



Providing  
Storage Solutions ...



...One Problem at a Time.

## Selected Financial Highlights

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

	1999 <sup>(1)</sup>	1998 <sup>(1)</sup>	1997 <sup>(1)</sup>	1996 <sup>(1)</sup>	1995 <sup>(1)</sup>
<b>Revenues:</b>					
Rental income	\$ 627,851	\$ 535,869	\$ 434,008	\$ 294,426	\$ 202,134
Equity in earnings of real estate entities	32,183	26,602	17,569	22,121	3,763
Interest and other income	16,700	18,614	17,474	19,829	6,301
	676,734	581,085	469,051	336,376	212,198
<b>Expenses:</b>					
Cost of operations	216,816	205,835	165,714	94,285	72,247
Depreciation and amortization	137,719	111,799	92,750	64,999	40,760
General and administrative	12,491	11,635	13,462	5,698	3,982
Interest expense	7,971	4,507	6,792	8,482	8,508
Environmental cost	—	—	—	—	2,741
Advisory fee	—	—	—	—	6,437
	374,997	333,776	278,718	173,464	134,675
Income before minority interest and disposition gain	301,737	247,309	190,333	162,912	77,523
Minority interest in income	(16,006)	(20,290)	(11,684)	(9,363)	(7,137)
Net income before gain on disposition of real estate	285,731	227,019	178,649	153,549	70,386
Gain on disposition of real estate	2,154	—	—	—	—
Net income	\$ 287,885	\$ 227,019	\$ 178,649	\$ 153,549	\$ 70,386
<b>Per Common Share:</b>					
Distributions	\$ 1.52	\$ 0.88	\$ 0.88	\$ 0.88	\$ 0.88
Net income — Basic	\$ 1.53	\$ 1.30	\$ 0.92	\$ 1.10	\$ 0.96
Net income — Diluted	\$ 1.52	\$ 1.30	\$ 0.91	\$ 1.10	\$ 0.95
Weighted average common shares — Basic	126,308	113,929	98,446	77,117	41,039
Weighted average common shares — Diluted	126,669	114,357	98,961	77,358	41,171
<b>Balance Sheet Data:</b>					
Total assets	\$4,214,385	\$3,403,904	\$3,311,645	\$2,572,152	\$1,937,461
Total debt	\$ 167,338	\$ 81,426	\$ 103,558	\$ 108,443	\$ 158,052
Minority interest	\$ 186,600	\$ 139,325	\$ 288,479	\$ 116,805	\$ 112,373
Shareholders' equity	\$3,689,100	\$3,119,340	\$2,848,960	\$2,305,437	\$1,634,503
<b>Other Data:</b>					
Net cash provided by operating activities	\$ 459,177	\$ 372,992	\$ 294,557	\$ 245,361	\$ 123,579
Net cash used in investing activities	\$ (448,529)	\$ (355,231)	\$ (408,313)	\$ (479,626)	\$ (248,672)
Net cash provided by (used in) financing activities	\$ (6,748)	\$ (7,991)	\$ 128,355	\$ 180,685	\$ 185,378
Funds from operations <sup>(2)</sup>	\$ 428,962	\$ 336,363	\$ 272,234	\$ 224,476	\$ 105,199

1. During 1999, 1998, 1997, 1996 and 1995, we 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

We began 1999 with an inquiry, “How can we make self-storage more valuable, more meaningful, more useful to more consumers in more places than ever before?” We knew part of the answer was to continue managing our business to promote financial performance, since operational strength provides competitive advantage. To be sure, we will concentrate on the growth drivers that made us the industry’s preeminent self-storage operator: increasing operating results, accretive asset base expansion strategies, lowering the cost of capital, reducing operating costs, generating non-rental revenue through businesses operated by subsidiaries, retaining cash for property development and acquisition and our experienced executive leadership. Successfully implementing these growth drivers benefits shareholders by improving funds from operations, the single most important measurement of our financial performance.

But we also realized that in the 21st century successful operators will become even more focused on the customer. We knew that a parallel strategy of customer satisfaction could lead to strong demand for our self-storage space, and rising occupancy levels could improve funds from operations. Furthermore, in today’s intensely competitive self-storage market, it is hard for even supe-

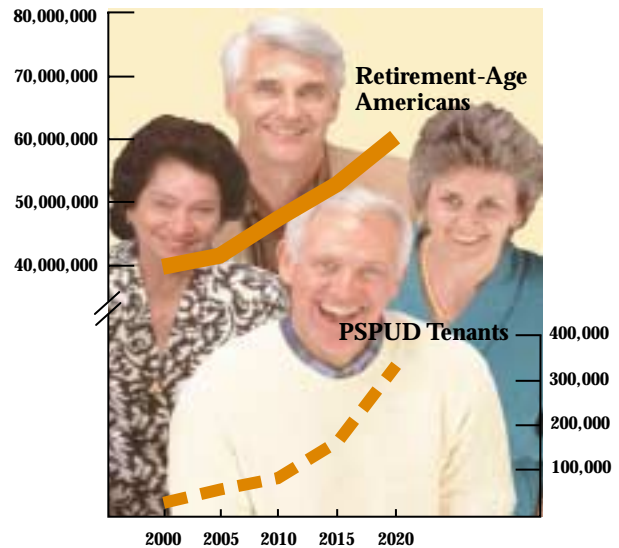


*publicstorage.com – making customer satisfaction easier.*

rior operators like Public Storage to build sustainable advantage on product alone. We believe we can maintain the gap between our Company and our competitors by creating breakthroughs in how we interact with customers. Doing this well means fully satisfying each customer’s individual need for storage solutions.

As consumers increasingly perceive a sameness of products and services among self-storage companies, our intense focus on customer satisfaction can differentiate us from the rest of the pack. Indeed, sustainable competitive advantage comes from providing solutions that customers value and are willing to pay for. To this end, we are

### Possible Effects of Changing Demographics on Public Storage Pickup & Delivery<sup>SM</sup> (PSPUD) Demand



focusing more than ever on providing distinct “Points of Differentiation,” including technologically advanced asset base expansion strategies, convenient, well-managed self-storage facilities in metropolitan markets, portable self-storage and truck operations and retail stores. These complementary businesses enable us to rent more space at higher prices. You can see the favorable outcome of being customer-centered in our operating results and occupancy levels at the end of 1999.

Our key strengths of most value to our customers are Focus, Innovation and Flexibility, discussed in detail beginning on page 4.

### Knowing The Customer

Our customers expect us to provide solutions to their unique storage problems. Some of our customers need us because of a change in their lives, like marriage or divorce. Some of our customers require a place to store their possessions during relocation. Some of our customers are looking for ways to better organize their lives but hold on to certain keepsakes for future use. Some of our customers are do-it-yourselfers and want to rent a moving truck from us. The reasons are as varied as our customers are diverse and we respect each customer’s decision to trust us to supply the best solution. A large and satisfied customer base is rewarding to us because we avoid relying on a few major customers or upon customers in the same or similar business.

Along with our subsidiaries, we have the infrastructure to meet the demand for accessible, convenient, well-managed self-storage space, portable self-storage, truck operations and retail stores. We manage a substan-

## Points of Differentiation



tial percentage of the self-storage space in higher-rent facilities in major cities in 37 states, a market penetration none of our competitors rival. We are focused on creating customer-centered growth through insight into customer needs, employees, information flow and analysis, corporate culture, organizational structure, cross-functional training and superb customer service. We realize that our key strengths of Focus, Innovation and Flexibility must begin and end at the same place — with a deepening understanding of our customers' needs and spending preferences.

### Creating The Future

The aging of America, the collapsing birthrate and increasing mobility are some of the major social and economic trends transforming our nation. We are aware that these trends will, in combination with the event-driven nature of the self-storage business, determine the storage solutions our customers need. Successful companies such as Public Storage will increasingly be pressured to respond to these trends. We anticipate, for example, our subsidiary's portable self-storage operations may benefit as an aging population seeks the convenience and timesaving associated with portable self-storage. That is just one example of proactively planning to meet the opportunities the trends may yield. We plan to find innovative ways to convert other demographic changes into rising financial performance. These emerging realities will introduce challenges and opportunities for our storage operations and for the various businesses our subsidiaries operate.

Consolidation, competition and market saturation are continuing concerns. Fluctuating supply and demand could generate imbalances that would impact our self-storage occupancy levels and rental rates in affected markets. Our leadership in the 21st century will rest on being able to profit from our history of operational success and the demographic changes gaining momentum in American society today.

As the self-storage industry becomes better known and more consumers use our products and services, we are utilizing marketing programs such as strategic alliances with organizations possessing broad market penetration. Strategic alliances allow your Company to form

effective partnerships that reduce marketing costs. We recognize that the new currency of business is information and the capacity to analyze it effectively. New technology will help the national reservation center in California and the newly operational center in Texas to collectively process approximately 500,000 phone calls a month during the peak demand periods, spring and summer. We are enhancing our website to increase customer interactivity, leveraging on a communications medium that may eventually become the world's most significant. Consumers can reserve storage space online, rent trucks and purchase retail goods at [www.publicstorage.com](http://www.publicstorage.com).

The most important commodity we are competing for is consumers' *time*. In our fast-paced society, Americans crave solutions and hate hassles. We are focusing more clearly on our customers' individual problems and responding with an array of viable storage solutions. We are drawing on sophisticated management tools such as customer knowledge and continuous innovation to learn as much as possible about who our customers are, what they want, when they want it and how they reach decisions on spending their disposable income. In an industry where the only constant may be change, preparation is mandatory. We have a vision to increase competitive advantage by being customer driven and we have the key strengths to make our vision happen. We are responding to change by placing greater weight on Focus, Innovation and Flexibility, our key strengths to satisfy customer needs. The future is not only here, it is malleable. We are prepared for 21st century leadership. To our customers, shareholders and employees, thanks for supporting our vision.

Sincerely,

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

Harvey Lenkin  
*President*

March 31, 2000

## Focus:

*Make serving customers the first priority*

### Property management and marketing

We are maintaining a competitive edge by using management and marketing to meet the different needs of different customers. Strategic alliances create co-branding and co-marketing opportunities. Since 1996, establishing cost-effective alliances has been an element of our customer-responsive approach. Our national reservation centers offer these services to the customers of some of the nation's best-known brands. Our strategic alliances enable us to target consumers who have a greater propensity to become self-storage customers.

We are also experimenting with outsourcing as a way to bring value to our customers. We are working with various service providers in the long-distance full-service moving industry to provide customers competitively priced relocation packages. We are also working with retailers who can help us transform our website into a powerful distribution channel. Strategic alliances and outsourcing improve our focus on customer satisfaction and provide for risk sharing and cash infusion.

***Without Focus, our strategies could be spread a mile wide — but only be an inch deep.***

We move beyond competitive limitations by offering a wide variety of products and services to our 685,000 self-storage customers to increase customer satisfaction and facilitate new revenue sources. Retailing boxes, locks, tape and other move-related merchandise through our subsidiary has become a multi-million dollar activity.

Directory advertising provides an effective, established method to promote our products and services since about one-third of our customers locate a property through our directory ads, currently appearing in 840 directories in approximately 80 markets.

**685000**

*satisfied self-storage customers TODAY...and GROWING!*

Our property management and marketing are highly focused on serving the customer, which includes having a conduit for the customer to express to us any dissatisfaction with our products and services. Customers can phone our customer service group, toll-free, with criticisms and suggestions. Management carefully evaluates and responds to customer problems, since even negative input can be valuable customer feedback.

Making serving the customer our top priority also means providing them with well-managed properties. One way we try to eliminate customer dissatisfaction is by making sure our properties are clean, secure and well located. Our sizeable portfolio is geographically diversified, providing economies of scale as well as broader opportunities to satisfy customer demand.

### Commitment to communities

Our self-storage properties are not our only success stories. In fact, last year we created about 60,000 ways to share our success — the toys we helped collect for children. For the third consecutive year, Public Storage



employees helped the U.S. Marine Corps Reserve with its annual Toys for Tots program in Southern California, Dallas/Fort Worth, Chicago, Seattle and Miami. Marines coordinated the distribution of the toys. Giving back to others will remain a vital part of our community involvement plans, because it is by giving that we receive the greatest gift of all.



*Strategic alliances sharpen our focus on customer satisfaction.*

*does Public Storage mean to me?*



*“What better way to spend a Saturday afternoon than by discovering something unique and buying it? An avid collector, I see myself as preserving the nostalgia of the past while embracing the wonder of the future. Convenience and security are important to me, so Public Storage is the only logical place for me to keep my treasures when I run out of room in my apartment.”*

## Innovation:

*Do more of the same but differently*

### “Mission-critical” investments

One of the most important new resources for executing our key strengths of Focus, Innovation and Flexibility are our national reservation centers. Approximately 67 percent of our self-storage rentals begin at our national reservation centers. Our national reservation centers have become integral to the way we market our properties, collect customer data and provide storage solutions. Trained agents at our California and newly operational Texas centers evaluate customers' needs, recommend solutions and disseminate information to properties. We are enhancing our national reservation centers to provide even greater customer responsiveness since our centers are an important point of contact between our customers and our Company.

A customer calling a property, or our national toll-free number (1-800-44-STORE), or accessing us via the Internet can be connected with the centers. The centers collectively process approximately 500,000 phone calls a month during the spring and summer periods when demand peaks. We market all of our products and services through the centers. Improving customer satisfaction through innovations in our centers supports favorable occupancy trends.

### ***Innovation starves failure and feeds success.***

Our national reservation centers also improve our ability to learn about our customer base because we can collect and analyze more customer information than previously. We are learning who our customers are, where their calls originate and when they are likeliest to call. We are now better equipped to utilize the centers through systematic management of service levels, data collection, call load forecasting, staffing needs, scheduling and product pricing. This means that we are getting a tighter grip on the yield per customer. We are concentrating on understanding our customers because they are the most important variable for quantifying the efficacy of our customer interaction strategies.

Last year we added to our customer referral options by making portable self-storage a choice for customers who encounter a self-storage property that is fully occupied or who do not find the right self-storage unit size. Onsite property managers can help ensure that we do not disappoint customers by giving customers an opportunity to have their possessions moved into a portable self-storage facility for a low transportation fee. Portable self-storage general managers coordinate with the onsite property managers and inform them of space



- Highest call volume in the industry
- Two call centers — California & Texas
- Trained telephone representatives

- State-of-the-art technology
- Extended hours of operation

*National reservation centers —  
customer satisfaction through innovation.*

availability. We believe we are the only self-storage operator employing such technologically sophisticated national reservation centers and management practices.

### **publicstorage.com**

We recently brought innovation to our website, further differentiating us from our competitors and making it easier for customers to receive satisfaction from our products and services. Customers are now able to reserve storage space online, rent trucks and buy retail products. We believe we gain competitive advantage by more fully capitalizing on the marketing potential of the Internet.



**www.publicstorage.com**



## *does Public Storage mean to us?*



*“We waited until our income-building years before starting a family, although we had already inherited or purchased many of the things our child would need. We kept all of our nursery furniture — bassinet, crib, changing table and toys — in a Public Storage unit. Clean, economical storage space helped us complete our lifestyle transition with little disruption.”*

## Flexibility:

*Find the opportunity in every problem*

### Responding to changing demographics

A changing, expanding population means that as we move into the 21st century we will need to offer the products and services necessary to serve more distinct niches than ever before. To this end, we are using customer knowledge and continuous innovation to augment what we know about our customers and offer them quality products to fit their unique storage needs. Our subsidiary's portable self-storage operations should gain as an aging population seeks the convenience and timesaving associated with portable self-storage. Our subsidiary's portable self-storage business is changing to better meet the needs of consumers. Public Storage Pickup & Delivery<sup>SM</sup> opened last year its first facility combining self-storage and portable self-storage. This property is a prototype for other combination properties that integrate the long-term value of self-storage and the flexibility of portable self-storage.

Portable self-storage offers convenience as an alternative to traditional self-storage. Containers are delivered to customers' homes. Customers can pack the containers at their convenience. Each container can hold up to

On March 28, 2000, a Form 10 registration statement relating to the distribution to our shareholders of the stock of PS Orangeco, Inc. was filed with the Securities and Exchange Commission. At the time of the distribution, Orangeco's principal business activities are expected to consist of portable self-storage and the rental of trucks at Public Storage facilities. The distribution is subject to significant conditions, and there is no assurance that it will be completed. If completed, the distribution is estimated to occur in the second quarter of 2000.

