical property operations)

(dollar amounts in thousands)	Year Ended December 31,		Percentage Change	Year Ended December 31,		Percentage Change
	1998	1997		1997	1996	
Rental income	\$523,394	\$486,510	7.6%	\$486,510	\$456,414	6.6%
Cost of operations (includes an imputed 6% property management fee) <sup>(1)</sup>	183,629	172,455	6.5%	172,455	162,721	6.0%
Net operating income	\$339,765	\$314,055	8.2%	\$314,055	\$293,693	6.9%
Gross profit margin <sup>(2)</sup>	64.9%	64.6%	0.3%	64.6%	64.3%	0.3%
Weighted Average:						
Occupancy	92.5%	91.7%	0.8%	91.7%	91.1%	0.6%
Realized annual rent per sq. ft. <sup>(3)</sup>	\$ 9.84	\$9.21	6.8%	\$9.21	\$8.71	5.7%
Scheduled annual rent per sq. ft. <sup>(3)</sup>	\$10.24	\$9.83	4.2%	\$9.83	\$9.00	9.2%

1. Assumes payment of property management fees on all facilities, including those facilities owned by the Company for which no fee is paid. Cost of operations consists of the following:

	1998	1997	1996
Payroll expense	\$ 46,501	\$ 45,581	\$ 44,816
Property taxes	48,760	45,817	42,043
Imputed 6% property management fees	31,424	29,211	27,385
Advertising	5,372	4,209	3,975
Telephone reservation center costs	7,353	4,625	1,996
Other	44,219	43,012	42,506
	\$183,629	\$172,455	\$162,721

2. Gross profit margin is computed by dividing property net operating income (before depreciation expense) by rental revenues. Cost of operations includes a 6% management fee. The gross profit margin excluding the facility management fee was 70.9%, 70.6% and 70.3% in 1998, 1997 and 1996, respectively.

3. Realized rent per square foot as presented throughout this report represents the actual revenue earned per occupied square foot. Management believes this is a more relevant measure than the scheduled rental rates, since scheduled rates can be discounted through the use of promotions.

As indicated above, in early 1996, the Company implemented a national telephone reservation system designed to provide added customer service for all the self-storage facilities under management by the Company. The Company believes that the improved operating results, as indicated in the above table, in large part are due to the success of the national telephone reservation system. However, the national telephone reservation system was not fully operational for most of the self-storage facilities until the latter part of the fourth quarter of 1996.

Rental income for the Same Store facilities included promotional discounts totaling \$15,615,000 in 1998 compared to \$17,390,000 in 1997 and \$6,227,000 in 1996. The significant increase in 1997 was principally due to experimentation with pricing and promotional discounts designed to increase rental activity; such promotional activities continued in 1998.

The self-storage facilities experience minor seasonal fluctuations in occupancy levels with occupancies generally higher in the summer months than in the winter months. The Company believes that these fluctuations result in part from increased moving activities during the summer.

