ALLEGHENY TECHNOLOGIES INC
Form 10-Q
November 01, 2017
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2017
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period From to
Commission File Number 1-12001

ALLEGHENY TECHNOLOGIES INCORPORATED
(Exact name of registrant as specified in its charter)

Delaware	25-1792394
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1000 Six PPG Place	
Pittsburgh, Pennsylvania	15222-5479
(Address of Principal Executive Offices)	(Zip Code)

(412) 394-2800
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ý No ¨
Indicate by check mark whether the Registrant submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No ý

At October 20, 2017, the registrant had outstanding 108,863,099 shares of its Common Stock.

Table of Contents

ALLEGHENY TECHNOLOGIES INCORPORATED
SEC FORM 10-Q
Quarter Ended September 30, 2017
INDEX

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
Allegheny Technologies Incorporated and Subsidiaries
Consolidated Balance Sheets
(In millions, except share and per share amounts)
(Current period unaudited)

	September 30, 2017	December 31, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 124.9	$ 229.6
Accounts receivable, net	525.9	452.1
Inventories, net	1,101.1	1,037.0
Prepaid expenses and other current assets	52.2	47.8
Total Current Assets	1,804.1	1,766.5
Property, plant and equipment, net	2,490.9	2,498.9
Goodwill	531.9	641.9
Other assets	248.2	262.7
Total Assets	$ 5,075.1	$ 5,170.0
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable	$ 350.5	$ 294.3
Accrued liabilities	286.7	309.3
Short term debt and current portion of long-term debt	36.4	105.1
Total Current Liabilities	673.6	708.7
Long-term debt	1,877.7	1,771.9
Accrued postretirement benefits	303.2	317.7
Pension liabilities	678.2	827.9
Deferred income taxes	14.1	15.6
Other long-term liabilities	80.8	83.4
Total Liabilities	3,627.6	3,725.2
Equity:		
ATI Stockholders' Equity:		
Preferred stock, par value $0.10: authorized-50,000,000 shares; issued-none	—	—
Common stock, par value $0.10: authorized-500,000,000 shares; issued-109,695,171 shares at September 30, 2017 and December 31, 2016; outstanding-108,863,099 shares at September 30, 2017 and 108,925,254 shares at December 31, 2016	11.0	11.0
Additional paid-in capital	1,196.4	1,188.8
Retained earnings	1,182.6	1,277.1
Treasury stock: 832,072 shares at September 30, 2017 and 769,917 shares at December 31, 2016	(25.9)	(28.0)
Accumulated other comprehensive loss, net of tax	(1,016.3)	(1,093.7)
Total ATI stockholders' equity	1,347.8	1,355.2
Noncontrolling interests	99.7	89.6
Total Equity	1,447.5	1,444.8
Total Liabilities and Equity	$ 5,075.1	$ 5,170.0

The accompanying notes are an integral part of these statements.

1

Table of Contents

Allegheny Technologies Incorporated and Subsidiaries
Consolidated Statements of Operations
(In millions, except per share amounts)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Sales	$869.1	$770.5	$2,615.2	$2,338.5
Cost of sales	775.8	720.3	2,296.8	2,273.3
Gross profit	93.3	50.2	318.4	65.2
Selling and administrative expenses	66.2	60.5	192.4	182.4
Impairment of goodwill	114.4	—	114.4	—
Restructuring charges	—	488.6	—	498.6
Operating income (loss)	(87.3)	(498.9)	11.6	(615.8)
Interest expense, net	(34.2)	(32.6)	(102.2)	(91.2)
Other income, net	0.2	—	3.7	1.8
Loss before income taxes	(121.3)	(531.5)	(86.9)	(705.2)
Income tax benefit	(1.9)	(4.3)	(2.0)	(64.4)
Net loss	(119.4)	(527.2)	(84.9)	(640.8)
Less: Net income attributable to noncontrolling interests	1.8	3.6	8.7	10.0
Net loss attributable to ATI	$(121.2)	$(530.8)	$(93.6)	$(650.8)
Basic net loss attributable to ATI per common share	$(1.12)	$(4.95)	$(0.87)	$(6.07)
Diluted net loss attributable to ATI per common share	$(1.12)	$(4.95)	$(0.87)	$(6.07)
Dividends declared per common share	$—	$0.08	$—	$0.24

The accompanying notes are an integral part of these statements.