### The persistence of change

Population mobility is one of the most important generators of self-storage demand, and about 46,000 American households relocate on any given day. Our properties are concentrated in the metropolitan markets undergoing these changes.

Increased life expectancy, leisure time and disposable income may also influence the storage solutions consumers will value. And the most populous markets – where our properties are concentrated – are the ones with the largest numbers of people who exhibit these characteristics. The persistence of change is a stabilizing factor in our industry. Self-storage properties first appeared in Texas during the 1960s as an entrepreneurial response to the rapid changes in social, economic and land-use patterns in the United States. These patterns were established during the boom following the end of World War II. Through varying economic climates over the past 28 years, including both expansion and contraction, the demand for self-storage space in our properties has thrived. We expect change will continue to drive our growth.

## *Flexibility addresses the opportunity in every problem.*

2,000 pounds. We return the packed containers to a central warehouse to which customers have easy access. This product is targeted at customers who want to avoid the need to rent a truck, pick it up and drop it off. Customers wanting to use a truck for relocation, however, can rent a clean, late-model vehicle from our subsidiary. The subsidiary also offers the flexibility of one-way truck rentals through an alliance with Penske, which offers special rates to Public Storage customers.



NOW

BEFORE

*A prototype combo facility.*



*We rent trucks!*

*does Public Storage mean to America?*



*"Flexibility"*

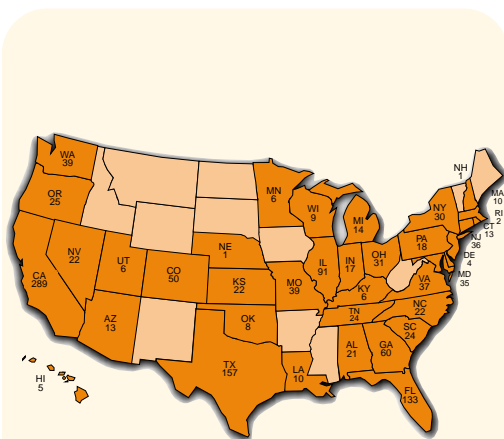
*"Focus"*

*"Innovation"*

*"Solutions"*

*"Reputation"*

*When it comes to providing the storage products and services Americans value, Public Storage is the undisputed leader.*



**Properties**  
(December 31, 1999)

Location	Number of Properties <sup>(1)</sup>	Net Rentable Square Feet
Alabama	21	835,000
Arizona	13	861,000
California	289	17,285,000
Colorado	50	3,137,000
Connecticut	13	710,000
Delaware	4	230,000
Florida	133	7,578,000
Georgia	60	3,505,000
Hawaii	5	247,000
Illinois	91	5,501,000
Indiana	17	986,000
Kansas	22	1,274,000
Kentucky	6	331,000
Louisiana	10	765,000
Maryland	35	1,989,000
Massachusetts	10	580,000
Michigan	14	765,000
Minnesota	6	341,000
Missouri	39	2,142,000
Nebraska	1	46,000
Nevada	22	1,409,000
New Hampshire	1	62,000
New Jersey	36	2,091,000
New York	30	1,751,000
North Carolina	22	1,132,000
Ohio	31	1,899,000
Oklahoma	8	429,000
Oregon	25	1,171,000
Pennsylvania	18	1,224,000
Rhode Island	2	64,000
South Carolina	24	1,081,000
Tennessee	24	1,427,000
Texas	157	10,171,000
Utah	6	324,000
Virginia	37	2,241,000
Washington	39	2,466,000
Wisconsin	9	703,000
<b>Totals</b>	<b>1,330</b>	<b>78,753,000</b>

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

## Building Financial Success

### a strong operating business

Our size and national presence, as shown in the "Properties" table on this page, is one of our most important advantages. The Company's self-storage properties are located in 37 states. A detailed list of all 1,330 of our self-storage properties is available at our website, [www.publicstorage.com](http://www.publicstorage.com).

The graphs on the opposite page present a visual picture of how our financial performance grew last year. Note increases in important benchmarks.

Net income for 1999 was \$287,885,000 compared to \$227,019,000 for 1998, representing an increase of \$60,866,000 or 26.8 percent. The increase in net income was primarily the result of improved property operations and the acquisition of additional real estate investments during 1998 and 1999 (including the merger with Storage Trust).

Net income allocable to common shareholders was \$193,092,000 or \$1.52 per common share on a diluted basis (based on 126,669,000 weighted average diluted shares) for 1999 compared to \$148,644,000 or \$1.30 per common share on a diluted basis (based on 114,357,000 weighted average diluted shares) for 1998. In computing net income allocable to the Company's common shareholders, dividends to the Company's preferred shareholders (\$94,793,000 and \$78,375,000 for 1999 and 1998) have been deducted.

Funds from operations per common share for the fourth quarter of 1999 was \$0.67 per common share compared to \$0.60 per common share for the same period in 1998. Funds from operations per common share for 1999 was \$2.64 compared to \$2.24 for 1998.

A \$0.22 per common share quarterly dividend was declared by the Board of Directors on March 2, 2000, along with quarterly dividends payable on the Company's various series of preferred stock. In addition, the Board of Directors on March 2, 2000 declared a dividend of \$0.525 per share on the depositary shares each representing 1/1,000 of a share of Equity Stock, Series A, which is a prorated dividend for the period from January 14, 2000 (the date of original issuance of shares of that series) through March 31, 2000. All of the distributions are payable on March 31, 2000 to shareholders of record as of March 15, 2000.

Minimizing distributions enhances 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. We distributed 58 percent of funds from operations available to common shareholders for 1999 and 39 percent for 1998. The distribution of funds from operations available to common shareholders for 1999 includes the special distribution, payable to shareholders of record on November 15, 1999 and payable on January 14, 2000. We retained approximately \$111,032,000 of funds to purchase and develop properties and invest in our other operations.

### Same Store Performance, Capital Formation and Stock Repurchase

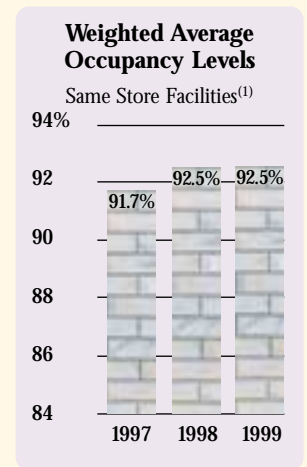
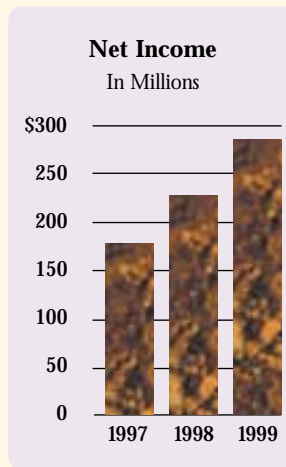
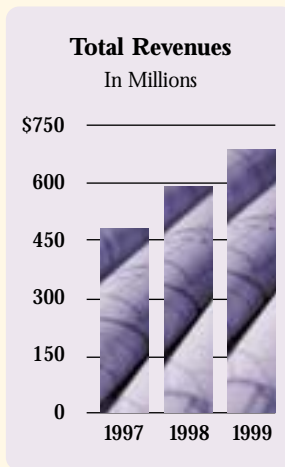
Same Store performance (978 self-storage facilities in which the Company has held an ownership interest since 1994) produced occupancies averaging 92.5 percent for 1999, unchanged from 1998. Same Store average annual realized rents were \$10.27 per square foot for 1999, compared to \$9.84 for 1998. Realized rent per square foot represents the actual revenue earned per occupied square foot. We believe this is a more relevant measure than posted or scheduled rates, since posted rates can be discounted through promotions. Same Store rental income advanced to \$543,522,000 for 1999, versus \$520,767,000 for 1998. Same Store cost of

operations increased to \$187,582,000 for 1999, compared to \$182,761,000 for 1998. Net operating income equaled \$355,940,000 for 1999, compared to \$338,006,000 for 1998.

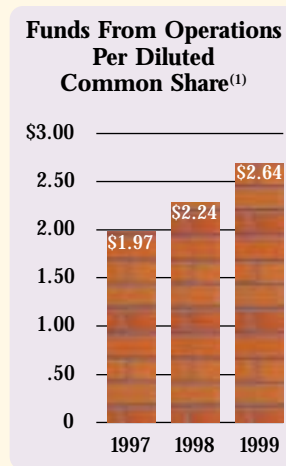
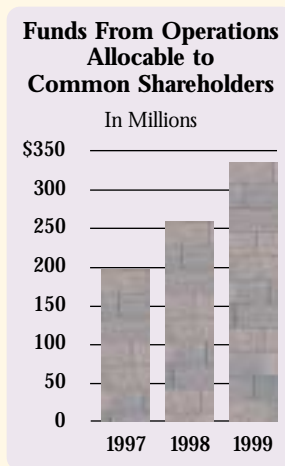
In the first quarter of 2000 through March 2, 2000, the Company issued 2,100,000 depositary shares, each representing 1/1,000 of a share of the Company's Equity Stock, Series A, in an underwritten offering. The Company raised net proceeds of approximately \$40,000,000.

On March 17, 2000, the Company completed a private placement of perpetual preferred operating units issued to institutional investors. The \$240,000,000 9.5% Series N Cumulative Redeemable Perpetual Preferred Units were issued by an operating partnership of the Company. The units are non-callable for five years, are subordinate to all debt and have no mandatory redemption date.

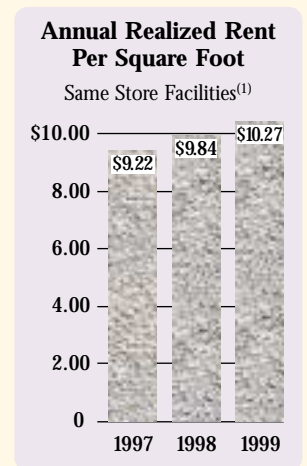
On March 2, 2000, the Company's Board of Directors authorized the repurchase from time to time of up to 15,000,000 shares (an increase of 5,000,000 shares from the 10,000,000 shares previously authorized) of the Company's common stock on the open market or in privately negotiated transactions. In the quarter ended December 31, 1999, the Company repurchased a total of 2,768,600 shares, for a total aggregate cost of approximately \$62,200,000. Cumulatively since the repurchase announcement, through December 31, 1999, the Company has repurchased a total of 7,408,827 shares of common stock at an aggregate cost of approximately \$181,000,000. From January 1, 2000 through March 1, 2000, the Company has repurchased an additional 1,039,900 shares at an aggregate cost of approximately \$23,500,000.



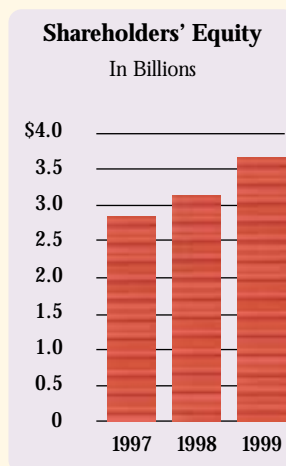
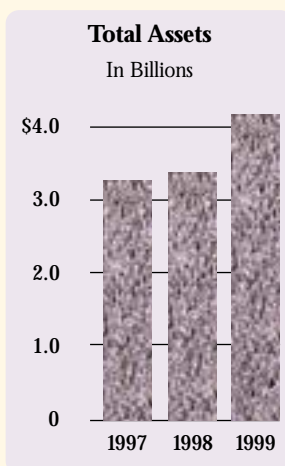
(1) "Same Store" refers to self-storage facilities in which the Company had an interest since January 1, 1994.



(1) A term defined by the National Association of Real Estate Investment Trusts, Inc.



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



## Consolidated Balance Sheets

(Amounts in thousands, except share data)	December 31, 1999	December 31, 1998
<b>Assets</b>		
Cash and cash equivalents	\$ 55,125	\$ 51,225
Real estate facilities, at cost:		
Land	1,036,958	803,226
Buildings	2,785,475	2,159,065
	3,822,433	2,962,291
Accumulated depreciation	(533,412)	(411,176)
	3,289,021	2,551,115
Construction in process	140,764	83,138
	3,429,785	2,634,253
Investment in real estate entities	457,529	450,513
Intangible assets, net	194,326	203,635
Mortgage notes receivable from affiliates	18,798	5,415
Other assets	58,822	58,863
<b>Total assets</b>	<b>\$ 4,214,385</b>	<b>\$3,403,904</b>
<b>Liabilities and Shareholders' Equity</b>		
Notes payable	\$ 167,338	\$ 81,426
Distributions payable	82,086	—
Accrued and other liabilities	89,261	63,813
<b>Total liabilities</b>	<b>338,685</b>	<b>145,239</b>
Minority interest	186,600	139,325
Commitments and contingencies		
<b>Shareholders' Equity:</b>		
Preferred Stock, \$0.01 par value, 50,000,000 shares authorized, 11,141,100 shares issued and outstanding (11,129,650 issued and outstanding at December 31, 1998), at liquidation preference:		
Cumulative Preferred Stock, issued in series	1,155,150	868,900
Common Stock, \$0.10 par value, 200,000,000 shares authorized, 126,697,023 shares issued and outstanding (115,965,945 at December 31, 1998)	12,671	11,598
Class B Common Stock, \$0.10 par value, 7,000,000 shares authorized and issued	700	700
Paid-in capital	2,463,193	2,178,465
Cumulative net income	1,089,973	802,088
Cumulative distributions paid	(1,032,587)	(742,411)
<b>Total shareholders' equity</b>	<b>3,689,100</b>	<b>3,119,340</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 4,214,385</b>	<b>\$3,403,904</b>

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, 1999

	1999	1998	1997
<b>Revenues:</b>			
Rental income:			
Self-storage facilities	\$592,619	\$488,291	\$385,540
Commercial properties	8,204	23,112	40,575
Portable self-storage facilities	27,028	24,466	7,893
Equity in earnings of real estate entities	32,183	26,602	17,569
Interest and other income	16,700	18,614	17,474
	676,734	581,085	469,051
<b>Expenses:</b>			
Cost of operations:			
Self-storage facilities	184,481	149,376	117,963
Commercial properties	2,826	7,951	16,665
Portable self-storage facilities	29,509	48,508	31,086
Depreciation and amortization	137,719	111,799	92,750
General and administrative	12,491	11,635	13,462
Interest expense	7,971	4,507	6,792
	374,997	333,776	278,718
Income before minority interest and gain on disposition of real estate	301,737	247,309	190,333
Minority interest in income	(16,006)	(20,290)	(11,684)
Net income before gain on disposition of real estate	285,731	227,019	178,649
Gain on disposition of real estate	2,154	—	—
Net income	\$287,885	\$227,019	\$178,649
Net income allocation:			
Allocable to preferred shareholders	\$ 94,793	\$ 78,375	\$ 88,393
Allocable to common shareholders	193,092	148,644	90,256
	\$287,885	\$227,019	\$178,649
<b>Per common share:</b>			
Basic net income per share	\$ 1.53	\$ 1.30	\$ 0.92
Diluted net income per share	\$ 1.52	\$ 1.30	\$ 0.91
Basic weighted average common shares outstanding	126,308	113,929	98,446
Diluted weighted average common shares outstanding	126,669	114,357	98,961

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, 1999	Preferred Stock		Common Stock
	Cumulative	Convertible	
<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 Convertible Preferred Stock into Common Stock (2,363,901 shares)	—	(61,621)	236
Net income	—	—	—
Distributions to shareholders:			
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 Convertible Preferred Stock into Common Stock (3,589,552 shares)	—	(53,308)	359
Repurchase of Common Stock (2,819,400 shares)	—	—	(282)
Net income	—	—	—
Distributions to shareholders:			
Preferred Stock	—	—	—
Common Stock, \$0.88 per share	—	—	—
<b>Balances at December 31, 1998</b>	868,900	—	11,598
Issuance of Preferred Stock, net of issuance costs:			
Series K (4,600 shares)	115,000	—	—
Series L (4,600 shares)	115,000	—	—
Series M (2,250 shares)	56,250	—	—
Issuance of Common Stock (15,320,505 shares)	—	—	1,532
Repurchase of Common Stock (4,589,427 shares)	—	—	(459)
Net income	—	—	—
Distributions to shareholders:			
Preferred Stock	—	—	—
Common Stock regular distribution, \$0.88 per share	—	—	—
Common Stock special distribution	—	—	—
<b>Balances at December 31, 1999</b>	\$1,155,150	\$ —	\$12,671

See accompanying notes.