### Same-Store Operating Trends by Region

	Northern California		Southern California		Texas		Florida		Illinois		Other states		Total	
	Amount	% change from prior year	Amount	% change from prior year	Amount	% change from prior year	Amount	% change from prior year	Amount	% change from prior year	Amount	% change from prior year	Amount	% change from prior year
Rental Revenues:														
1998	\$80,083	10.4%	\$95,051	10.1%	\$48,543	5.8%	\$33,077	6.0%	\$37,698	9.6%	\$228,942	5.9%	\$523,394	7.6%
1997	\$72,555	9.4%	\$86,368	8.1%	\$45,868	4.0%	\$31,219	5.5%	\$34,405	10.5%	\$216,095	5.2%	\$486,510	6.6%
1996	\$66,343	8.5%	\$79,883	5.0%	\$44,101	1.2%	\$29,595	2.6%	\$31,123	9.0%	\$205,369	5.0%	\$456,414	5.2%
Cost of operations														
1998	\$22,546	9.2%	\$27,902	7.4%	\$21,088	10.3%	\$13,123	5.2%	\$17,236	7.0%	\$ 81,734	4.6%	\$183,629	6.5%
1997	\$20,650	9.8%	\$25,988	5.4%	\$19,114	4.5%	\$12,474	7.9%	\$16,106	8.2%	\$ 78,123	4.9%	\$172,455	6.0%
1996	\$18,809	3.5%	\$24,665	6.0%	\$18,299	5.6%	\$11,561	3.6%	\$14,887	5.5%	\$ 74,500	6.7%	\$162,721	5.7%
Net operating income:														
1998	\$57,537	10.9%	\$67,149	11.2%	\$27,455	2.6%	\$19,954	6.4%	\$20,462	11.8%	\$147,208	6.7%	\$339,765	8.2%
1997	\$51,905	9.2%	\$60,380	9.3%	\$26,754	3.7%	\$18,745	3.9%	\$18,299	12.7%	\$137,972	5.4%	\$314,055	6.9%
1996	\$47,534	10.6%	\$55,218	4.6%	\$25,802	(1.6%)	\$18,034	2.1%	\$16,236	12.5%	\$130,869	4.1%	\$293,693	5.0%
Weighted avg. occupancy														
1998	94.6%	(1.5)%	94.2%	2.7%	92.4%	0.5%	90.9%	0.7%	92.6%	1.1%	91.6%	0.7%	92.5%	0.8%
1997	96.1%	1.6%	91.5%	4.1%	91.9%	2.4%	90.2%	2.4%	91.5%	(1.3)%	90.9%	(1.3)%	91.7%	0.6%
1996	94.5%	3.3%	87.4%	2.3%	89.5%	1.0%	87.8%	0.6%	92.8%	0.0%	92.2%	0.5%	91.1%	1.1%
Weighted avg. annual realized rents per occupied sq. ft.														
1998	\$12.37	11.9%	\$11.37	7.3%	\$7.22	5.4%	\$8.77	5.2%	\$10.69	8.1%	\$9.41	5.3%	\$9.84	6.8%
1997	\$11.05	7.6%	\$10.60	3.2%	\$6.85	1.0%	\$8.34	2.8%	\$9.89	11.9%	\$8.94	6.7%	\$9.21	5.7%
1996	\$10.27	4.6%	\$10.27	2.2%	\$6.78	0.3%	\$8.11	2.3%	\$8.84	8.5%	\$8.38	4.6%	\$8.71	3.9%
Number of Facilities														
	127		143		116		74		60		464		984	

### Liquidity and Capital Resources

The Company believes that its internally generated net cash provided by operating activities will continue to be sufficient to enable it to meet its operating expenses, capital improvements, debt service requirements and distributions to shareholders for the foreseeable future.

Operating as a real estate investment trust ("REIT"), the Company's ability to retain cash flow for reinvestment is restricted. In order for the Company to maintain its REIT status, a substantial portion of its operating cash flow must be used to make distributions to its shareholders (see "REIT status" below). However, despite the significant distribution requirements, the Company has been able to retain a significant amount of its operating

cash flow. The following table summarizes the Company's ability to pay the minority interests' distributions, its dividends to the preferred shareholders and capital improvements to maintain the facilities through the use of cash provided by operating activities. The remaining cash flow generated is available to the Company to make both scheduled and optional principal payments on debt and for reinvestment.

(amounts in thousands)	For the Year Ended December 31,		
	1998	1997	1996
Net income	\$ 227,019	\$ 178,649	\$ 153,549
Depreciation and amortization	107,482	91,356	64,967
Depreciation from Unconsolidated Entities	13,884	11,474	17,450
Minority interest in income	20,290	11,684	9,363
Net cash provided by operating activities	368,675	293,163	245,329
Distributions from operations to minority interests	(32,312)	(20,929)	(20,853)
Cash from operations allocable to the Company's shareholders	336,363	272,234	224,476
Less: preferred stock dividends	(78,375)	(88,393)	(68,599)
Add: Non-recurring payment of dividends with respect to the Series CC convertible stock	—	13,412	—
Cash from operations available to common shareholders	257,988	197,253	155,877
Capital improvements to maintain facilities:			
Self-storage facilities	(29,677)	(30,834)	(15,957)
Commercial properties	(2,037)	(4,283)	(4,409)
Add back: minority interest share of capital improvements to maintain facilities	2,476	2,513	3,159
Funds available for principal payments on debt, common dividends and reinvestment	228,750	164,649	138,670
Cash distributions to common shareholders	(100,726)	(86,181)	(67,709)
Funds available for principal payments on debt and reinvestment	\$ 128,024	\$ 78,468	\$ 70,961