Table of Contents

Allegheny Technologies Incorporated and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
(In millions)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Net loss	$(119.4)	$(527.2)	$(84.9)	$(640.8)
Currency translation adjustment				
Unrealized net change arising during the period	24.2	(4.4)	39.0	(19.6)
Derivatives				
Net derivatives gain (loss) on hedge transactions	9.2	4.8	(1.6)	21.9
Reclassification to net income (loss) of net realized loss (gain)	(1.2)	0.6	(3.5)	8.5
Income taxes on derivative transactions	4.8	2.0	(0.2)	11.5
Total	3.2	3.4	(4.9)	18.9
Postretirement benefit plans				
Actuarial loss				
Amortization of net actuarial loss	17.8	18.7	53.6	56.2
Net gain arising during the period	—	—	—	22.5
Prior service cost				
Amortization to net income (loss) of net prior service cost (credits)	(0.4)	(0.4)	(1.2)	—
Income taxes on postretirement benefit plans	(11.1)	6.9	1.9	29.8
Total	28.5	11.4	50.5	48.9
Other comprehensive income, net of tax	55.9	10.4	84.6	48.2
Comprehensive loss	(63.5)	(516.8)	(0.3)	(592.6)
Less: Comprehensive income attributable to noncontrolling interests	6.8	2.0	15.9	5.4
Comprehensive loss attributable to ATI	$(70.3)	$(518.8)	$(16.2)	$(598.0)

The accompanying notes are an integral part of these statements.

Table of Contents

Allegheny Technologies Incorporated and Subsidiaries
Consolidated Statements of Cash Flows
(In millions)
(Unaudited)

	Nine months ended September 30,	
	2017	2016
Operating Activities:		
Net loss	$(84.9)	$(640.8)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	120.7	130.2
Deferred taxes	1.7	(78.1)
Impairment of goodwill	114.4	—
Non-cash restructuring charges	—	471.3
Changes in operating assets and liabilities:		
Inventories	(64.1)	192.7
Accounts receivable	(73.8)	(53.7)
Accounts payable	56.2	(60.2)
Retirement benefits (a)	(117.6)	(94.6)
Accrued income taxes	(4.6)	7.7
Accrued liabilities and other	(1.8)	13.8
Cash used in operating activities	(53.8)	(111.7)
Investing Activities:		
Purchases of property, plant and equipment	(85.3)	(174.9)
Asset disposals and other	3.2	2.1
Cash used in investing activities	(82.1)	(172.8)
Financing Activities:		
Borrowings on long-term debt	8.5	387.5
Payments on long-term debt and capital leases	(1.9)	(2.4)
Net borrowings under credit facilities	28.0	2.4
Debt issuance costs	(0.8)	(10.4)
Dividends paid to stockholders	—	(25.8)
Dividends paid to noncontrolling interests	—	(16.0)
Acquisition of noncontrolling interests	—	(12.2)
Sale to noncontrolling interests	2.2	—
Shares repurchased for income tax withholding on share-based compensation and other	(4.8)	—
Cash provided by financing activities	31.2	323.1
Increase (decrease) in cash and cash equivalents	(104.7)	38.6
Cash and cash equivalents at beginning of period	229.6	149.8
Cash and cash equivalents at end of period	$124.9	$188.4

(a) Includes a $(135) million contribution to the U.S. defined benefit pension plan in 2017 and a $(115) million contribution to the U.S. defined benefit pension plan in 2016.
The accompanying notes are an integral part of these statements.