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Class B Common Stock	Paid-in Capital	Cumulative Net Income	Cumulative Distributions	Total Shareholders' Equity
\$700	\$1,454,387	\$ 396,420	\$ (388,736)	\$2,305,437
—	(5,075)	—	—	144,925
—	393,085	—	—	394,523
—	61,385	—	—	—
—	—	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
—	(3,723)	—	—	111,277
—	(3,723)	—	—	111,277
—	(1,872)	—	—	54,378
—	402,152	—	—	403,684
—	(108,106)	—	—	(108,565)
—	—	287,885	—	287,885
—	—	—	(94,793)	(94,793)
—	—	—	(113,297)	(113,297)
—	—	—	(82,086)	(82,086)
\$700	\$2,463,193	\$1,089,973	\$(1,032,587)	\$3,689,100

## Consolidated Statements of Cash Flows

(Amounts in thousands)

For each of the three years in the period ended December 31, 1999

	1999	1998	1997
<b>Cash flows from operating activities:</b>			
Net income	\$ 287,885	\$ 227,019	\$ 178,649
Adjustments to reconcile net income to net cash provided by operating activities:			
Less gain on disposition of real estate	(2,154)	—	—
Depreciation and amortization	137,719	111,799	92,750
Depreciation included in equity in earnings of real estate entities	19,721	13,884	11,474
Minority interest in income	16,006	20,290	11,684
Total adjustments	171,292	145,973	115,908
Net cash provided by operating activities	459,177	372,992	294,557
<b>Cash flows from investing activities:</b>			
Principal payments received on mortgage notes receivable	28,837	46,897	409
Acquisition of minority interests	(36,846)	(22,845)	(21,559)
Notes receivable from affiliates	(30,594)	(33,000)	—
Acquisition of real estate facilities	(26,640)	(46,064)	(65,225)
Acquisition cost of business combinations	(180,216)	(85,883)	(164,808)
Reduction in cash due to the deconsolidation of PS Business Parks, Inc. (See Note 2)	—	(11,260)	—
Investment in portable self-storage business	—	(2,571)	(29,997)
Investments in real estate entities	(77,656)	(99,934)	(46,151)
Construction in process	(109,047)	(79,132)	(45,865)
Capital improvements to real estate facilities	(29,023)	(31,714)	(35,117)
Proceeds from the sale of real estate facilities and real estate investments	12,656	10,275	—
Net cash used in investing activities	(448,529)	(355,231)	(408,313)
<b>Cash flows from financing activities:</b>			
Net (paydowns) borrowings on revolving line of credit	—	(7,000)	7,000
Net proceeds from the issuance of preferred stock	276,932	—	144,925
Net proceeds from the issuance of common stock	10,000	237,860	182,523
Repurchase of the Company's common stock	(108,565)	(72,256)	—
Principal payments on mortgage notes payable	(14,088)	(15,131)	(11,885)
Distributions paid to shareholders	(208,090)	(179,101)	(174,574)
Distributions paid to minority interests	(25,300)	(32,312)	(20,929)
Investment by minority interests	61,928	54,809	3,527
Other	435	5,140	(2,232)
Net cash (used in) provided by financing activities	(6,748)	(7,991)	128,355
Net increase in cash and cash equivalents	3,900	9,770	14,599
Cash and cash equivalents at the beginning of the year	51,225	41,455	26,856
Cash and cash equivalents at the end of the year	\$ 55,125	\$ 51,225	\$ 41,455

See accompanying notes.

(Amounts in thousands)

For each of the three years in the period ended December 31, 1999

**SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING  
AND FINANCING ACTIVITIES:****Business combinations (Note 3):**

	1999	1998	1997
Real estate facilities	\$(727,925)	\$(224,999)	\$(657,347)
Construction in process	(11,449)	—	—
Investment in real estate entities	66,334	86,966	189,400
Mortgage notes receivable	(6,739)	—	—
Other assets	(3,295)	(670)	(4,119)
Accrued and other liabilities	23,434	3,793	21,190
Minority interest	32,201	35,210	74,068
Notes payable	100,000	—	—
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 real estate facilities in exchange for minority interests, common stock, the assumption of mortgage notes payable, the cancellation of mortgage notes receivable, the reduction of investment in real estate entities and other assets	(55,120)	(42,047)	(119,279)
Assumption of notes payable in exchange for real estate facilities	—	14,526	—
Other assets given in exchange for real estate facilities	3,800	—	—
Minority interest issued in exchange for real estate facilities	—	1,206	119,279
Cancellation of mortgage notes receivable to acquire real estate facilities	5,573	2,495	—
Reduction of investment in real estate entities in exchange for real estate facilities	—	527	—
Disposition of real estate facilities in exchange for notes receivable, other assets, and investment in real estate entities	29,675	—	—
Notes receivable issued in connection with real estate dispositions	(10,460)	—	—
Other assets received in connection with real estate dispositions	(3,800)	—	—
Investment in real estate entities	(15,415)	(17,133)	30,406
Acquisition of minority interest in exchange for common stock	(37,560)	(25,460)	—
Reduction in construction in process — contribution to joint venture	—	—	(30,406)
Distributions payable	82,086	—	—
Cumulative distributions paid	(82,086)	—	—
Issuance of Common Stock:			
In connection with business combinations	347,223	13,817	212,000
To acquire minority interests	46,461	25,908	—
Acquire partnership interests in real estate entities	—	17,133	—
In connection with conversion of Convertible Preferred Stock	—	53,308	61,621
Conversion of Convertible Preferred Stock	—	(53,308)	(61,621)

*See accompanying notes.*

## Notes to Consolidated Financial Statements

December 31, 1999

### Note 1. Description of the Business

Public Storage, Inc. (the "Company") is a California corporation, which was organized in 1980. We are a fully integrated, self-administered and self-managed real estate investment trust ("REIT") whose principal business activities include the acquisition, development, ownership and operation of storage facilities which offer storage spaces and containers for lease, usually on a month-to-month basis, for personal and business use. In addition, to a much lesser extent, we have interests in commercial properties.

In 1996 and 1997, we organized Public Storage Pickup and Delivery, Inc., as a separate corporation and partnership (the corporation and partnership are collectively referred to as "PSPUD") to operate storage facilities that rent portable storage containers to customers for storage in central warehouses. At December 31, 1999, PSPUD had 36 facilities in operation.

We invest in real estate facilities by acquiring wholly owned facilities or by acquiring interests in real estate entities which also own real estate facilities. At December 31, 1999, we had direct and indirect equity interests in 1,459 properties located in 38 states, including 1,330 self-storage facilities and 129 commercial properties. The Company under the "Public Storage" name operates all of the self-storage facilities.

### Note 2. Summary of Significant Accounting Policies

#### *Basis of presentation*

The consolidated financial statements include the accounts of the Company and 35 controlled entities (the "Consolidated Entities"). Collectively, the Company and these entities own a total of 1,210 real estate facilities, consisting of 1,206 storage facilities and four commercial properties.

At December 31, 1999, we had equity investments in 12 limited partnerships in which we do not have a controlling interest. These limited partnerships collectively own 124 self-storage facilities, which are managed by the Company. In addition, we own approximately 41% of the common interest in PS Business Parks, Inc. ("PSB"), which owns and operates 125 commercial properties. We do not control these entities, accordingly, our investments in these limited partnerships and PSB are accounted for using the equity method.

From the time of PSB's formation through March 31, 1998, we consolidated the accounts of PSB in our financial statements. During the second quarter of 1998, our ownership interest in PSB was reduced below 50% and, accordingly, we ceased to have a controlling interest in PSB. Accordingly, effective April 1, 1998, we no longer included the accounts of PSB in our consolidated financial statements and have accounted for our investment using the equity method. For all periods after March 31, 1998, the income statement includes the Company's equity in income of PSB. Further, commercial property operations for the periods after March 31, 1998 reflect only the commercial property operations of facilities owned by the Company which have both storage and commercial use combined at the same property location.

#### *Use of estimates*

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the 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, we are not taxed on that portion of our taxable income which is distributed to our shareholders provided that we meet certain tests. We believe we have met these tests during 1999, 1998 and 1997; accordingly, no provision for income taxes has been made in the accompanying financial statements.

#### *Financial instruments*

The methods and assumptions used to estimate the fair value of financial instruments is described below. We have estimated the fair value of our financial instruments using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop estimates of market value. Accordingly, estimated fair values are not necessarily indicative of the amounts that could be realized in current market exchanges.

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

Due to the short period to maturity of our cash and cash equivalents, accounts receivable, other assets, and accrued and other liabilities, the carrying values as presented on the consolidated balance sheets are reasonable estimates of fair value. The carrying amount of mortgage notes receivable approximates fair value because the aggregate mortgage notes receivable's applicable interest rates approximate market rates for these loans. A comparison of the carrying amount of notes payable to our estimated fair value is included in Note 7, "Notes Payable."

Financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, accounts receivable, and notes receivable. Cash and cash equivalents, which consist of short-term investments, including commercial paper, are only invested in entities with an investment grade rating. Notes receivable are substantially all secured by real estate facilities that we believe are valued in excess of the related note receivable. Accounts receivable are not a significant portion of total assets and are comprised of a large number of individual customers.

#### *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.

#### *Evaluation of asset impairment*

In 1995, the Financial Accounting Standards Board issued Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" which requires impairment losses to be recorded on long-lived assets. We annually evaluate long-lived assets (including goodwill), by identifying indicators of impairment and by comparing the sum of the estimated undiscounted future cash flows for each asset to the asset's carrying amount. When indicators of impairment are present and the sum of the undiscounted cash flows is less than the carrying value of such asset, an impairment loss is recorded equal to the difference between the asset's current carrying value and its value based upon discounting its estimated future cash flows. Statement No. 121 also addresses the accounting for long-lived assets that are expected to be disposed of. Such assets are to be reported at the lower of their carrying amount or fair value, less cost to sell. Our evaluations have indicated no impairment in the carrying amount of our assets.

#### *Other assets*

Other assets primarily consist of furniture, fixtures, equipment, and other such assets associated with the portable self-storage business as well as accounts receivable, prepaid expenses, and other such assets of the Company. Included in other assets with respect to the portable self-storage business is furniture, fixtures, and equipment (net of accumulated depreciation) of \$34,704,000 and \$36,358,000 at December 31, 1999 and 1998, respectively. Included in depreciation and amortization expense is \$4,915,000, \$4,317,000, and \$1,394,000 in the years ended December 31, 1999, 1998, and 1997, respectively, of depreciation of furniture, fixtures, and equipment of the portable self-storage business.

#### *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, 1999 and 1998, intangible assets are net of accumulated amortization of \$38,400,000 and \$29,091,000, respectively. Included in depreciation and amortization expense is \$9,309,000 in each of the three fiscal years ended December 31, 1999 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 our ownership interest in the earnings of each of the unconsolidated real estate entities. Advertising costs are expensed as incurred.

#### *Environmental costs*

Our 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. Our current practice is to conduct environmental investigations in connection with property acquisitions. As a result of environmental investigations of our properties, which commenced in 1995, we recorded an amount which, in our best estimate, will be sufficient to satisfy anticipated costs of known investigation and remediation requirements. Although there can be no assurance, we are not aware of any environmental contamination of any of our facilities which individually or in the aggregate would be material to our overall business, financial condition, or results of operations.

*Net income per common share*

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, 1999. In addition, the inclusion of the convertible preferred stock (for periods prior to conversion) 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 \$94,793,000, \$78,375,000 and \$88,393,000 for the years ended December 31, 1999, 1998 and 1997, respectively, reduced income available to common stockholders in the determination of net income allocable to common stockholders.

*Stock-based compensation*

In October 1995, the Financial Accounting Standards Board issued Statement No. 123 "Accounting for Stock-Based Compensation" 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 No. 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. We have elected to adopt the disclosure requirements of Statement No. 123 but will continue to account for stock-based compensation under APB 25.

*Reclassifications*

Certain reclassifications have been made to the consolidated financial statements for 1998 and 1997 in order to conform to the 1999 presentation.

Note 3. Business Combinations

On March 12, 1999, we completed a merger with Storage Trust Realty, Inc. ("Storage Trust"). All the outstanding stock of Storage Trust was exchanged for 13,009,485 shares of the Company's common stock and an additional 1,011,963 shares were reserved for issuance upon conversion of limited partnership units in Storage Trust's operating partnership. The aggregate acquisition cost of the merger was approximately \$575,676,000, consisting of the issuance of the Company's common stock of approximately \$347,223,000, cash of approximately \$105,239,000, the assumption of debt in the amount of \$100,000,000, and the Company's pre-existing investment in Storage Trust of approximately \$23,214,000.

During 1998, we completed mergers with two affiliated public REITs. We acquired all the outstanding stock of the REITs for an aggregate cost of \$37,132,000, consisting of the issuance of 433,526 shares of the Company's common stock (\$13,817,000), a \$18,571,000 reduction of the Company's pre-existing investment and \$4,744,000 in cash.

*Partnership acquisitions:*

During 1999, we acquired all of the limited partner interest in 14 partnerships, which owned an aggregate of 40 storage facilities. Prior to the acquisitions, we accounted for our investment in each of these partnerships using the equity method. As a result of increasing our ownership interest and obtaining control of the partnerships, we began to consolidate the accounts of the partnerships in the consolidated financial statements. The aggregate amount of the interests acquired totaled \$118,453,000 consisting of a \$43,476,000 reduction of the Company's pre-existing investment and cash of \$74,977,000.

During 1998, we increased our ownership interest in three limited partnerships in which the Company is the general partner. Prior to the acquisitions, we accounted for our investment in each of the three partnerships using the equity method. As a result, we began to consolidate the accounts of these partnerships for financial statement purposes. The aggregate amount of the interests acquired totaled \$149,534,000 consisting of a \$68,395,000 reduction of the Company's pre-existing investment and cash of \$81,139,000.

The mergers were structured as tax-free transactions. The mergers and acquisitions of affiliated limited partner interests have been accounted for using the purchase method. Accordingly, allocations of the total acquisition cost to the net assets acquired were made based upon the fair value of such assets and liabilities assumed with respect to the transactions occurring in 1999 and 1998 are summarized as follows:

(Amounts in thousands)	Storage Trust Merger	Partnership Acquisitions	REIT Mergers	Total
<b>1999 business combinations:</b>				
Real estate facilities	\$598,577	\$129,348	\$ —	\$727,925
Construction in process	11,449	—	—	11,449
Investment in real estate entities	356	—	—	356
Mortgage notes receivable	6,739	—	—	6,739
Other assets	2,909	386	—	3,295
Accrued liabilities	(17,345)	(6,089)	—	(23,434)
Minority interest	(27,009)	(5,192)	—	(32,201)
	\$575,676	\$118,453	\$ —	\$694,129
<b>1998 business combinations:</b>				
Real estate facilities	\$ —	\$151,028	\$ 73,971	\$224,999
Other assets	—	399	271	670
Accrued and other liabilities	—	(1,513)	(2,280)	(3,793)
Minority interest	—	(380)	(34,830)	(35,210)
	\$ —	\$149,534	\$ 37,132	\$186,666

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 two years ended December 31, 1999 as though the business combinations above had been effective at the beginning of fiscal 1998 are as follows:

(In thousands except per share data)	For the Year Ended December 31,	
	1999	1998
Revenues	\$702,249	\$688,363
Net income	\$289,606	\$239,218
Net income per common share (Basic)	\$ 1.50	\$ 1.26
Net income per common share (Diluted)	\$ 1.50	\$ 1.25

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 1998 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 1999, 1998 and 1997 is as follows:

(Amounts in thousands)	1999	1998	1997
<b>Operating facilities, at cost:</b>			
Beginning balance	\$2,962,291	\$3,077,529	\$2,185,498
Property acquisitions:			
Business combinations (Note 3)	727,925	224,999	657,347
Other acquisitions	36,013	64,818	184,504
Disposition of facilities	(26,021)	—	—
Facilities contributed to unconsolidated real estate entities	(15,415)	—	—
Newly developed facilities opened for operations	62,870	38,629	8,639
Acquisition of minority interest (Note 8)	45,747	23,293	8,904
Capital improvements	29,023	31,714	35,117
PSB deconsolidation (see below)	—	(498,691)	(2,480)
Ending balance	3,822,433	2,962,291	3,077,529
<b>Accumulated depreciation:</b>			
Beginning balance	(411,176)	(378,248)	(297,655)
Additions during the year	(123,495)	(98,173)	(82,047)
Disposition of facilities	1,259	—	—
PSB deconsolidation (see below)	—	65,245	1,454
Ending balance	(533,412)	(411,176)	(378,248)
<b>Construction in progress:</b>			
Beginning balance	83,138	42,635	35,815
Current development	109,047	79,132	45,865
Property acquisitions — merger with Storage Trust	11,449	—	—
Property contribution to unconsolidated real estate entities	—	—	(30,406)
Newly developed facilities opened for operations	(62,870)	(38,629)	(8,639)
Ending balance	140,764	83,138	42,635
Total real estate facilities	\$3,429,785	\$2,634,253	\$2,741,916

**Operating facilities**

During 1999, we acquired a total of 253 real estate facilities for an aggregate cost of \$727,925,000 in connection with certain business combinations (Note 3). In addition, we also acquired three storage facilities and two industrial facilities for an aggregate cost of \$36,013,000, consisting of the cancellation of mortgage notes receivable (\$5,573,000), other assets (\$3,800,000), and cash (\$26,640,000).