The Company expects to fund its growth strategies with cash on hand at December 31, 1998, internally generated retained cash flows, proceeds from issuing equity securities and borrowings under its \$150 million credit facility. The Company intends to repay amounts borrowed under the credit facility from undistributed operating cash flow or, as market conditions permit and are determined to be advantageous, from the public or private placement of equity securities.

The Company believes that its size and financial flexibility enables it to access capital for growth when appropriate. The Company's financial profile is characterized by a low level of debt to total capitalization, increasing net income, increasing cash flow from operations, and a conservative dividend payout ratio with respect to the common stock. The Company's credit ratings on its Senior Preferred Stock by each of the three major credit agencies are Baa2 by Moody's and BBB+ by Standard and Poor's and Duff & Phelps.

The Company's portfolio of real estate facilities remains substantially unencumbered. At December 31, 1998, the Company had mortgage debt outstanding of \$35.4 million and had consolidated real estate facilities with a book value of \$2.6 billion. The Company has been reluctant to finance its acquisitions with debt and generally will only increase its mortgage borrowing through the assumption of pre-existing debt on acquired real estate facilities.

Over the past three years the Company has funded substantially all of its acquisitions with permanent capital (both common and preferred stock). The Company has elected to use preferred stock despite the fact that the dividend rates of its preferred stock exceeds current interest rates on conventional debt. The Company has chosen this method of financing for the following reasons: (i) the Company's perpetual preferred stock has no sinking fund requirement, or maturity date and does not require redemption, all of which eliminate any future refinancing risks, (ii) preferred stock allows the Company to leverage the common stock without the attendant interest rate or refinancing risks of debt, and (iii) like interest payments, dividends on the preferred stock can be applied to the Company's REIT distributions requirements, which have helped the Company to maintain a low common stock dividend payout ratio and retain cash flow.



On January 19, 1999, the Company issued 4.6 million depositary shares (each representing 1/1,000 of a share) of its Preferred Stock, Series K, raising net proceeds of approximately \$111.4 million. On March 10, 1999, the Company issued 4.6 million depositary shares (each representing 1/1,000 of a share) of its Preferred Stock, Series L, raising net proceeds of approximately \$111.4 million. Proceeds of the offerings were utilized to repay bank borrowings (\$98 million) of Storage Trust in connection with the merger (see below). The remaining proceeds will be utilized to fund the Company's development activities, PSPUD activities and acquisition activities.

At March 15, 1999, the Company had cash on hand of approximately \$165 million.

**Distribution requirements:** The Company's conservative distribution policy has been the principal reason for the Company's ability to retain significant operating cash flows which have been used to make additional investments and reduce debt. During 1996, 1997 and 1998, the Company distributed to common shareholders approximately 43%, 44% and 39% of its cash available from operations allocable to common shareholders, respectively.

During 1998, the Company paid dividends totaling \$76,212,000 to the holders of the Company's Senior Preferred Stock, \$2,163,000 to the holders of the Convertible Preferred Stock (which converted to common stock during the third quarter of 1998) and \$100,726,000 to the holders of Common Stock. The Company estimates the regular distribution requirements for fiscal 1999 with respect to Senior Preferred Stock outstanding at December 31, 1998 to be approximately \$76.2 million. With respect to the preferred stock issued in January and March 1999, the annual distribution requirement is approximately \$19.0 million. Distributions with respect to the common stock will be determined based upon the Company's REIT distribution requirements after taking into consideration distributions to the Company's preferred shareholders.

The Company expects to make a special cash distribution to common shareholders in 1999 assuming a continuation of its increasing level of taxable income.

**Capital improvement requirements:** During 1999, the Company has budgeted approximately \$20.1 million for capital improvements (\$19.5 million for its self-storage facilities and \$0.6 million for its commercial space). The minority interests' share of the budgeted capital improvements is approximately \$1.5 million.