Table of Contents

Allegheny Technologies Incorporated and Subsidiaries
Statements of Changes in Consolidated Equity
(In millions, except per share amounts)
(Unaudited)

	ATI Stockholders						
	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	Total Equity
Balance, December 31, 2015	$11.0	$1,161.7	$1,945.9	$(21.3)	$(1,014.5)	$101.6	$2,184.4
Net income (loss)	—	—	(650.8)	—	—	10.0	(640.8)
Other comprehensive income (loss)	—	—	—	—	52.8	(4.6)	48.2
Cash dividends on common stock ($0.24 per share)	—	—	(25.8)	—	—	—	(25.8)
Purchase of subsidiary shares from noncontrolling interest	—	—	—	—	—	(0.1)	(0.1)
Dividends to noncontrolling interests	—	—	—	—	—	(16.0)	(16.0)
Employee stock plans	—	21.6	(2.2)	(6.6)	—	—	12.8
Balance, September 30, 2016	$11.0	$1,183.3	$1,267.1	$(27.9)	$(961.7)	$90.9	$1,562.7
Balance, December 31, 2016	$11.0	$1,188.8	$1,277.1	$(28.0)	$(1,093.7)	$89.6	$1,444.8
Net income (loss)	—	—	(93.6)	—	—	8.7	(84.9)
Other comprehensive income	—	—	—	—	77.4	7.2	84.6
Dividends to noncontrolling interests	—	—	—	—	—	(8.0)	(8.0)
Sales of subsidiary shares to noncontrolling interest	—	—	—	—	—	2.2	2.2
Employee stock plans	—	7.6	(0.9)	2.1	—	—	8.8
Balance, September 30, 2017	$11.0	$1,196.4	$1,182.6	$(25.9)	$(1,016.3)	$99.7	$1,447.5

The accompanying notes are an integral part of these statements.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited
Note 1. Accounting Policies
The interim consolidated financial statements include the accounts of Allegheny Technologies Incorporated and its subsidiaries. Unless the context requires otherwise, “Allegheny Technologies”, “ATI” and “the Company” refer to Allegheny Technologies Incorporated and its subsidiaries.
These unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and note disclosures required by U.S. generally accepted accounting principles for complete financial statements. In management’s opinion, all adjustments (which include only normal recurring adjustments) considered necessary for a fair presentation have been included. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s 2016 Annual Report on Form 10-K. The results of operations for these interim periods are not necessarily indicative of the operating results for any future period. The December 31, 2016 financial information has been derived from the Company’s audited consolidated financial statements.
New Accounting Pronouncements Adopted

In January 2017, the Company early adopted changes issued by the Financial Accounting Standards Board (FASB) to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill, which is currently required if a reporting unit with goodwill fails a Step 1 test comparing the fair value of the reporting unit to its carrying value including goodwill. Under this new guidance, an entity should perform its annual, or interim, goodwill impairment test using just the Step 1 test of comparing the fair value of a reporting unit with its carrying amount. Any goodwill impairment, representing the amount by which the carrying amount exceeds the reporting unit’s fair value, is determined using this Step 1 test. Any goodwill impairment loss recognized would not exceed the total carrying amount of goodwill allocated to that reporting unit.

In January 2017, the Company adopted changes issued by the FASB to simplify employee share-based payment accounting. The areas for simplification in this guidance involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows, which will be prospectively adopted. The adoption of these changes did not have a material impact on the Company’s financial statements.

In January 2017, the Company adopted changes issued by the FASB to simplify the measurement of inventory valuation at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The new inventory measurement requirements replace the current inventory valuation guidance that requires the use of a lower of cost or market framework. This change in the measurement of inventory does not apply to inventory valued on a last-in, first-out (LIFO) basis, which is the accounting basis used for most of the Company’s inventory. The adoption of these changes did not have a material impact on the Company’s financial statements.

Pending Accounting Pronouncement

In August 2017, the FASB issued changes to its accounting guidance for derivatives and hedging, which changes both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. Some changes resulting from this new guidance include the elimination of the concept of recognizing periodic hedge ineffectiveness for cash flow hedges, changes to the recognition and presentation of changes in the fair value of the hedging instrument, enhancement of the ability to use the critical-terms-match method for the cash flow hedge of groups of forecasted transactions when the timing of the hedged transactions does not perfectly match the hedging instrument's maturity date, and the addition of new disclosure requirements and amendments to existing ones. This new guidance is effective for the Company's 2019 fiscal year, with early adoption permitted and all transition requirements and elections being applied to hedging relationships existing on the date of adoption. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