In April 1999, we sold six properties for approximately \$10,500,000 (composed of \$1,460,000 cash, notes receivable of \$5,240,000, and other assets of \$3,800,000) and granted the buyer an option to acquire an additional eight properties for approximately \$18,800,000. The option to acquire the properties was exercised in January 2000. There was no gain or loss on the disposition of these facilities.

In addition, during 1999, we disposed of an industrial facility, two storage facilities through condemnation proceedings, and four plots of land for an aggregate of approximately \$16,416,000, composed of \$11,196,000 cash and \$5,220,000 mortgage notes receivable. In aggregate, we recorded a gain upon sale of \$2,154,000, representing the difference between the proceeds received and the net book value of the real estate.

During 1998, we acquired a total of 53 real estate facilities for an aggregate cost of \$224,999,000 in connection with certain business combinations (Note 3). We also acquired two 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). In addition, three commercial facilities were acquired 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, we no longer included the accounts of PSB in our 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 our historical cost of the PSB real estate facilities which are no longer included in the consolidated financial statements.



During 1997, we acquired a total of 176 real estate facilities for an aggregate cost of \$657,347,000 in connection with certain business combinations. We 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).

A substantial number of the real estate facilities acquired during 1999, 1998, and 1997 were acquired from affiliates in connection with business combinations with an aggregate acquisition cost of approximately \$129,348,000, \$224,999,000, and \$657,347,000 respectively.

#### *Construction in progress*

Construction in progress consists of land and development costs relating to the development of storage facilities. In April 1997, the Company and an institutional investor created a joint venture for the purpose of developing up to \$220 million of storage facilities. We own 30% of the joint venture interest and the institutional investor owns the remaining 70% interest. We periodically transferred newly developed properties, the cost of which were included in real estate, to the partnership as part of our capital contribution to the partnership. Due to our ownership of less than 50%, our investment in the joint venture is accounted for using the equity method (See Note 5).

In November 1999, we formed a second joint venture with a joint venture partner whose partners include an institutional investor and B. Wayne Hughes, Chairman and Chief Executive Officer of the Company to participate in the development of approximately \$100 million of storage facilities and to purchase \$100 million of the Company's Equity Stock, Series AAA. The joint venture is funded solely with equity capital consisting of 51% from the Company and 49% from the joint venture partner. This joint venture is consolidated in the Company's financial statements. The term of the joint venture is 15 years. After six years the joint venture partner has the right to cause the Company to purchase the joint venture partner's interest for an amount necessary to provide it with a maximum return of 10.75% per year or less in certain circumstances. The joint venture partner provides Mr. Hughes with a fixed yield of approximately 8.0% per annum.

Construction in progress includes costs associated with 44 facilities with total incurred costs of approximately \$111 million. Construction in progress also includes expansions of existing facilities and costs of projects which have not yet begun construction.

At December 31, 1999, the unaudited adjusted basis of real estate facilities for Federal income tax purposes was approximately \$2.9 billion.

#### Note 5. Investments in Real Estate Entities

Summarized combined financial data with respect to those real estate entities in which the Company had an ownership interest at December 31, 1999 are as follows:

(Amounts in thousands)	Other Equity Investments	Development Joint Venture	PSB	Total
For the year ended December 31, 1999:				
Rental income	\$ 49,318	\$ 15,570	\$125,327	\$ 190,215
Other income	1,851	608	3,286	5,745
Total revenues	51,169	16,178	128,613	195,960
Cost of operations	15,387	7,749	34,891	58,027
Depreciation and amortization	5,906	4,401	29,762	40,069
Other expenses	4,473	95	6,400	10,968
Total expenses	25,766	12,245	71,053	109,064
Net income before minority interest and extraordinary item	25,403	3,933	57,560	86,896
Minority interest	—	—	(16,110)	(16,110)
Income before extraordinary item	25,403	3,933	41,450	70,786
Loss on early extinguishment of debt	—	—	(195)	(195)
Net income	\$ 25,403	\$ 3,933	\$ 41,255	\$ 70,591
At December 31, 1999:				
Real estate, net	\$111,286	\$218,462	\$802,276	\$1,132,024
Total assets	144,775	226,671	903,741	1,275,187
Total liabilities	56,292	6,522	58,261	121,075
Preferred equity	—	—	187,750	187,750
Total common/partners' equity	88,483	220,149	657,730	966,362
The Company's investment (book value) at December 31, 1999	\$145,317	\$ 66,045	\$246,167	\$ 457,529
The Company's effective average ownership interest at December 31, 1999 <sup>(A)</sup>	41%	30%	41%	39%

(A) Reflects our ownership interest with respect to total common/partners' equity.

At December 31, 1999, our investments in real estate entities consist of ownership interests in 13 partnerships, which principally own self-storage facilities and an ownership interest in PSB. Such interests are non-controlling interests of less than 50% and are accounted for using the equity method of accounting. Accordingly, earnings are recognized based upon our ownership interest in each of the partnerships. During 1999, 1998, and 1997, we recognized earnings from our investments of \$32,183,000, \$26,602,000 and \$17,569,000, respectively, and received cash distributions totaling \$15,949,000, \$17,968,000 and \$15,673,000, respectively.

During 1999 and 1998, our investment in real estate entities decreased principally as a result of business combinations whereby the Company eliminated approximately \$66,690,000 and \$86,966,000, 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 \$77,656,000 and \$319,159,000 (including \$219,225,000 due to the deconsolidation of PSB) in 1999 and 1998, respectively.

In April 1997, the Company and an institutional investor formed a joint venture partnership for the purpose of developing up to \$220 million of storage facilities. As of December 31, 1999, the joint venture partnership had completed construction on 44 storage facilities with a total cost of approximately \$211.4 million, and had three facilities under construction with an aggregate cost incurred to date of approximately \$13.0 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 1, 2002. The expiration date may be extended by one year on each anniversary of the credit agreement. Interest on outstanding borrowings is payable monthly. At our option, 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). The Credit Facility allows us, at our 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, we are 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, we are limited in our ability to incur additional borrowings (we are required to maintain unencumbered assets with an aggregate book value equal to or greater than three times our unsecured recourse debt) or sell assets. We were in compliance with the covenants of the Credit Facility at December 31, 1999.

#### Note 7. Notes Payable

Notes payable at December 31, 1999 and 1998 consist of the following:

(Amounts in thousands)	1999		1998	
	Carrying amount	Fair value	Carrying amount	Fair value
7.08% to 7.66% unsecured senior notes, due at varying dates between November 2003 and January 2007	\$138,000	\$138,000	\$46,000	\$46,000
Mortgage notes payable:				
10.55% mortgage notes secured by real estate facilities, principal and interest payable monthly, due August 2004	26,231	27,438	28,401	30,942
7.134% to 10.5% mortgage notes secured by real estate facilities, principal and interest payable monthly, due at varying dates between May 2004 and September 2028	3,107	3,107	7,025	7,025
	\$167,338	\$168,545	\$81,426	\$83,967

All of our notes payable are fixed rate. 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, 1999.

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 24 real estate facilities having an aggregate net book value of approximately \$50.1 million at December 31, 1999.

At December 31, 1999, approximate principal maturities of notes payable are as follows:

(In thousands)	Unsecured Senior Notes	Mortgage debt	Total
2000	\$ 8,750	\$ 2,622	\$ 11,372
2001	9,500	2,910	12,410
2002	24,450	3,530	27,980
2003	35,900	3,585	39,485
2004	25,800	15,063	40,863
Thereafter	33,600	1,628	35,228
	<u>\$138,000</u>	<u>\$29,338</u>	<u>\$167,338</u>
Weighted average rate	7.4%	10.3%	7.9%

Interest paid (including interest related to the borrowings on the Credit Facility) during 1999, 1998 and 1997 was \$12,528,000, \$7,690,000 and \$8,884,000, respectively. In addition, in 1999, 1998 and 1997, the Company capitalized interest totaling \$4,509,000, \$3,481,000 and \$2,428,000, respectively, related to construction of real estate facilities.

#### Note 8. Minority Interest

In consolidation, we classify ownership interests in the net assets of each of the Consolidated Entities, other than our own, 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.

In connection with the merger with Storage Trust, minority interest increased by approximately \$27,009,000, reflecting the fair value of 1,011,963 operating partnership units ("OP Units") in Storage Trust's operating partnership owned by minority interests. As of December 31, 1999, 770,892 of such units are outstanding. OP Units are convertible on a one-for-one basis (subject to certain limitations) into common shares of the Company at the option of the unitholder. Minority interest in income with respect to OP Units reflects the OP Units' share of the net income of the Company, with net income allocated to minority interests with respect to weighted average outstanding OP Units on a per unit basis equal to diluted earnings per common share. During the year ended December 31, 1999, 241,071 OP units were exchanged for an equal number of shares of the Company's common stock, for a total cost of approximately \$6,434,000. These transactions had the effect of reducing minority interest by approximately \$6,434,000.

In addition to the above, during 1999, we acquired limited partnership interests in certain of the Consolidated Entities in several transactions for an aggregate cost of \$76,873,000, consisting of approximately \$36,846,000 in cash and \$40,027,000 in the issuance of common stock. These transactions had the effect of reducing minority interest by approximately \$31,126,000. The excess of the cost over the underlying book value (\$45,747,000) has been allocated to real estate facilities in consolidation. In 1998 and 1997, the Company acquired interests in the Consolidated Entities at an aggregate cost of \$48,753,000 and \$21,559,000, respectively, reducing minority interest by approximately \$25,640,000 and \$12,655,000, respectively. The excess of cost over underlying book values (\$23,293,000, and \$8,904,000 in 1998 and 1997, respectively) was allocated to real estate facilities in consolidation.

During 1999, 1998 and 1997, in connection with certain business combinations (Note 3) minority interest was increased by \$32,201,000, \$35,210,000 and \$74,068,000, 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, 1999, 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, 1999 and 1998, we had the following series of Preferred Stock outstanding:

Series	Dividend Rate	At December 31, 1999		At December 31, 1998	
		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
Series K	8.250%	4,600	115,000	—	—
Series L	8.250%	4,600	115,000	—	—
Series M	8.750%	2,250	56,250	—	—
<b>Total Senior Preferred Stock</b>		<b>11,141,100</b>	<b>\$1,155,150</b>	<b>11,129,650</b>	<b>\$868,900</b>

On January 19, 1999, we issued 4.6 million depository shares (each representing 1/1,000 of a share) of our Preferred Stock, Series K, raising net proceeds of approximately \$111,277,000. On March 10, 1999, we issued 4.6 million depository shares (each representing 1/1,000 of a share) of our Preferred Stock, Series L, raising net proceeds of approximately \$111,277,000. On August 17, 1999, we issued 2.25 million depository shares (each representing 1/1,000 of a share) of our Preferred Stock, Series M, raising net proceeds of approximately \$54,378,000.

The Series A through Series M (collectively the "Cumulative Senior Preferred Stock") have general preference rights with respect to liquidation and quarterly distributions. Holders of the 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, 1999, there were no dividends in arrears and the Debt Ratio was 3.5%.

Except under certain conditions relating to the Company's qualification as a REIT, the Senior Preferred Stock is 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, Series M – August 17, 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 depository share in the case of the Series G, Series H, Series I, Series J, Series K, Series L and Series M), plus accrued and unpaid dividends.

*Common stock*

During 1999, 1998 and 1997, we issued and repurchased shares of our common stock as follows:

(Dollar amounts in thousands)	1999		1998		1997	
	Shares	Amount	Shares	Amount	Shares	Amount
Public offerings	—	\$ —	7,951,821	\$234,521	6,600,000	\$181,448
In connection with mergers (Note 3)	13,009,485	347,223	433,526	13,817	7,681,432	212,000
Exercise of stock options	511,989	10,000	219,596	3,339	94,786	1,075
Issuance to affiliates	—	—	853,700	26,362	—	—
Conversion of OP units	241,071	6,434	—	—	—	—
Conversion of Convertible Preferred Stock	—	—	3,589,552	53,308	2,363,901	61,621
Acquisition of interests in real estate entities	1,557,960	40,027	635,005	16,679	—	—
Repurchases of stock	(4,589,427)	(108,565)	(2,819,400)	(72,256)	—	—
	10,731,078	\$ 295,119	10,863,800	\$275,770	16,740,119	\$456,144

Shares of common stock issued to affiliates in 1998 were in exchange for interests in real estate entities. 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 1, 1998, we exercised an option to redeem the 8.25% Convertible Preferred Stock in exchange 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, we issued 3,503,303 shares of common stock.

On June 12, 1998, we 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. Cumulatively through December 31, 1999, we repurchased a total of 7,408,827 shares of common stock at an aggregate cost of approximately \$180,821,000. On March 4, 2000, the Board of Directors increased the authorized number of shares which the Company could repurchase to 15,000,000.

On March 12, 1999, we issued 13,009,485 shares of common stock pursuant to the merger with Storage Trust Realty and reserved 1,011,963 additional shares for issuance upon conversion of units in Storage Trust Realty's operating partnership.

At December 31, 1999, the Company had 4,707,779 shares of common stock reserved in connection with the Company's stock option plans (Note 11), 7,000,000 shares of common stock reserved for the conversion of the Class B Common Stock and 770,892 shares reserved for the conversion of OP Units.

*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 \$2.50 for the year ended December 31, 1999.

*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, we contributed \$22,500,000 (225,000 shares) of equity stock, now designated as Equity Stock, Series AA ("Equity Stock AA") 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 AA ranks on a parity with Common Stock and junior to the Senior 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 AA are equal to the lesser of (i) 10 times the amount paid per Common Stock or (ii) \$2.20. We have no obligation to pay distributions if no distributions are paid to common shareholders.

In November 1999, we sold \$100,000,000 (4,289,544 shares) of Equity Stock, Series AAA ("Equity Stock AAA") to a newly formed joint venture. We control the joint venture and consolidate the accounts of the joint venture, and accordingly the Equity Stock AAA is eliminated in consolidation. The Equity Stock AAA ranks on a parity with Common Stock and junior to the Senior Preferred Stock (as defined below) with respect to general preference rights, and has a liquidation amount equal to 120% of the amount distributed to each common share. Annual distributions per share are equal to the lesser of (i) five times the amount paid per common share or (ii) \$2.1564. We have no obligation to pay distributions if no distributions are paid to common shareholders.

*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 1999 and 1997 were characterized entirely as ordinary income. For 1998, our 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 dividends were characterized as ordinary income, and the remainder was characterized as a capital gain.

On November 4, 1999, the Board of Directors declared a special distribution to the common shareholders. The special distribution is comprised of (i) \$0.65 per common share payable in depositary shares, representing interests in Equity Stock, Series A, with cash being paid in lieu of fractional shares or (ii) at the election of each common shareholder, \$0.62 per common share payable in cash. The special distribution was accrued at December 31, 1999, and paid on January 14, 2000 to shareholders of record as of November 15, 1999.