The significant increase in capital improvements in 1997 for the self-storage facilities (as reflected in the table above) is due primarily to the acquisition of new facilities in 1996 and 1997.

**Debt service requirements:** The Company does not believe it has any significant refinancing risks with respect to its mortgage debt, all of which is fixed rate. At December 31, 1998, the Company had total outstanding notes payable of approximately \$81,426,000. See Note 7 to the consolidated financial statements for approximate principal maturities of such borrowings. In connection with the March 1999 merger with Storage Trust, the Company assumed \$100 million of notes payable. Approximately \$14.7 million in principal payments with respect to these notes are due in 2003, with the remainder due after 2003.

**Growth strategies:** During 1999, the Company intends to continue to expand its asset and capital base principally through the (i) acquisition of real estate assets and interests in real estate assets from both unaffiliated and affiliated parties through direct purchases, mergers, tender offers or other transactions, (ii) development of additional self-storage facilities and (iii) the continued funding of the operations of PSPUD's portable self-storage business. In addition to 628 wholly owned self-storage facilities, the Company operates, on behalf of approximately 47 ownership entities, 466 self-storage facilities under the "Public Storage" name in which the Company has a partial equity interest. From time to time, some of these self-storage facilities or interests in them are available for purchase, providing the Company with a source of additional acquisition opportunities.

**Merger with Storage Trust:** On March 12, 1999, the Company and Storage Trust, a public REIT, completed a merger. As a result of the merger, the Company acquired 215 self-storage facilities located in 16 states totaling approximately 12.0 million net rentable square feet and 104,000 units. In connection with the merger, the Company issued 0.86 shares of the Company's common stock for each share of Storage Trust common stock. This exchange ratio implied an enterprise value for Storage Trust of approximately \$600 million, including the assumption of approximately \$198 million of indebtedness (including \$98 million of borrowings on Storage Trust's line of credit). The Company immediately repaid the \$98 million of borrowings on the line of credit with funds that the Company raised through the issuance of preferred stock in 1999.

**Development of self-storage facilities:** Commencing in 1995, the Company began to construct self-storage facilities. Since 1995, the Company and its Development Joint Venture have opened a total of 33 facilities, one in 1995, four in 1996, nine in 1997 and 19 in 1998.

In April 1997, the Company formed the Development Joint Venture with an institutional investor to participate in the development of approximately \$220 million of self-storage facilities. Since inception through December 31, 1998, the Development Joint Venture has developed and opened 24 self-storage facilities (approximately 1,470,000 square feet) with a total cost of approximately \$112.2 million, and at December 31, 1998 had six facilities under development (approximately 384,000 square feet) with an aggregate cost incurred to date of approximately \$28.6 million and estimated remaining costs to complete of \$3.9 million. The partnership is funded solely with equity capital consisting of 30% from the Company and 70% from the institutional investor.

The Development Joint Venture is reviewing the final 20 projects (approximately 1,295,000 net rentable sq. ft), and upon approval the Development Joint Venture will be fully committed. These projects are currently being developed by the Company until they are approved by the Development Joint Venture. As of December 31, 1998, the Company has incurred total development costs of \$44.8 million (estimated remaining costs to complete of \$49.7 million) with respect to these 20 projects.

The Company has identified 34 additional self-storage development projects (2,052,000 net rentable square feet) with total estimated development costs of approximately \$143.2 million. Most of these projects have already been approved by the Board of Directors, but their development is subject to significant contingencies. The Company is considering entering into an additional development joint venture partnership to finance future development activities, though no such agreement has been entered into and the decision whether to enter into such a partnership will depend upon the availability of appropriate partners at terms acceptable to the Company.

**Portable self-storage business:** As indicated above, in 1996 the Company organized PSPUD as a separate corporation to operate a portable self-storage business that rents storage containers to customers for storage in central warehouses. At December 31, 1998, PSPUD operated a total of 43 facilities in 20 greater metropolitan areas in 11 states and had six facilities under construction with an aggregate cost incurred to date of approximately \$13.4 million and estimated remaining cost to complete of \$21.8 million. PSPUD has identified one additional site in an existing market for development of PSPUD facilities at an aggregate estimated cost of \$4.3 million.