Table of Contents

In March 2017, the FASB issued changes to the accounting for defined benefit pension and other postretirement benefit expenses. This new guidance requires the disaggregation of the service cost component from the other components of net benefit cost. The service cost component of net benefit cost is to be reported in the same line item on the consolidated statement of operations as other compensation costs arising from services rendered by the pertinent employees, while the other components of net benefit cost are to be presented in the consolidated statement of operations separately, outside a subtotal of operating income. The amendments also provide explicit guidance to allow only the service cost component of net benefit cost to be eligible for capitalization. This new guidance is effective for the Company’s 2018 fiscal year, with the adoption of the change in presentation of net benefit cost in the consolidated statement of operations to be applied retrospectively, and the change in capitalization for only service cost applied prospectively. The guidance allows a practical expedient that permits the use of the amounts disclosed in the retirement benefits footnote for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. The Company will adopt this new guidance in the first quarter of fiscal year 2018 using this practical expedient.

The Company expects such adoption to have a material impact to reported operating income due to the change in presentation of non-service cost expense components. For example, applying the practical expedient to fiscal year 2016 results, operating income for 2016 would be $70.6 million higher, with the reclassification of this amount representing the other components of net benefit cost to a newly-created non-operating retirement benefit expense category, with no net impact to the reported 2016 loss before income taxes. The Company expects to have a one-time, unfavorable impact to pre-tax reported results in the first quarter of 2018 upon adoption due to the change limiting only the service cost component of net benefit cost to be capitalizable into inventory. Using expected fiscal year 2017 defined benefit retirement expense and current inventory levels, this impact in the first quarter of 2018 is projected to be approximately $5 million, pre-tax.

In February 2016, the FASB issued new guidance on the accounting for leases. This new guidance will require that a lessee recognize assets and liabilities on the balance sheet for all leases with a lease term of more than twelve months, with the result being the recognition of a right of use asset and a lease liability. The new lease accounting requirements are effective for the Company’s 2019 fiscal year with a modified retrospective transition approach required, with early adoption permitted. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

In May 2014, the FASB issued changes to revenue recognition with customers, which is required to be adopted by the Company in fiscal year 2018. This update provides a five-step analysis of transactions to determine when and how revenue is recognized, along with expanded disclosure requirements. An entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company plans to adopt this accounting standard update using the modified retrospective method, with the cumulative effect of initially applying this update recognized in the first reporting period of 2018. Although the Company is currently evaluating the impact of this standard on individual customer contracts, the Company has evaluated the impact of this standard on the broad categories of its customer contracts and anticipates the adoption of this guidance will not have a material impact on the consolidated results of operations. The Company is still evaluating a limited number of customer agreements involving production of parts and components in the High Performance Materials and Components segment, representing less than 5% of annualized 2017 revenues, that may require revenue to be recognized over time due to no alternative use for the product without significant economic loss, and an enforceable right to payment including a normal profit margin from the customer in the event of contract termination. Over-time recognition would be a change from current accounting, which is at a point-in-time for these products, however, based on ongoing production of these products, the impact to the statement of operations is not expected to be material. The Company does expect an impact to the consolidated balance sheet for reclassifications to contract assets and liabilities, the magnitude of which is still being determined. The Company also expects an increase to financial statement footnote disclosures regarding revenues, contract assets and contract liabilities as a result of this accounting standard update.

Table of Contents

Note 2. Inventories

Inventories at September 30, 2017 and December 31, 2016 were as follows (in millions):

	September 30, 2017	December 31, 2016
Raw materials and supplies	$ 157.4	$ 149.6
Work-in-process	887.3	837.9
Finished goods	164.8	161.7
Total inventories at current cost	1,209.5	1,149.2
Adjustment from current cost to LIFO cost basis	45.8	97.3
Inventory valuation reserves	(118.7)	(169.0)
Progress payments	(35.5)	(40.5)
Total inventories, net	$ 1,101.1	$ 1,037.0

Inventories are stated at the lower of cost (LIFO, first-in, first-out (FIFO), and average cost methods) or market, less progress payments. Most of the Company’s inventory is valued utilizing the LIFO costing methodology. Inventory of the Company’s non-U.S. operations is valued using average cost or FIFO methods. Due to deflationary impacts primarily related to raw materials, the carrying value of the Company’s inventory as valued on LIFO exceeds current replacement cost, and based on a lower of cost or market value analysis, a net realizable value (NRV) inventory reserve is required. Impacts to cost of sales for changes in the LIFO costing methodology and associated NRV inventory reserves were as follows (in millions):