The following summarizes dividends during 1999, 1998 and 1997:

(In thousands, except per share data)	1999		1998		1997	
	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	\$1.688	2,024	\$ 1.844	2,213
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	15,309
Series H	\$2.112	14,259	\$2.112	14,259	\$ 2.112	14,259
Series I	\$2.156	8,625	\$2.156	8,625	\$ 2.156	8,625
Series J	\$2.000	12,000	\$2.000	12,000	\$ 0.689	4,133
Series K	\$1.965	9,040	—	—	—	—
Series L	\$1.673	7,695	—	—	—	—
Series M	\$0.820	1,846	—	—	—	—
Convertible	—	—	\$1.032	2,163	\$ 2.062	4,531
Series CC	—	—	—	—	\$260.00	15,328
		94,793		78,375		88,393
Common (A)	\$1.520	195,383	\$0.880	100,726	\$ 0.880	86,181
		\$290,176		\$179,101		\$174,574

(A) \$82,086,000 (\$0.64 per share) of the common dividend in 1999 was accrued at December 31, 1999, of which \$38,074,000 was paid on January 14, 2000 in cash and \$44,012,000 was paid in the issuance of depositary shares of the Company's Equity Stock, Series A.

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 2000 will be equal to 6.897% 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 "PSI Plans"). Under the PSI 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. In connection with the Storage Trust merger in March 1999, we assumed the outstanding non-qualified options under the Storage Trust Realty 1994 Share Incentive Plan (the "Storage Trust Plan"), which were converted into non-qualified options to purchase our common stock (the PSI Plans and the Storage Trust Plan are collectively referred to as the "Plans").

Information with respect to the Plans during 1999 and 1998 is as follows:

	1999		1998		1997	
	Number of Options	Average Price per Share	Number of Options	Average Price per Share	Number of Options	Average Price per Share
Options outstanding January 1	2,054,285	\$22.85	1,696,215	\$20.03	1,752,169	\$19.02
Granted or assumed	1,576,626	24.39	590,000	28.23	111,000	28.59
Exercised	(511,989)	19.53	(219,596)	15.20	(94,786)	11.34
Canceled	(94,668)	27.28	(12,334)	28.66	(72,168)	20.73
Options outstanding December 31	3,024,274	\$24.08	2,054,285	\$22.85	1,696,215	\$20.03
		\$9.375		\$9.375		\$8.125
Option price range at December 31		to \$33.563		to \$33.563		to \$30.00
Options exercisable at December 31	1,259,771	\$21.97	1,044,249	\$19.94	778,012	\$17.74
Options available for grant at December 31	1,683,505		2,881,337		3,459,003	

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, 1999, 1998, and 1997 there were 2,935,338, 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, 1999 and 1998. The remaining contractual lives were 8.2 years, 7.8 years, and 7.9 years, respectively, at December 31, 1999, 1998, and 1997.

## Note 12. Disclosures Regarding Segment Reporting

In July 1997, the Financial Accounting Standards Board issued Statement 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. We adopted this standard effective for the year ended December 31, 1998.

### *Description of each reportable segment*

Our reportable segments reflect significant operating activities that are evaluated separately by management. We have three reportable segments: self-storage operations, portable self-storage operations, and commercial property operations.

The self-storage segment comprises the direct ownership, development, and operation of traditional storage facilities, management of these properties for third parties and affiliated entities, and the ownership of equity interests in entities that own storage properties. The portable self-storage operations reflect the containerized portable self-storage operations of PSPUD. The commercial property segment reflects our interest in the ownership, operation, and management of commercial properties. The vast majority of the 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 storage and commercial space for rent.

### *Measurement of segment profit or loss*

We evaluate performance and allocate resources based upon the net segment income of each segment. Net segment income represents net income in conformity with generally accepted accounting principles and our significant accounting policies as denoted in Note 2, before interest and other income, depreciation of real estate facilities, amortization expense, interest expense, corporate general and administrative expense, and minority interest in income. The accounting policies of the reportable segments are the same as those described in the Summary of Significant Accounting Policies.

Interest and other income, depreciation of real estate facilities, amortization expense, interest expense, corporate general and administrative 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, because we do not evaluate performance based upon the assets or liabilities of the segments. We believe that the historical cost of the Company's real property does not have any significant bearing upon the performance of the commercial property and 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. We perform post-acquisition analysis of various investments; however, such evaluations are beyond the scope of FAS 131.

### *Presentation of segment information*

Our 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 our consolidated revenues and net income. It further provides details of the segment components of the income statement item, "Equity in earnings of real estate entities."



Public Storage, Inc. 1999 Annual Report

(Dollar amounts in thousands)	Year Ended December 31,			Year Ended December 31,		
	1999	1998	Change	1998	1997	Change
<b>Reconciliation of Revenues by Segment:</b>						
Self-storage						
Storage property rentals	\$592,619	\$488,291	\$104,328	\$488,291	\$385,540	\$102,751
Equity in earnings — storage property operations	20,140	20,704	(564)	20,704	31,026	(10,322)
Interest and other income — self-storage property management operations	4,553	5,069	(516)	5,069	8,257	(3,188)
Storage segment revenues	617,312	514,064	103,248	514,064	424,823	89,241
Portable self-storage	27,028	24,466	2,562	24,466	7,893	16,573
Commercial properties						
Commercial property rentals	8,204	23,112	(14,908)	23,112	40,575	(17,463)
Equity in earnings — commercial property operations	35,865	23,655	12,210	23,655	1,428	22,227
Interest and other income — commercial property management operations	—	86	(86)	86	91	(5)
Commercial properties segment revenues	44,069	46,853	(2,784)	46,853	42,094	4,759
Other items not allocated to segments						
Equity in earnings — Depreciation (self -storage)	(7,563)	(6,522)	(1,041)	(6,522)	(10,935)	4,413
Equity in earnings — Depreciation (commercial properties)	(12,158)	(7,362)	(4,796)	(7,362)	(539)	(6,823)
Equity in earnings — general and administrative and other	(4,101)	(3,873)	(228)	(3,873)	(3,411)	(462)
Interest and other income, excluding property management operations	12,147	13,459	(1,312)	13,459	9,126	4,333
Total other items not allocated to segments	(11,675)	(4,298)	(7,377)	(4,298)	(5,759)	1,461
Total consolidated company revenues	\$676,734	\$581,085	\$ 95,649	\$581,085	\$469,051	\$112,034

Public Storage, Inc. 1999 Annual Report

(Dollar amounts in thousands)	Year Ended December 31,			Year Ended December 31,		
	1999	1998	Change	1998	1997	Change
<b>Reconciliation of Net Income by Segment:</b>						
<b>Self-storage</b>						
Storage properties	\$ 408,138	\$ 338,915	\$ 69,223	\$ 338,915	\$ 267,577	\$ 71,338
Equity in earnings — storage property operations	20,140	20,704	(564)	20,704	31,026	(10,322)
Interest and other income — self-storage property management operations	4,553	5,069	(516)	5,069	8,257	(3,188)
<b>Total self-storage segment income</b>	<b>432,831</b>	<b>364,688</b>	<b>68,143</b>	<b>364,688</b>	<b>306,860</b>	<b>57,828</b>
<b>Portable self-storage</b>						
Revenues	27,028	24,466	2,562	24,466	7,893	16,573
Cost of Operations	(29,509)	(48,508)	18,999	(48,508)	(31,086)	(17,422)
General and administrative	(2,512)	(3,039)	527	(3,039)	(7,078)	4,039
Depreciation	(4,915)	(4,317)	(598)	(4,317)	(1,394)	(2,923)
<b>Total portable self-storage segment loss</b>	<b>(9,908)</b>	<b>(31,398)</b>	<b>21,490</b>	<b>(31,398)</b>	<b>(31,665)</b>	<b>267</b>
<b>Commercial properties</b>						
Commercial properties	5,378	15,161	(9,783)	15,161	23,910	(8,749)
Equity in earnings — commercial property operations	35,865	23,655	12,210	23,655	1,428	22,227
Interest and other income — commercial property management operations	—	86	(86)	86	91	(5)
<b>Total commercial property segment income</b>	<b>41,243</b>	<b>38,902</b>	<b>2,341</b>	<b>38,902</b>	<b>25,429</b>	<b>13,473</b>
<b>Other items not allocated to segments:</b>						
Equity in earnings — depreciation (storage)	(7,563)	(6,522)	(1,041)	(6,522)	(10,935)	4,413
Equity in earnings — depreciation (commercial properties)	(12,158)	(7,362)	(4,796)	(7,362)	(539)	(6,823)
Equity in earnings — general and administrative and other	(4,101)	(3,873)	(228)	(3,873)	(3,411)	(462)
Depreciation and amortization — storage real estate	(130,991)	(102,537)	(28,454)	(102,537)	(82,165)	(20,372)
Depreciation and amortization — commercial properties	(1,813)	(4,945)	3,132	(4,945)	(9,191)	4,246
Interest and other income, excluding property management operations	12,147	13,459	(1,312)	13,459	9,126	4,333
Corporate general and administrative	(9,979)	(8,596)	(1,383)	(8,596)	(6,384)	(2,212)
Interest expense	(7,971)	(4,507)	(3,464)	(4,507)	(6,792)	2,285
Minority interest in income	(16,006)	(20,290)	4,284	(20,290)	(11,684)	(8,606)
Gain on disposition of real estate	2,154	—	2,154	—	—	—
<b>Total other items not allocated to segments</b>	<b>(176,281)</b>	<b>(145,173)</b>	<b>(31,108)</b>	<b>(145,173)</b>	<b>(121,975)</b>	<b>(23,198)</b>
<b>Total consolidated company net income</b>	<b>\$ 287,885</b>	<b>\$ 227,019</b>	<b>\$ 60,866</b>	<b>\$ 227,019</b>	<b>\$ 178,649</b>	<b>\$ 48,370</b>

Note 13. Events Subsequent to December 31, 1999 (Unaudited)

In January 2000, we issued 4,300,555 depositary shares (2,200,555 shares as part of a special distribution declared on November 15, 1999 and 2,100,000 shares in a separate public offering) each representing 1/1,000 of a share of Equity Stock, Series A ("Equity Stock A"). The Equity Stock, Series A ranks on a parity with Common Stock and junior to the Senior Preferred Stock with respect to general preference rights and has a liquidation amount of which cannot exceed \$24.50 per share. Annual distributions with respect to each depositary share shall be the lesser of: a) five times the per share dividend on the Common Stock or b) \$2.45 per annum (prorated for the year 2000). Except in order to preserve the Company's federal income tax status as a REIT, we may not redeem the depositary shares before March 31, 2005. On or after March 31, 2005, we may, at our option, redeem the depositary shares at \$24.50 per depositary share. If the Company fails to preserve its federal income tax status as a REIT, the depositary shares will be convertible into common stock. The depositary shares are otherwise not convertible into common stock on a one for one basis. Holders of depositary shares vote as a single class with our holders of common stock on shareholder matters, but the depositary shares have the equivalent of one-tenth of a vote per depositary share. We have no obligation to pay distributions if no distributions are paid to common shareholders.

On March 17, 2000, we issued \$240.0 million of 9.5% Series N Cumulative Redeemable Perpetual Preferred Units in one of our operating partnerships. The preferred units were issued in a private placement to institutional investors. The units are not redeemable during the first 5 years, thereafter, at our option, we can call the units for redemption. The units are not redeemable by the holder. Subject to certain conditions, the preferred units are convertible into shares of 9.5% Series N Cumulative Preferred Stock of the Company.

On March 28, 2000, a Form 10 registration statement was filed with the Securities and Exchange Commission outlining a plan of distribution with respect to the portable storage operations and our truck rental activities. Under this plan, after the reorganization and recapitalization of certain affiliated entities, we will distribute to our common shareholders all of the common stock of an entity that will primarily own the portable storage business and truck rental activities. There is no current trading market for the stock of this entity. We will apply to have the entity's common stock quoted on the NASDAQ National Market.

On March 29, 2000, we issued \$75.0 million of 9.125% Series O Cumulative Redeemable Perpetual Preferred Units in one of our operating partnerships. The preferred units were issued in a private placement to institutional investors. The units are not redeemable during the first 5 years, thereafter, at our option, we can call the units for redemption. The units are not redeemable by the holder. Subject to certain conditions, the preferred units are convertible into shares of 9.125% Series O Cumulative Preferred Stock of the Company.

Note 14. Recent Accounting Pronouncements and Guidance*Accounting for Derivative Instruments and Hedging Activities*

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities". 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, 2000, but companies can early adopt as of the beginning of any fiscal quarter that begins after June 1998. We are studying this statement to determine its effect on our financial statements, and will adopt this statement beginning in the year ending December 31, 2001.

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

In March 1998, The Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board 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. We do 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 consolidated financial statements and would have had no impact upon financial statements for periods prior to the issuance of the 97-11 Guidance.

Note 15. Commitments and Contingencies*Lease obligations*

As of December 31, 1999, we leased thirty portable self-storage facilities from third parties; in addition, certain trucks and related equipment are leased. Total lease expense for the facilities and equipment was approximately \$13.6 million, \$19.2 million, and \$8.8 million for the years ended December 31, 1999, 1998, and 1997, respectively. Future minimum lease payments at December 31, 1999 under these non-cancelable operating leases are as follows (in thousands):

2000	\$13,559
2001	12,216
2002	8,508
2003	3,385
2004	2,016
Thereafter	388
	<u>\$40,072</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 our fees for late payments under our rental agreements for storage space constitute unlawful "penalties" under the liquidated damages provisions of California law and under California's unfair business practices act.

The Company has reached an agreement in principle to settle one of the cases with no material amount incurred by the Company. The plaintiffs in the other two cases have voluntarily dismissed their cases without prejudice.

In another case, a plaintiff is suing the Company on behalf of a purported class of Maryland 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 exceeds the amount of interest that can be charged under the Maryland constitution and are therefore unlawful "penalties." None of the plaintiffs has assigned any dollar amount to the claims. The Company has reached an agreement in principle to settle the proceeding with no material amount incurred by the Company. Any such agreement would require court approval.

In addition, the Company is a party to various claims, complaints and other legal actions that have arisen in the normal course of business from time to time. The Company believes the outcome of these pending legal proceedings, in the aggregate, will not have a material adverse effect on the operations or financial position of the Company.

Note 16. Supplementary Quarterly Financial Data (Unaudited)

(In thousands, except per share data)	Three Months Ended			
	March 31, 1999	June 30, 1999	September 30, 1999	December 31, 1999
Revenues	\$148,015	\$172,237	\$178,963	\$177,519
Net income	\$ 61,842	\$ 73,651	\$ 76,752	\$ 75,640
Per Common Share (Note 2):				
Net income — Basic	\$ 0.34	\$ 0.39	\$ 0.41	\$ 0.39
Net income — Diluted	\$ 0.34	\$ 0.39	\$ 0.40	\$ 0.39

(In thousands, except per share data)	Three Months Ended			
	March 31, 1998	June 30, 1998	September 30, 1998	December 31, 1998
Revenues	\$142,280	\$140,773	\$149,743	\$148,289
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

## 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, 1999 and 1998, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. 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 auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

*Ernst + Young LLP*

Los Angeles, California  
February 14, 2000

## 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 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 storage industry is highly fragmented and is composed predominantly of numerous local and regional operators. Competition in the markets in which we operate is significant and is increasing from additional development of storage facilities in many markets which may negatively impact occupancy levels and rental rates at the storage facilities. However, we believe that we possess several distinguishing characteristics which enable us to compete effectively with other owners and operators.

We are the largest owner and operator of storage facilities in the United States with ownership interests as of December 31, 1999 in 1,330 storage facilities containing approximately 78.8 million net rentable square feet. All of our facilities are operated under the "Public Storage" brand name, which we believe is the most recognized and established name in the storage industry. Located in the major metropolitan markets of 37 states, our storage facilities are geographically diverse, giving us national recognition and prominence. This concentration establishes us as one of the dominant providers of storage space in each market in which we operate and enables us to use a variety of promotional activities, such as radio advertising as well as targeted discounting and referrals and, to a lesser extent, television advertising, which are generally not economically viable to our competitors. In addition, we believe that the geographic diversity of the portfolio reduces the impact from regional economic downturns and provides a greater degree of revenue stability.

Commencing in early 1996, we began to implement a national telephone reservation system designed to provide added customer service and maximize utilization of available storage space. Customers calling either the Company's toll-free telephone referral system, (800) 44-STORE, or a storage facility are directed to the national reservation system. 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 has enhanced our ability to effectively market storage space and is primarily responsible for the increase in occupancy levels at our facilities since the reservation system was implemented.

In late 1996, we 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 facilities.