**REIT status:** The Company believes that it has operated, and intends to continue to operate, in such a manner as to qualify as a REIT under the Internal Revenue Code of 1986, but no assurance can be given that it will at all times so qualify. To the extent that the Company continues to qualify as a REIT, it will not be taxed, with certain limited exceptions, on the taxable income that is distributed to its shareholders, provided that at least 95% of its taxable income is so distributed prior to filing of the Company's tax return. The Company has satisfied the REIT distribution requirement since 1980.

The Company expects to continue its present conservative distribution policy after the merger. The current regular quarterly distribution on the Company's common stock is \$0.22 per share. The Company intends to make a special cash distribution in 1999 assuming a continuation of its increasing level of its taxable income.

**Funds from operations:** Total funds from operations or "FFO" increased to \$336,363,000 for the year ended 1998 compared to \$272,234,000 in 1997 and \$224,476,000 in 1996. FFO available to common shareholders (after deducting preferred stock dividends) increased to \$257,988,000 for the year ended December 31, 1998 compared to \$197,253,000 in 1997 and \$155,877,000 in 1996. FFO means net income (loss) (computed in accordance with generally accepted accounting principles) 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 the Company's pro-rata share of depreciation and amortization of unconsolidated equity interests and amortization of assets acquired in a merger, including property management agreements and goodwill), and (ii) less FFO attributable to minority interest.

FFO is a supplemental performance measure for equity REITs as defined by the National Association of Real Estate Investment Trusts, Inc. ("NAREIT"). The NAREIT definition does not specifically address the treatment of minority interest in the determination of FFO or the treatment of the amortization of property management agreements and goodwill. In the case of the Company, FFO 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. FFO is presented because management, as well as many industry analysts, consider FFO to be one measure of the performance of the Company and it is used in establishing the terms of the Class B Common Stock. FFO does not take into consideration capital improvements, scheduled principal payments on debt, distributions and other obligations of the Company. Accordingly, FFO is not a substitute for the Company's cash flow or net income (as discussed above) as a measure of the Company's liquidity or operating performance. FFO is not comparable to similarly entitled items reported by other REITs that do not define it exactly as the Company defines it.

### Impact of Year 2000

The Company has completed an assessment of all of its hardware and software applications to identify susceptibility to what is commonly referred to as the "Y2K Issue" whereby certain computer programs have been written using two digits rather than four to define the applicable year. Any of the Company's computer programs or hardware with the Y2K Issue that have date-sensitive applications or embedded chips may recognize a date using "00" as the year 1900 rather than the year 2000, resulting in miscalculations or system failure causing disruptions of operations.

The Company has two phases in its process with respect to each of its systems; (i) assessment, whereby the Company evaluates whether the system is Y2K compliant and identifies the plan of action with respect to remediating any Y2K issues identified and (ii) implementation, whereby the Company completes the plan of action prepared in the assessment phase and verifies that Y2K compliance has been achieved.

Many of the Company's critical applications, relative to the direct management of properties, have recently been replaced and the Company believes they are already Year 2000 compliant. The Company has an implementation in process on the remaining critical applications, including its general ledger and related systems, that are believed to have Y2K issues. The Company expects the implementation to be complete by June 1999. Contingency plans have been developed for use in case the Company's implementations are not completed on a timely basis. While the Company presently believes that the impact of the Y2K Issue on its systems can be mitigated, if the Company's plan for ensuring Year 2000 compliance and the related contingency plans were to fail, be insufficient, or not be implemented on a timely basis, Company operations could be materially impacted.

Certain of the Company's other non-computer related systems that may be impacted by the Y2K issue, such as security systems, are currently being evaluated, and the Company expects the evaluation to be complete by June 1999. The Company expects the implementation of any required solutions to be complete in advance of December 31, 1999. The Company has not fully evaluated the impact of lack of Year 2000 compliance on these systems, but has no reason to believe that lack of compliance would materially impact the Company's operations.