The concept of PSPUD is to provide an alternative to a traditional storage facility. PSPUD delivers a storage container(s) to the customer's location where the customer, at his convenience, packs his goods into the storage container. PSPUD will subsequently return to the customer's location to retrieve the storage container(s) for storage in a central facility. At December 31, 1999, PSPUD had 36 facilities in operation.

Due to the start-up nature of this business, PSPUD has incurred operating losses during each of the last four fiscal years. The operating results of PSPUD have continued to improve significantly. For the last six months of fiscal 1999, PSPUD operations broke even (based on earnings before depreciation and amortization or EBITDA).

We will continue to focus our growth strategies on: (i) improving the operating performance of our existing traditional self-storage properties, (ii) increasing our ownership of storage facilities through additional investments, (iii) improving the operating performance of the portable storage business and (iv) participating in the growth of PS Business Parks, Inc. Major elements of these strategies are as follows:

- We will continue to focus upon enhancing the operating performance of our existing traditional self-storage properties, primarily through increases in revenues achieved through the telephone reservation center and associated marketing efforts. These increases in revenue levels are expected to result primarily from increases in realized rent per occupied square foot rather than significant increases in occupancy levels.
- We will continue to focus on improving the operations of the portable self-storage operations. The Company and PSPUD are developing facilities that combine portable self-storage and traditional self-storage ("Combination Facilities") which will replace existing third-party leased facilities and reduce third-party lease expense. We believe that Combination Facilities offer efficiencies and a more effective method to meet customers' needs than a stand-alone portable self-storage facility. We expect that, upon completion of our combination facility development program, substantially all of the portable self-storage facilities will be operated in Combination Facilities.
- We expect to continue our storage facility development program. Over the past two years, the Company and certain development joint ventures that it has an interest in opened a total of 41 storage facilities at a cost of approximately \$198 million, with 2,563,000 net rentable square feet. The Company and its development joint ventures have a total of 64 projects identified for openings after December 31, 1999 at a total cost of \$362 million. These 64 projects (which includes Combination Facilities) are comprised of 47 storage facilities in process (total estimated costs upon completion of \$256 million) and 17 storage facilities identified that have not yet begun construction (estimated costs upon completion of approximately \$106 million). Generally, the construction period takes nine to 12 months, followed by an 18 to 24 month fill-up process. Throughout the fill-up period, we experience earnings dilution to the extent of our interest in the developed properties.
- We will acquire facilities from third parties when appropriate. On March 12, 1999, we completed a merger transaction with Storage Trust Realty ("Storage Trust"), a publicly traded real estate investment trust. In connection with the merger, we acquired 215 storage properties located in 16 states. We believe that our national telephone reservation system and marketing organization present an opportunity for increased revenues through higher occupancies of the properties acquired, as well as cost efficiencies through greater critical mass.

## Results of Operations

**Net income and earnings per common share:** Net income for 1999, 1998 and 1997 was \$287,885,000, \$227,019,000 and \$178,649,000 respectively. Net income allocable to common shareholders (net income less preferred stock dividends) for 1999, 1998 and 1997 was \$193,092,000, \$148,644,000 and \$90,256,000, respectively. On a diluted basis, net income per common share was \$1.52 per common share (based on weighted average shares outstanding of 126,669,000) for 1999, \$1.30 per common share (based on weighted average shares outstanding of 114,357,000) for 1998 and \$0.91 (based on weighted average shares outstanding of 98,961,000) for 1997.

The increase in net income per share for 1999 compared to 1998 was principally the result of improved real estate operations and the impact of decreased start-up operating losses of the portable self-storage business. The increase in net income in 1998 compared to 1997 was principally the result of improved real estate operations and the impact of a special dividend paid in 1997 described 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 to the holders of the Series CC Convertible Preferred Stock ("Series CC") during the first quarter of 1997. 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.

## Real Estate Operations

**Self-storage operations:** Our self-storage operations are by far the largest component of our operations, representing approximately 88% of total revenues generated during 1999. At the end of 1996, we had a total of 721 self-storage facilities included in our consolidated financial statements. Since that time we have increased the number of self-storage facilities by 480 (1997 – 173 facilities, 1998 – 57 facilities and 1999 – 250 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 consolidated statements of income with respect to our self-storage operations are not meaningful.

To enhance year over year comparisons, the following table summarizes the operating results (before depreciation) of (i) the 713 self-storage facilities that are reflected in the financial statements for the entire three years ended December 31, 1999 (the "Consistent Group") and (ii) all other self-storage facilities for which operations were not reflected in the financial statements for the entire three years ended December 31, 1999 (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
	1999	1998		1998	1997	
<b>Rental income:</b>						
Consistent Group	\$378,252	\$365,050	3.6%	\$365,050	\$341,070	7.0%
Other Facilities	214,367	123,241	73.9%	123,241	44,470	177.1%
	592,619	488,291	21.4%	488,291	385,540	26.7%
<b>Cost of operations:</b>						
Consistent Group	113,930	111,287	2.4%	111,287	104,781	6.2%
Other Facilities	70,551	38,089	85.2%	38,089	13,182	188.9%
	184,481	149,376	23.5%	149,376	117,963	26.6%
<b>Net operating income:</b>						
Consistent Group	264,322	253,763	4.2%	253,763	236,289	7.4%
Other Facilities	143,816	85,152	68.9%	85,152	31,288	172.2%
	\$408,138	\$338,915	20.4%	\$338,915	\$267,577	26.7%
<b>Consistent Group data:</b>						
Gross margin	69.9%	69.5%	0.4%	69.5%	69.3%	0.2%
<b>Weighted average:</b>						
Occupancy	92.0%	92.1%	(0.1)%	92.1%	91.4%	0.7%
Realized annual rent per square foot.	\$ 9.74	\$ 9.39	3.7%	\$ 9.39	\$ 8.84	6.2%
Scheduled annual rent per square foot	\$ 9.93	\$ 9.73	2.1%	\$ 9.73	\$ 9.37	3.8%
<b>Number of self-storage facilities</b>						
<b>(at end of period):</b>						
Consistent Group	713	713	0.0%	713	713	0.0%
Other Facilities	488	238	105.0%	238	181	31.5%
<b>Net rentable sq. ft. (at end of period):</b>						
Consistent Group	42,220	42,220	0.0%	42,220	42,220	0.0%
Other Facilities	28,789	14,889	93.3%	14,889	11,351	31.2%

Operations with respect to the "other facilities" include a partial period of operations with respect to facilities that were acquired or disposed of since January 1, 1997, as well as other facilities that were not operated on a stabilized basis throughout this period.

The Consistent Group of facilities experienced increased revenues in 1999 and 1998 of 3.6% and 7.0%, respectively, as compared to the preceding year. The 3.6% increase in revenues in 1999 as compared to 1998 was caused primarily by a 3.7% increase in realized (accrual based rates, net of discounts) rent per occupied square foot, offset by a 0.1% reduction in average occupancy levels. These improvements are due principally to the national telephone reservation system which was implemented during 1996, as well as media advertising and promotional activities.

In 1999, the rate of revenue growth over 1998 for the Consistent Group was less than the rate of growth experienced in 1998 over 1997. This was primarily due to a leveling of occupancy levels in 1999 combined with a slower level of growth of realized rent per occupied square foot. We expect to continue to experience similar growth rates in fiscal 2000 as we experienced in 1999.



Cost of operations includes all direct and indirect costs of operating and managing the facilities. The following table summarizes major operating expenses with respect to the Consistent Group:

(In thousands)	1999	1998	1997
Payroll expense	\$ 33,997	\$ 33,549	\$ 32,721
Property taxes	33,592	33,416	31,977
Advertising	5,655	3,836	3,265
Telephone reservation center costs	5,943	5,356	3,401
Other	34,743	35,130	33,417
	\$113,930	\$111,287	\$104,781

Increases in advertising cost are principally due to expanded yellow page advertising in telephone directories partially offset by a reduction in television advertising. Total advertising cost was \$5,655,000, \$3,836,000, and \$3,265,000 in 1999, 1998, and 1997, respectively. Promotional advertising has increased customer call volume into our national reservation system, where, as indicated above, one of our representatives 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.

Telephone reservation center costs have increased due to the expansion of our national telephone reservation. In connection with the national telephone reservation system, the Company implements various pricing and promotional discount strategies designed to increase rental activity. Consistent Group promotional discounts (which are included as a reduction to gross rents to arrive at rental income) were \$12,792,000 in 1997, \$11,509,000 in 1998 and \$11,259,000 in 1999.

### 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, 1999, PSPUD operated 36 facilities in 11 states. The facilities are located in major markets in which we have significant market presence with respect to our traditional self-storage facilities.

Due to the start-up nature of the business, PSPUD incurred operating losses totaling approximately \$9.9 million, \$31.4 million, and \$31.7 million for the years ended December 31, 1999, 1998 and 1997, respectively, summarized as follows:

#### Portable self-storage:

(Dollar amounts in thousands)	Year Ended December 31,		Dollar Change	Year Ended December 31,		Dollar Change
	1999	1998		1998	1997	
Rental and other income	\$27,028	\$ 24,466	\$ 2,562	\$ 24,466	\$ 7,893	\$16,573
Cost of operations:						
Direct operating costs	18,397	24,902	(6,505)	24,902	14,445	10,457
Marketing and advertising	1,333	9,206	(7,873)	9,206	10,441	(1,235)
Facility lease expense	9,779	14,400	(4,621)	14,400	6,200	8,200
Total cost of operations	29,509	48,508	(18,999)	48,508	31,086	17,422
Operating loss prior to depreciation and general and administrative expense	(2,481)	(24,042)	21,561	(24,042)	(23,193)	(849)
Depreciation <sup>(A)</sup>	4,915	4,317	598	4,317	1,394	2,923
General and administrative <sup>(A)</sup>	2,512	3,039	(527)	3,039	7,078	(4,039)
Operating losses	\$ (9,908)	\$ (31,398)	\$ 21,490	\$ (31,398)	\$ (31,665)	\$ 267

(A) Amounts reflect that portion of consolidated depreciation and general and administrative expense that is directly attributable to the Portable Self-Storage business.

We believe that the quarterly losses from the portable self-storage operations peaked during the third quarter of 1997. Operating losses were approximately \$12,069,000 for the third quarter of 1997 and have subsequently decreased each quarter through the fourth quarter of 1999 where operating losses were approximately \$1,037,000. Operations before depreciation for the last six months of 1999 were approximately breakeven.

The number of portable self-storage facilities PSPUD operated increased from 4 at December 31, 1996 to 49 at December 31, 1997 due to the opening of 45 facilities in 1997. The number of facilities decreased to 43 at December 31, 1998, due to the opening of 13 facilities and the closure of several facilities in non-strategic markets and the consolidation of several other facilities into existing facilities within the same markets. The number of facilities decreased further to 36 at December 31, 1999 due to the closure and consolidation of several additional facilities.

Rental and other income includes monthly rental charges to customers for storage of the containers and service fees charged for pickup and delivery of containers to customers' homes. The increase in rental and other income from \$7,893,000 in 1997 to \$24,466,000 in 1998 is the result of the significant expansion of the business throughout that period of time. Rental income increased to \$27,028,000 in 1999 compared to \$24,466,000 in 1998 principally as a result in increases in the number of occupied containers.

We believe 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. Advertising and marketing expense decreased to \$1,333,000 in 1999 from \$9,206,000 in 1998 primarily due to the curtailment of television advertising in the second half of 1998. Advertising and marketing expense decreased to \$9,206,000 in 1998 from \$10,441,000 in 1997, due primarily to reductions in television advertising.

Substantially all of the facilities have been leased from third parties. Facility lease expense decreased to \$9,779,000 in 1999 from \$14,400,000 in 1998, principally as a result of the reduction in the number of facilities. Facility lease expense increased to \$14,400,000 in 1998 from \$6,200,000 in 1997 due to the aforementioned increase in the number of facilities in 1998 and 1997.

We are currently developing combination facilities that combine mini-warehouse and portable self-storage space in the same location. We expect that an increasing part of the portable self-storage business will be operated from this type of a facility. To the extent that these developed Combination Facilities replace existing third-party leased space, lease expense should be reduced.

General and administrative expense (which is a component of total general and administrative expense presented on the income statement) was \$2,512,000, \$3,039,000, and \$7,078,000 in 1999, 1998, and 1997, respectively. Amounts in 1998 and 1997 reflect the training and recruiting of personnel, equipment, computer software, and professional fees in organizing the portable self-storage business. Amounts in 1999 and 1998 include amounts incurred in connection with terminated leases.

On March 28, 2000, a Form 10 registration statement was filed with the Securities and Exchange Commission outlining a plan of distribution with respect to the portable storage operations and our truck rental activities. Under this plan, after the reorganization and recapitalization of certain affiliated entities, we will distribute to our common shareholders all of the common stock of an entity that will primarily own the portable storage business and truck rental activities. There is no current trading market for the stock of this entity. We will apply to have the entity's common stock quoted on the NASDAQ National Market.

**Commercial property operations:** Our commercial property operations principally consist of our 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 financial statements:

<b>Commercial Property Operations</b>	Year Ended December 31,			Year Ended December 31,		
	1999	1998	Change	1998	1997	Change
(Amounts in thousands)						
Rental income	\$8,204	\$23,112	(64.5)%	\$23,112	\$40,575	(43.0)%
Cost of operations	2,826	7,951	(64.5)%	7,951	16,665	(52.3)%
Net operating income	\$5,378	\$15,161	(64.5)%	\$15,161	\$23,910	(36.6)%

From the time of PSB's formation through March 31, 1998, we consolidated the accounts of PSB in our financial statements. During the second quarter of 1998, our ownership interest in PSB was reduced below 50% and, as a result, we no longer had a controlling interest in PSB. Accordingly, effective April 1, 1998, we no longer include the accounts of PSB in the consolidated financial statements and have accounted for our investment using the equity method. For all periods after March 31, 1998, the income statement includes our share of income in PSB. Further, commercial property operations for the periods after March 31, 1998 reflect only the commercial property operations of facilities owned by us which have both storage and commercial use combined at the same property location.

**Equity in earnings of real estate entities:** In addition to our ownership of equity interests in PSB, we had general and limited partnership interests in 12 limited partnerships at December 31, 1999 (PSB and the limited partnerships are collectively referred to as the "Unconsolidated Entities"). Due to our limited ownership interest and control of these entities, we do not consolidate the accounts of these entities for financial reporting purposes, and account for such investments using the equity method.

Equity in earnings of real estate entities for the year ended December 31, 1999 consists of our pro rata share of the Unconsolidated Entities based upon our ownership interest for the period. Similar to the Company, the Unconsolidated Entities (other than PSB) generate substantially all of their income from their ownership of storage facilities, which we manage. In the aggregate, the Unconsolidated Entities (including PSB) own a total of 249 real estate facilities, 124 of which are storage facilities. The following table sets forth the significant components of equity in earnings of real estate entities:

Historical summary: (Amounts in thousands)	Year Ended December 31,		Dollar Change	Year Ended December 31,		Dollar Change
	1999	1998		1998	1997	
<b>Property operations:</b>						
PSB	\$ 35,623	\$ 23,301	\$12,322	\$ 23,301	\$ —	\$ 23,301
Development Joint Venture	2,346	729	1,617	729	86	643
Other investments – storage	17,794	19,975	(2,181)	19,975	30,940	(10,965)
Other investments – commercial properties	242	354	(112)	354	1,428	(1,074)
	56,005	44,359	11,646	44,359	32,454	11,905
<b>Depreciation:</b>						
PSB	(12,130)	(7,303)	(4,827)	(7,303)	—	(7,303)
Development Joint Venture	(1,320)	(564)	(756)	(564)	(137)	(427)
Other investments – storage	(6,243)	(5,958)	(285)	(5,958)	(10,798)	4,840
Other investments – commercial properties	(28)	(59)	31	(59)	(539)	480
	(19,721)	(13,884)	(5,837)	(13,884)	(11,474)	(2,410)
<b>Other:<sup>(1)</sup></b>						
PSB	(4,505)	(1,220)	(3,285)	(1,220)	—	(1,220)
Development Joint Venture	153	97	56	97	44	53
Other investments	251	(2,750)	3,001	(2,750)	(3,455)	705
	(4,101)	(3,873)	(228)	(3,873)	(3,411)	(462)
Total equity in earnings of real estate entities	\$ 32,183	\$ 26,602	\$ 5,581	\$ 26,602	\$17,569	\$ 9,033

(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 1999 equity in earnings of real estate entities compared to 1998 is principally the result of improved operations of PSB, as well as the impact of the deconsolidation of PSB effective April 1, 1998 whereby 1999's equity in earnings includes a full year with respect to our interest in the operations of PSB, and 1998 includes nine months of such interest. The increase is partially offset by the impact of certain business combinations occurring in 1998 and 1999 whereby we acquired a controlling interest in certain entities and began to include the accounts of such entities in the consolidated financial statements. Prior to the inclusion of these entities in the consolidated financial statements, we used the equity method to report our share of the entities' earnings.

The increase in 1998 equity in earnings of real estate entities compared to 1997 is principally the result of the deconsolidation of PSB as described above. This increase is partially offset by the impact of certain business combinations occurring in 1997 and 1998 whereby we acquired a controlling interest in certain entities and began to include the accounts of such entities in the consolidated financial statements. Prior to the inclusion of these entities in the consolidated financial statements, we used the equity method to report our share of the 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, 1999, PSB owned 125 properties located in 11 states. PSB also manages the commercial properties owned by the Company and affiliated entities. As of December 31, 1999, the Company and certain partnerships in which the Company has a controlling interest owned approximately 41% of the common equity interest of PSB.

In April 1997, we formed a joint venture partnership (the "Development Joint Venture") with an institutional investor to participate in the development of approximately \$220 million of storage facilities. The venture is funded solely with equity capital consisting of 30% from the Company and 70% from the institutional investor. Equity in earnings from the Development Joint Venture reflects our pro rata share, based upon our ownership interest, of the operations of the Development Joint Venture. Since inception through December 31, 1999, the Development Joint Venture has developed and opened 44 storage facilities (approximately 2,659,000 square feet) and at December 31, 1999 had three facilities under development (approximately 221,000 square feet). Generally the construction period takes nine to 12 months followed by a 18 to 24 month fill-up process until the newly constructed facility reaches a stabilized occupancy level of approximately 90%. For fiscal 1997, 1998, and 1999, the majority of the completed facilities are in the fill-up process and had not reached a stabilized occupancy level. We expect that our earnings with respect to our investment in the Development Joint Venture will continue to increase in 2000 as compared to 1999 as the existing properties continue to fill up.

## Other Income and Expense Items

**Interest and other income:** The net operating results from our property management operations and merchandise sales are presented along with interest and other income, as "interest and other income." The components of interest and other income are detailed as follows:

(Amounts in thousands)	Year ended December 31,			Year ended December 31,		
	1999	1998	Change	1998	1997	Change
<b>Facility Management:</b>						
Revenues	\$ 5,446	\$ 6,221	\$ (775)	\$ 6,221	\$10,141	\$(3,920)
Cost of operations	893	1,066	(173)	1,066	1,793	(727)
Net operating income	4,553	5,155	(602)	5,155	8,348	(3,193)
<b>Sales of packaging material and truck rental income:</b>						
Revenues	12,724	8,345	4,379	8,345	5,272	3,073
Cost of operations	9,835	6,625	3,210	6,625	4,134	2,491
Net operating income	2,889	1,720	1,169	1,720	1,138	582
Interest and other income	9,258	11,739	(2,481)	11,739	7,988	3,751
Total interest and other income	\$16,700	\$18,614	\$(1,914)	\$18,614	\$17,474	\$ 1,140

Facility management operations are primarily attributable to management of self-storage properties. At December 31, 1999, we managed 159 storage facilities (124 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, we coordinate 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, we assist and advise 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.

Throughout the three year period ended December 31, 1999, we completed several acquisitions of storage facilities from affiliated entities and, as a result, storage properties which were managed by us became owned facilities and the related management fee income with respect to these facilities ceased. Accordingly, property management operations with respect to storage facilities have continuously decreased during the three year period ended December 31, 1999. Since we have acquired in the past, and may continue to seek to acquire in the future, real estate facilities owned by the Unconsolidated Entities, our facility management income may decrease in 2000 compared to 1999.

Sales of packaging material and truck rentals have increased as a result of our retail expansion program (described below). The strategic objective of the retail expansion program is to create a "Retail Store" that will (i) rent spaces for the attached 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 have been retrofitted to existing storage facility rental offices or "built-in" as part of the development of new 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 our 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 \$2,189,000, \$1,878,000 and \$2,938,000 in 1999, 1998 and 1997, respectively. The changes in interest income from mortgage notes receivable reflect the changes in mortgage notes receivable balances. Fluctuations in the level of invested cash balances, caused by the timing of investing equity offering proceeds in real estate assets, led to a decrease in interest income in 1999 as compared to 1998, and led to an increase in interest income in 1998 as compared to 1997.

**Depreciation and amortization:** Depreciation and amortization expense was \$137,719,000 in 1999, \$111,799,000 in 1998 and \$92,750,000 in 1997. Depreciation expense with respect to the real estate facilities was \$123,495,000 in 1999, \$98,173,000 in 1998 and \$82,047,000 in 1997; the increases are due to the acquisition of additional real estate facilities in 1997 through 1999. Depreciation expense with respect to non real estate assets, primarily depreciation of equipment associated with the portable self-storage operations, was \$4,915,000 in 1999, \$4,317,000 in 1998, and \$1,394,000 in 1997; the increases are due to the expansion in the portable self-storage operations. Amortization expense with respect to intangible assets totaled \$9,309,000 for each of the three years ended December 31, 1999.

**General and administrative expense:** General and administrative expense was \$12,491,000 in 1999, \$11,635,000 in 1998 and \$13,462,000 in 1997. 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, certain overhead associated with the acquisition and development of real estate facilities, and certain overhead associated with the portable self-storage business.

Included in general and administrative expense for 1999, 1998, and 1997 is approximately \$2,512,000, \$3,039,000, and \$7,078,000, respectively, with respect to our portable self-storage business; amounts incurred in 1998 and 1997 include significant amounts related to recruiting and training personnel, equipment, computer software and professional fees in organizing the portable self-storage business.

Prior to the impact of the portable self-storage business, we experienced and expect 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 \$7,971,000 in 1999, \$4,507,000 in 1998 and \$6,792,000 in 1997. Debt and related interest expense remain relatively low compared to our overall asset base. Capitalized interest expense totaled \$4,509,000 in 1999, \$3,481,000 in 1998 and \$2,428,000 in 1997 in connection with our development activities. Interest expense before the capitalization of interest was \$12,480,000 in 1999, \$7,988,000 in 1998 and \$9,220,000 in 1997. The decrease in interest expense in 1998 as compared to 1997 principally is due to the retirement of debt in 1998 of approximately \$15,132,000. The increase in interest expense in 1999 as compared to 1998 is due to the \$100 million of notes payable assumed in the merger with Storage Trust.

**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, we have acquired portions of these equity interests through our 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 our share of the Consolidated Entities’ income. During 1999, 1998, and 1997, we acquired sufficient ownership interest and control in thirteen, three, and twelve partnerships, respectively, and commenced including the accounts of these partnerships in the consolidated financial statements, resulting in an increase in minority interest in income. The increase in minority interest in income in 1998 compared to 1997 is primarily related to the minority interest in PSB prior to April 1, 1998. The decrease in minority interest in income in 1999 as compared to 1998 is the result of the deconsolidation of PSB, partially offset by the consolidation of additional partnerships.

In determining income allocable to the minority interest for 1999, 1998 and 1997 consolidated depreciation and amortization expense of approximately \$9,294,000, \$12,022,000 and \$9,245,000, 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, 1999, there were approximately 49 ownership entities owning in aggregate 1,330 storage facilities, including the facilities which we own and/or operate. At December 31, 1999, 124 of these facilities were owned by Unconsolidated Entities, entities in which we have an ownership interest and use the equity method for financial statement presentation. The remaining 1,206 facilities are owned by the Company and Consolidated Entities.

The following table summarizes our investment in real estate facilities as of December 31, 1999:

	Number of Facilities in which the Company has an ownership interest			Net Rentable Square Footage (in thousands)		
	Storage Facilities	Commercial Properties	Total	Storage Facilities	Commercial Properties	Total
Wholly-owned facilities	646	4	650	39,448	307	39,755
Facilities owned by Consolidated Entities	560	—	560	32,021	—	32,021
Total consolidated facilities	1,206	4	1,210	71,469	307	71,776
Facilities owned by Unconsolidated Entities	124	125	249	7,284	12,359	19,643
Total facilities in which the Company has an ownership interest	1,330	129	1,459	78,753	12,666	91,419

In order to evaluate how our overall portfolio has performed, we analyze the operating performance of a consistent group of storage facilities representing 978 (57.2 million net rentable square feet) of the 1,330 storage facilities (herein referred to as “Same Store” storage facilities). The 978 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, we remove facilities from the “Same Store” pool as a result of expansions, dispositions or other activities which make such facilities’ results not comparable to previous periods.

The Same Store group of properties includes 82 facilities that are not consolidated in the financial statements. Accordingly, rental income and cost of operations with respect to these 82 facilities are not reflected on the consolidated statements of income. As of December 31, 1999, the remaining 896 facilities are included in the consolidated financial statements, however, many of them were not included in the consolidated financial statements throughout each of the three years presented. The following table summarizes the pre-depreciation historical operating results of the Same Store storage facilities:

**Same Store storage facilities:**

(historical property operations)

(Dollar amounts in thousands except rent per square foot)

	Year Ended December 31,		Percentage Change	Year Ended December 31,		Percentage Change
	1999	1998		1998	1997	
Rental income	\$543,522	\$520,767	4.4%	\$520,767	\$483,930	7.6%
Cost of operations (includes an imputed 6% property management fee) <sup>(1)</sup>	187,582	182,761	2.6%	182,761	171,579	6.5%
Net operating income	\$355,940	\$338,006	5.3%	\$338,006	\$312,351	8.2%
Gross profit margin <sup>(2)</sup>	65.5%	64.9%	0.6%	64.9%	64.5%	0.4%
Weighted Average:						
Occupancy	92.5%	92.5%	0.0%	92.5%	91.7%	0.8%
Realized annual rent per sq. ft <sup>(3)</sup>	\$ 10.27	\$ 9.84	4.4%	\$ 9.84	\$ 9.22	6.7%
Scheduled annual rent per sq. ft <sup>(3)</sup>	\$ 10.50	\$ 10.25	2.4%	\$ 10.25	\$ 9.84	4.2%

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:

	1999	1998	1997
Payroll expense	\$ 46,755	\$ 46,280	\$ 45,337
Property taxes	47,986	48,557	45,626
Imputed 6% property management fees	32,611	31,246	29,035
Advertising	7,751	5,352	4,192
Telephone reservation center costs	8,159	7,313	4,606
Other	44,320	44,013	42,783
	\$187,582	\$182,761	\$171,579

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 71.5%, 70.9% and 70.5% in 1999, 1998 and 1997, 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.

In early 1996, we implemented a national telephone reservation system designed to provide added customer service for all the storage facilities under management. We believe 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.

In 1999, the rate of revenue growth over 1998 for the Same Store facilities was less than the rate of growth experienced in 1998 over 1997. This was primarily due to a leveling of occupancy levels in 1999 combined with a slower level of growth of realized rent per occupied square foot. We expect to continue to experience similar growth rates in fiscal 2000 as we experienced in 1999.

Rental income for the Same Store facilities included promotional discounts totaling \$15,243,000 in 1999 compared to \$15,494,000 in 1998 and \$17,223,000 in 1997. During 1997 there was experimentation with pricing and promotional discounts designed to increase rental activity; such promotional activities continued in 1998.

The 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 (Dollar amounts in thousands, except weighted average amounts)**

	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:														
1999	\$82,526	3.1%	\$101,621	8.2%	\$48,608	2.4%	\$33,903	2.5%	\$39,938	5.9%	\$236,926	3.7%	\$543,522	4.4%
1998	\$80,082	10.4%	\$ 93,896	10.1%	\$47,470	6.0%	\$33,077	6.0%	\$37,698	9.6%	\$228,544	6.0%	\$520,767	7.6%
1997	\$72,555	9.4%	\$ 85,292	8.1%	\$44,784	4.2%	\$31,219	5.5%	\$34,405	10.5%	\$215,675	5.2%	\$483,930	6.6%
Cost of operations:														
1999	\$22,949	1.8%	\$ 28,506	3.2%	\$21,511	4.1%	\$13,560	3.3%	\$16,536	(4.1)%	\$ 84,520	3.6%	\$187,582	2.6%
1998	\$22,546	9.2%	\$ 27,634	7.4%	\$20,661	10.6%	\$13,123	5.2%	\$17,236	7.0%	\$ 81,561	4.6%	\$182,761	6.5%
1997	\$20,650	9.8%	\$ 25,730	5.4%	\$18,680	4.5%	\$12,474	7.9%	\$16,106	8.2%	\$ 77,939	4.9%	\$171,579	6.0%
Net operating income:														
1999	\$59,577	3.5%	\$ 73,115	10.3%	\$27,097	1.1%	\$20,343	1.9%	\$23,402	14.4%	\$152,406	3.7%	\$355,940	5.3%
1998	\$57,536	10.8%	\$ 66,262	11.2%	\$26,809	2.7%	\$19,954	6.4%	\$20,462	11.8%	\$146,983	6.7%	\$338,006	8.2%
1997	\$51,905	9.2%	\$ 59,562	9.4%	\$26,104	3.9%	\$18,745	3.9%	\$18,299	12.7%	\$137,736	5.4%	\$312,351	7.0%
Weighted avg. occupancy:														
1999	93.2%	(1.4)%	94.9%	0.6%	92.1%	(0.5)%	90.4%	(0.5)%	92.5%	(0.1)%	91.9%	0.3%	92.5%	0.0%
1998	94.6%	(1.5)%	94.3%	2.8%	92.6%	0.7%	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%	2.5%	90.2%	2.4%	91.5%	(1.3)%	90.9%	(1.3)%	91.7%	0.6%
Weighted avg. annual realized rents per occupied sq. ft.:														
1999	\$12.93	4.5%	\$12.21	7.6%	\$7.43	2.9%	\$9.03	3.0%	\$11.33	6.0%	\$9.71	3.2%	\$10.27	4.4%
1998	\$12.37	11.9%	\$11.35	7.3%	\$7.22	5.2%	\$8.77	5.2%	\$10.69	8.1%	\$9.41	5.3%	\$ 9.84	6.7%
1997	\$11.05	7.6%	\$10.58	3.2%	\$6.86	1.2%	\$8.34	2.8%	\$ 9.89	11.9%	\$8.94	6.7%	\$ 9.22	5.9%
Number of Facilities														
	127		141		113		74		60		463		978	

**Liquidity and Capital Resources**

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

Operating as a real estate investment trust ("REIT"), our ability to retain cash flow for reinvestment is restricted. In order for us to maintain our REIT status, a substantial portion of our operating cash flow must be used to make distributions to our shareholders (see "*REIT status*" below). However, despite the significant distribution requirements, we have been able to retain a significant amount of our operating cash flow. The following table summarizes our ability to make the minority interests' distributions, dividend payments 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 make both scheduled and optional principal payments on debt and for reinvestment.



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(Amounts in thousands)	For the Year Ended December 31,		
	1999	1998	1997
Net income	\$ 287,885	\$ 227,019	\$178,649
Depreciation and amortization	137,719	111,799	92,750
Less – Depreciation with respect to non-real estate assets	(4,915)	(4,317)	(1,394)
Depreciation from equity investments	19,721	13,884	11,474
Less – Gain on sale of real estate	(2,154)	—	—
Minority interest in income	16,006	20,290	11,684
Net cash provided by operating activities	454,262	368,675	293,163
Distributions from operations to minority interests	(25,300)	(32,312)	(20,929)
Cash from operations allocable to the Company's shareholders	428,962	336,363	272,234
Less: preferred stock dividends	(94,793)	(78,375)	(88,393)
Add: Non-recurring payment of dividends with respect to the Series CC convertible stock	—	—	13,412
Cash from operations available to common shareholders	334,169	257,988	197,253
Capital improvements to maintain facilities:			
Storage facilities	(29,023)	(29,677)	(30,834)
Commercial properties	—	(2,037)	(4,283)
Add back: minority interest share of capital improvements to maintain facilities	1,269	2,476	2,513
Funds available for principal payments on debt, common dividends and reinvestment	306,415	228,750	164,649
Regular cash distributions to common shareholders	(113,297)	(100,726)	(86,181)
Funds available for principal payments on debt and reinvestment prior to special distribution	193,118	128,024	78,468
Special distributions to common shareholders <sup>(A)</sup>	(82,086)	—	—
Funds available for principal payments on debt and reinvestment	\$ 111,032	\$ 128,024	\$ 78,468

(A) This amount was declared in 1999 and paid in January 2000.