The Company exchanges electronic data with certain outside vendors in the banking and payroll processing areas. The Company has been advised by these vendors that their systems are or will be Year 2000 compliant, but has requested a Year 2000 compliance certification from these entities. The Company is not aware of any other vendors, suppliers, or other external agents with a Y2K Issue that would materially impact the Company's results of operations, liquidity, or capital resources. However, the Company has no means of ensuring that external agents will be Year 2000 compliant, and there can be no assurance that the Company has identified all such external agents. The inability of external agents to complete their Year 2000 compliance process in a timely fashion could materially impact the Company. The effect of non-compliance by external agents is not determinable.

The cost of the Company's Year 2000 compliance activities (which primarily consists of the costs of new systems) is estimated at approximately \$4.3 million, of which approximately \$3.1 million has been incurred to date. These costs are capitalized. The Company's Year 2000 compliance efforts have not resulted in any significant deferrals in other information system projects.

The costs of the projects and the date on which the Company expects to achieve Year 2000 Compliance are based upon management's best estimates, and were derived utilizing numerous assumptions of future events. There can be no assurance that these estimates will be achieved, and actual results could differ materially from those anticipated. There can be no assurance that the Company has identified all potential Y2K issues either within the Company or at external agents. In addition, the impact of the Y2K issue on governmental entities and utility providers and the resultant impact on the Company, as well as disruptions in the general economy, may be material but cannot be reasonably determined or quantified.

## Common Stock Distribution Policy and Stock Price

Public Storage, Inc. has paid continuous quarterly distributions to its shareholders since 1981, its first full year of operations. Distributions paid per share of common stock for 1998 amount to \$.88.

Holders of common stock are entitled to receive distributions when and if declared by the Company's Board of Directors out of any funds legally available for that purpose. The Company is required to distribute at least 95% of its net taxable ordinary income prior to the filing of the Company's tax return and 85%, subject to certain adjustments, during the calendar year, to maintain its REIT status for Federal income tax purposes. It is management's intention to pay distributions of not less than this required amount. For Federal tax purposes, distributions to shareholders are treated as ordinary income, capital gains, return of capital or a combination thereof, and for the past three years distributions to common shareholders were as follows:

<u>Year Ended</u>	<u>Amount Paid</u>	<u>Ordinary Income</u>	<u>Long-term Capital Gain Amount</u>	<u>Non-taxable Return of Capital</u>
1998	\$.88	\$.85	\$.03 <sup>(A)</sup>	\$ —
1997	.88	.88	—	—
1996	.88	.88	—	—

(A) This reflects 13.890% of the Company's second quarter 1998 dividend. Shareholders should refer to their Form 1099-DIV.

The common stock has been listed on the New York Stock Exchange since October 19, 1984 and on the Pacific Exchange since December 26, 1996. The ticker symbol is PSA.

The following table sets forth the high and low sales prices of the common stock on the New York Stock Exchange composite tapes for the applicable periods.

<u>Year</u>	<u>Quarter</u>	<u>Range</u>	
		<u>High</u>	<u>Low</u>
1997	1st	\$30.8750	\$26.5000
	2nd	29.2500	25.8750
	3rd	30.8750	27.0000
	4th	30.6250	26.1250
1998	1st	\$33.6250	\$28.6875
	2nd	32.7500	26.3125
	3rd	29.2500	22.6250
	4th	28.0625	24.2500

As of March 15, 1999, there were approximately 22,942 holders of record of the common stock and 128,780,769 common shares outstanding.

## Corporate Data *(as of March 31, 1999)*

### Directors

B. Wayne Hughes (1980)  
*Chairman of the Board and  
Chief Executive Officer*

Harvey Lenkin (1991)  
*President*

B. Wayne Hughes, Jr. (1998)  
*Vice President-Acquisitions*

Robert J. Abernethy (1980)  
*President of American Standard  
Development Company and  
Self-Storage Management Company*

Dann V. Angeloff (1980)  
*President of The Angeloff Company*

William C. Baker (1991)  
*President of Meditrust Operating Company*

Thomas J. Barrack, Jr. (1998)  
*Chairman and Chief Executive  
Officer of Colony Capital, Inc.*