We expect to fund our growth strategies with cash on hand at December 31, 1999, internally generated retained cash flows, proceeds from issuing equity securities and borrowings under our \$150 million credit facility. We intend 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.

We believe that our size and financial flexibility enables us to access capital for growth when appropriate. Our 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. Our credit ratings on our 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.

Our portfolio of real estate facilities remains substantially unencumbered. At December 31, 1999, the Company had mortgage debt outstanding of \$29.3 million and had consolidated real estate facilities with a book value of \$3.4 billion. We generally only increased our debt in connection with the acquisition of real estate facilities. Over the past three years we have funded substantially all of our acquisitions with permanent capital (both common and preferred stock). We have elected to use preferred stock despite the fact that the dividend rates of our preferred stock exceed current interest rates on conventional debt. We have chosen this method of financing for the following reasons: (i) our 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 us 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 our REIT distributions requirements, which have helped us to maintain a low common stock dividend payout ratio and retain cash flow.

Despite difficult capital markets, we were able to publicly issue \$286.3 million of preferred stock during 1999. In addition, on March 17, 2000, we issued \$240.0 million of our 9.5% Series N Cumulative Redeemable Perpetual Preferred Units in one of our operating partnerships in a private placement. Further, on March 29, 2000, we issued \$75.0 million of our 9.125% Series O Cumulative Redeemable Perpetual Preferred Units in one of our operating partnerships in a private placement. Under certain conditions, the preferred partnership units are convertible into preferred stock of the Company.

Like many other REITs, we are both unwilling and unable to issue shares of our Common Stock publicly under the current market conditions. Concurrent with the special distribution, discussed below, we publicly issued 2,100,000 depositary shares of Equity Stock, Series A, raising net proceeds of approximately \$40.0 million. The proceeds were used, in part, to pay for the cash elections of the special distribution.

***Distribution requirements:*** Our 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 1997, 1998 and 1999, we paid regular cash distributions to common shareholders of approximately 44%, 39% and 34% of our cash available from operations allocable to common shareholders, respectively. For 1999, when factoring in the total special distribution, we distributed approximately 58% of our cash available from operations allocable to common shareholders.

On November 4, 1999, the Board of Directors declared a special distribution payable on January 14, 2000 to common shareholders of record on November 15, 1999. At the election of each shareholder, the distribution was payable in either (1) \$0.65 per share in depositary shares, each representing 1/1,000 of a share of Equity Stock, Series A or (2) \$0.62 per share in cash. On January 14, 2000, approximately \$38.1 million was paid in cash and \$44.0 million of depositary shares were issued to our common shareholders in connection with this special distribution.

During 1999, we paid dividends totaling \$94,793,000 to the holders of our Senior Preferred Stock, \$113,297,000 in regular distributions to the holders of Common Stock and a special cash distribution to the holders of Common Stock totaling \$82,086,000 that was accrued but not paid at December 31, 1999. We estimate that the distribution requirements for fiscal 2000 with respect to Senior Preferred Stock outstanding at December 31, 1999 to be approximately \$100.1 million. With respect to the preferred operating partnership units issued on March 17, 2000, the Company estimates the annual distribution requirement to be approximately \$22.8 million.

Distributions with respect to the Common Stock and Equity Stock, Series A will be determined based upon our REIT distribution requirements after taking into consideration distributions to the preferred shareholders. With respect to the depositary shares of Equity Stock, Series A, we have no obligation to pay distributions if no distributions are paid to the common shareholders. To the extent that we do pay common distributions in any year, the holders of the depositary shares receive the lesser of (i) five times the per share dividend on the common stock or (ii) \$2.45. The depositary shares are noncumulative, and have no preference over our Common Stock either as to dividends or in liquidation. Assuming that we pay at least \$0.49 in common dividends in any year, we will pay a total of \$10.5 million in distributions to the holders of the 4,300,555 shares of Equity Stock, Series A during 2000.

Including the special distribution declared on November 4, 1999, we distributed a total of approximately \$195.4 million to common shareholders, or approximately \$1.52 per common share, in 1999. Assuming a continuation of increasing level of taxable income, we expect that we will have similar distribution requirements in the year 2000.

***Capital improvement requirements:*** During 2000, we have budgeted approximately \$26.2 million for capital improvements. The minority interests' share of the budgeted capital improvements is approximately \$0.7 million.

***Debt service requirements:*** We do not believe we have any significant refinancing risks with respect to our mortgage debt, all of which is fixed rate. At December 31, 1999, we had total outstanding notes payable of approximately \$167.3 million. 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, we assumed \$100 million of notes payable. Approximately \$14.7 million, \$25.9 million and \$25.8 million in principal payments with respect to these notes are due in 2002, 2003 and 2004, respectively, with the remainder due after 2004.

**Growth strategies:** During 2000, we intend to continue to expand our asset and capital base principally through the 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 and through the development of additional storage facilities. In addition to 646 wholly owned storage facilities, we operate, on behalf of approximately 47 ownership entities in which we have an interest, 684 storage facilities under the "Public Storage" name in which we have a partial equity interest. From time to time, some of these storage facilities or interests in them are available for purchase, providing us 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, we acquired 215 storage facilities located in 16 states totaling approximately 12.0 million net rentable square feet and 104,000 units. In connection with the merger, we 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 \$198.0 million of indebtedness (including \$98 million of borrowings on Storage Trust's line of credit). We immediately repaid the \$98.0 million of borrowings on the line of credit.

**Development of storage facilities:** Since 1995, the Company, principally through its affiliated development joint ventures, has opened a total of 57 facilities, one in 1995, four in 1996, nine in 1997, 19 in 1998, and 24 in 1999.

In April 1997, we formed our first development joint venture for the purpose of developing approximately \$220 million of storage facilities. Since inception through December 31, 1999, this joint venture has developed and opened 44 storage facilities with a total cost of approximately \$211.4 million. At December 31, 1999, the joint venture had 3 facilities under development (approximately 221,000 square feet) with an aggregate cost incurred to date of approximately \$13.0 million and estimated remaining costs to complete of \$4.7 million.

In November 1999, we formed a second joint venture partnership to participate in the development of approximately \$100 million of storage facilities and to purchase \$100 million of the Company's Equity Stock, Series AAA. This development joint venture is consolidated on the consolidated financial statements, and therefore the Equity Stock, Series AAA is eliminated in consolidation. The joint venture is funded solely with equity capital consisting of 51% from the Company and 49% from the joint venture partner. Upon formation of the joint venture through December 31, 1999, we have received proceeds of approximately \$63.3 million, composed of the Investors' 49% share of the purchase of the Company's Equity Stock, Series AAA (\$49 million) and \$14.3 million composed of the joint venture partner's pro rata share of development costs of projects in the venture.

The second joint venture has completed three facilities with an aggregate cost of approximately \$14.6 million, and has three projects in process with total costs incurred of \$10.2 million and costs to complete of \$2.1 million. Additional projects will be submitted to the joint venture for the total contemplated development amount of \$100 million. Assuming projects are approved and developed by the venture equal to the \$100 million contemplated development amount, the Investors' remaining contribution at December 31, 1999 is approximately \$36.8 million, or 49% of the remaining development costs.

Excluding the six facilities in process by the development joint ventures, we are developing 41 additional storage facilities, with total incurred costs at December 31, 1999 of \$100.3 million and total costs to complete of \$125.9 million. We have also identified 17 storage facilities for development, with total estimated costs of \$105.9 million. These projects are subject to significant contingencies. We expect to finance our development through a combination of retained cash flows, remaining proceeds from our joint venture partners, and the net proceeds received through the issuance of preferred partnership units as discussed above.

**REIT status:** We believe that we have operated, and intend 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 we will at all times so qualify. To the extent that the Company continues to qualify as a REIT, we will not be taxed, with certain limited exceptions, on the taxable income that is distributed to our shareholders, provided that at least 95% of our taxable income is so distributed prior to filing of the Company's tax return. We have satisfied the REIT distribution requirement since 1980.

**Funds from operations:** Total funds from operations or “FFO” increased to \$429.0 million for the year ended 1999 compared to \$336.4 million for the year ended 1998 and \$272.2 million in 1997. FFO available to common shareholders (after deducting preferred stock dividends) increased to \$334.2 million for the year ended December 31, 1999 compared to \$258.0 million in 1998 and \$197.3 million in 1997. 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 interests.

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 we have defined it.

### Impact of the Year 2000

The “Y2K Issue” arises because many computerized systems use two digits rather than four to identify a year. Any of our computer programs or hardware with the Y2K Issue that have date-sensitive applications or embedded chips could recognize a date using “00” as the year 1900 rather than the year 2000. The same issue has been faced by our outside vendors, including those vendors in the banking and payroll processing areas. Any failure in these areas could result in disruptions of operations.

As a result of our assessment and remediation activities conducted in recent years, we experienced no significant disruptions in our operations, and believe that our information systems responded successfully to the Y2K date change.

At this time, we are not aware of any material problems that resulted from the Y2K date change at any of our outside vendors, including those vendors in the banking and payroll processing areas.

We will continue to monitor our information systems and those of our outside vendors throughout the year 2000 to ensure that any latent Y2K Issues that may arise are addressed promptly.

The cost of the Company’s year 2000 compliance activities, substantially all of which have been incurred through December 31, 1999, is estimated at approximately \$4.4 million. These costs are capitalized.

There can be no assurance that we have identified all potential Y2K Issues either within our information systems, at our outside vendors, or at external agents. In addition, the impact of any unresolved or unidentified Y2K Issues on governmental entities and utility providers and the resultant impact upon the Company, as well as disruptions in the general economy, may be material but cannot be reasonably determined or quantified.

## Quantitative and Qualitative Disclosures About Market Risk

To limit our exposure to market risk, we principally finance our operations and growth with permanent equity capital consisting either of common or preferred stock. At December 31, 1999, the Company's debt as a percentage of total shareholders' equity (based on book values) was 4.5%.

Our preferred stock is not redeemable by the holders. Except under certain conditions relating to the Company's qualification as a REIT, the Senior Preferred Stock is not redeemable by the Company 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 and Series M – August 17, 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 G, Series H, Series I, Series J, Series K, Series L and Series M), plus accrued and unpaid dividends.

Our market risk sensitive instruments include notes payable which totaled \$167,338,000 at December 31, 1999. All of our notes payable bear interest at fixed rates. See Note 7 to the financial statements for terms, valuations and approximate principal maturities of the notes payable as of December 31, 1999.

## Stock Data

### Distributions

Public Storage, Inc. has paid quarterly distributions to its shareholders since 1981, its first full year of operations. Overall distributions per share of Common Stock for 1999 amounted to \$1.52, which includes a special distribution declared in November 1999 to shareholders of record as of November 15, 1999. The special distribution was paid in January 2000, at the option of the shareholder, either \$0.62 per share in cash or \$0.65 per share in Depositary Shares, Each Representing 1/1,000 of a Share of the Company's Equity Stock, Series A.

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 our 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. In 1999, distributions to common shareholders were \$1.53 for common shareholders who elected stock in a special dividend declared in 1999 and \$1.50 for common shareholders who elected cash in the special dividend, and were all ordinary income. Distributions to common shareholders were \$0.88 per share in each of 1998 and 1997, and were all ordinary income for 1997. For 1998, the dividends paid to the common shareholders (\$0.88 per share) were all ordinary income for the first, third and fourth quarter distributions. For the second quarter of 1998, 86.110% of the dividends were characterized as ordinary income and the remainder was characterized as capital gain.

Beginning on January 1, 2000, the Company's Class B common stock participates in distributions (other than liquidating distributions) at the rate of 97 percent 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.

Distributions with respect to each Depositary Share Each Representing 1/1,000 of a Share of Equity Stock, Series A will be equal to the lesser of: a) five times the per share dividend on the common stock or b) \$2.45 per annum (prorated for the year 2000).

### Stock Price and Holders

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 Depositary Shares Each Representing 1/1,000 of a Share of Equity Stock, Series A have been listed on the New York Stock Exchange since February 14, 2000. The ticker symbol is PSA.A.

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.

Year	Quarter	Range	
		High	Low
1998	1st	\$33.6250	\$28.6875
	2nd	32.7500	26.3125
	3rd	29.2500	22.6250
	4th	28.0625	24.2500
1999	1st	\$27.8750	\$24.2500
	2nd	29.3750	23.1875
	3rd	27.8750	23.8750
	4th	26.0000	21.1250

As of March 15, 2000, there were approximately 22,811 holders of record of the common stock and 125,412,257 common shares outstanding. As of March 15, 2000, there were approximately 16,947 holders of the Depositary Shares Each Representing 1/1,000 of a Share of Equity Stock, Series A and 4,300,555 depositary shares outstanding.

## 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*

Marvin M. Lotz (1999)  
*Senior Vice President –  
Public Storage, Inc.  
President – Public Storage  
Management Division*

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.  
% EquiServe  
P.O. Box 8040  
Boston, MA 02266-8040  
(781) 575-3120  
www.equiserve.com

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

## 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*

## Financial Information

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.

In addition, financial reports, recent filings with the Securities and Exchange Commission (including Form 10-K), property location list, news releases and other Company information are available via the Company's newly enhanced website at [www.publicstorage.com](http://www.publicstorage.com).

## Other Corporate Officers

Bahman Abtahi  
*Vice President*

Samuel I. Ballard  
*Vice President*

James F. Fitzpatrick  
*Vice President*

Anthony Grillo  
*Vice President*

Tamara Hughes Gustavson  
*Vice President-Administration*

Frank Hallford  
*Vice President*

Joanne A. Halliday  
*Vice President*

Ronald L. Harden, Sr.  
*Vice President*

Ray Huddleston  
*Vice President*

Thomas O. McCutchan, Jr.  
*Vice President*

Thomas Miller  
*Vice President*

Angus Goldie-Morrison  
*Vice President*

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

W. David Ristig  
*Vice President*

John M. Sambuco  
*Vice President*

## Stock Exchange Listing

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



## Management Division

Marvin M. Lotz *President*  
Ronald L. Harden, Sr.  
*Executive Vice President*  
Samuel I. Ballard *SVP, DM*  
Anthony Grillo *SVP-Marketing*  
Ray Huddleston *SVP, DM*  
Angus Goldie-Morrison *SVP, DM*  
Thomas Miller *SVP*  
Brent C. Peterson *SVP*  
John M. Sambuco *SVP, DM*  
Wendy J. Adler *VP, RM*  
Timothy C. Arthurs *VP, RM*  
Elizabeth Barista *VP, RM*  
Kelly M. Barnes *VP, RM*  
Jeffery A. Biesz *VP, RM*  
Brian Block *VP, RM*  
Christopher Boyer *VP*  
Stan M. Colona *VP, RM*  
Brian J. Devlin *VP, RM*  
Jeff Dunlap *VP*  
Stuart R. Gohd *VP, RM*  
Les Guttman *VP-Marketing*  
Joanne A. Halliday *GC*  
Judith Alby Johnson *VP, RM*  
Thomas Law *VP, RM*  
Steve Martin *VP*  
John McKillip *VP, RM*  
Curt Mitchell *VP, RM*  
Thomas O. Murphy *VP, RM*  
Pete G. Panos *VP*  
Amanda Prentice *VP, RM*  
Brian J. Ruthsatz *VP, RM*  
Ron Seagren *VP*  
Norm Shore *VP, RM*  
James Stevens *VP*  
David Stewart *VP, RM*  
Emily J. Tufeld *VP-Marketing*  
Gerald Valle *VP, RM*  
Christopher White *VP, RM*

## Real Estate Division

Carl B. Phelps *President*  
Bahman Abtahi  
*SVP-Construction and Development*  
James F. Fitzpatrick *VP-Development*  
Frank Hallford *VP-Construction*  
Thomas O. McCutchan, Jr.  
*VP-Architecture and Design*  
W. David Ristig *VP-Acquisitions*

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

# Public Storage, Inc.

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Permit #366

Address Correction Requested

[www.publicstorage.com](http://www.publicstorage.com)



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