Uri P. Harkham (1993)  
*President and  
Chief Executive Officer of the  
Jonathan Martin Fashion Group*

Daniel C. Staton (1999)  
*President of Walnut Capital Partners*

*Date in parentheses indicates year director  
was elected to the board.*

### Professional Services

*Transfer Agent*  
BankBoston, N.A.  
% Boston EquiServe  
P.O. Box 8040  
Boston, MA 02266-8040  
(781) 575-3120  
www.EquiServe.com

*Independent Auditors*  
Ernst & Young LLP  
Los Angeles, California

Shareholders may obtain, without charge,  
a copy of Form 10-K, as filed with the  
Securities and Exchange Commission by  
addressing a written request to the Investor  
Services Department at the Corporate  
Headquarters.

The Company's common stock trades under  
ticker symbol PSA on the New York Stock  
Exchange and Pacific Exchange.

### Executive Officers

B. Wayne Hughes  
*Chairman of the Board and  
Chief Executive Officer*

Harvey Lenkin  
*President*

John Reyes  
*Senior Vice President and  
Chief Financial Officer*

Marvin M. Lotz  
*Senior Vice President*

Carl B. Phelps  
*Senior Vice President*

David Goldberg  
*Senior Vice President and  
General Counsel*

A. Timothy Scott  
*Senior Vice President and  
Tax Counsel*

Obren B. Gerich  
*Senior Vice President*

David P. Singelyn  
*Vice President and Treasurer*

Sarah Hass  
*Vice President and Secretary*

### Other Corporate Officers

Bahman Abtahi  
*Senior Vice President-  
Construction and Development*

Samuel I. Ballard  
*Vice President*

James F. Fitzpatrick  
*Vice President-Development  
Manager*

Anthony Grillo  
*Vice President*

Tamara Hughes Gustavson  
*Vice President-Administration*

Frank Hallford  
*Vice President-Construction*

Joanne A. Halliday  
*Vice President*

Ronald L. Harden, Sr.  
*Vice President*

Gregory S. Houge  
*Vice President*

Tom McCutchan  
*Vice President-Architecture  
and Design*

Angus Goldie-Morrison  
*Vice President*

Brent C. Peterson  
*Vice President and  
Chief Information Officer*

W. David Ristig  
*Vice President-Acquisitions  
Manager*

John M. Sambuco  
*Vice President*

### Management Division

Marvin M. Lotz  
*President*

Samuel I. Ballard *SVP, DM*

Anthony Grillo *SVP-Marketing*

Ronald L. Harden, Sr. *SVP, DM*

Gregory S. Houge *SVP, DM*

Angus Goldie-Morrison *SVP, DM*

Brent C. Peterson *SVP*

John M. Sambuco *SVP, DM*

Wendy J. Adler *VP, RM*

Timothy C. Arthurs *VP, RM*

Ira J. Bailey *VP, RM*

Elizabeth Barista *VP, RM*

Kelly M. Barnes *VP, RM*

Jeffery A. Biesz *VP, RM*

Brad A. Boyd *VP, RM*

Stan M. Colona *VP, RM*

Jeff Dunlap *VP*

Les Guttman *VP-Marketing*

Joanne A. Halliday *GC*

Brad C. Helgeson *VP, RM*

Ray Huddleston *VP, RM*

Judith Alby Johnson *VP, RM*

Thomas Law *VP, RM*

Thomas Miller *VP*

Curt Mitchell *VP, RM*

Thomas O. Murphy *VP, RM*

Gary P. Ott *VP, RM*

Amanda Prentice *VP, RM*

Brian J. Ruthsatz *VP, RM*

James Stevens *VP, RM*

Emily J. Tufeld *VP-Marketing*

Gerald Valle *VP, RM*

Christopher White *VP, RM*

### Public Storage Pickup & Delivery

B. Wayne Hughes  
*President*

Alan Grossman *SVP*

Randy Weissman  
*VP-Operations*

DM Divisional Manager  
GC General Counsel  
RM Regional Manager  
SVP Senior Vice President  
VP Vice President



# Public Storage, Inc.

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Glendale, California 91201  
(818) 244-8080

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