	Nine months ended September 30,	
	2017	2016
LIFO benefit (charge)	$(51.5)	$(23.1)
NRV benefit (charge)	51.3	23.5
Net cost of sales impact	$(0.2)	$0.4

The first nine months of 2016 results included $17.7 million in inventory valuation charges related to the market-based valuation of titanium products. Additionally, in the third quarter of 2016, in conjunction with the indefinite idling of the Company’s Rowley, UT titanium sponge facility, the Company recorded an additional $11.3 million charge to revalue titanium sponge inventory based on revised assessments of industrial grade titanium market conditions and expected utilization of this inventory.

Note 3. Property, Plant and Equipment

Property, plant and equipment at September 30, 2017 and December 31, 2016 was as follows (in millions):

	September 30, 2017	December 31, 2016
Land	$ 31.7	$ 31.4
Buildings	842.9	829.6
Equipment and leasehold improvements	3,562.6	3,497.2
	4,437.2	4,358.2
Accumulated depreciation and amortization	(1,946.3)	(1,859.3)
Total property, plant and equipment, net	$ 2,490.9	$ 2,498.9

The construction in progress portion of property, plant and equipment at September 30, 2017 was $71.8 million.

Table of Contents

Note 4. Goodwill Impairment

At September 30, 2017, the Company had $531.9 million of goodwill on its consolidated balance sheet, all of which relates to the High Performance Materials & Components (HPMC) segment. Goodwill decreased $110.0 million at September 30, 2017 compared to December 31, 2016, resulting from a $114.4 million impairment charge in the HPMC segment offset by $4.4 million from the impact of foreign currency translation on goodwill denominated in functional currencies other than the U.S. dollar.

The Company performs its annual goodwill impairment evaluations in the fourth quarter of each year. During the third quarter of 2017, the Company performed an interim goodwill impairment analysis on ATI Cast Products, a titanium investment casting business, due to impairment indicators including lower actual results versus projections. This reporting unit had a fair value that exceeded carrying value by 12% as a result of our 2016 annual goodwill impairment evaluation. For the 2017 interim impairment analysis, fair value was determined by using a quantitative assessment that used a discounted cash flow technique, which represents Level 3 unobservable information in the fair value hierarchy. As a result of the 2017 interim goodwill impairment evaluation, the Company determined that the fair value of the Cast Products business was significantly below the carrying value, including goodwill. This was primarily due to lower projected revenues, profitability and cash flows associated with revised expectations for the rate of operational improvement and profitability of this business based on current customer agreements. Consequently, during the third quarter of 2017, the Company recorded a $114.4 million pre-tax impairment charge to write-off all of the goodwill associated with ATI Cast Products, most of which was assigned from the Company’s 2011 Ladish acquisition that was not deductible for income tax purposes. This goodwill impairment charge was excluded from 2017 HPMC business segment results. Accumulated goodwill impairment losses as of September 30, 2017 and December 31, 2016 were $241.0 million and $126.6 million, respectively.

Also during the third quarter of 2017, management concluded that the goodwill impairment at ATI Cast Products was an impairment indicator to evaluate the recoverability of other long-lived assets of this reporting unit, including property, plant, equipment, and intangible assets. No impairment was determined to exist in these long-lived assets as a result of this interim impairment test.

Note 5. Debt

Debt at September 30, 2017 and December 31, 2016 was as follows (in millions):

	September 30, 2017	December 31, 2016
Allegheny Technologies 5.875% Notes due 2023 (a)	$ 500.0	$ 500.0
Allegheny Technologies 5.95% Notes due 2021	500.0	500.0
Allegheny Technologies 9.375% Notes due 2019	350.0	350.0
Allegheny Technologies 4.75% Convertible Senior Notes due 2022	287.5	287.5
Allegheny Ludlum 6.95% debentures due 2025	150.0	150.0
Term Loan due 2022	100.0	100.0
U.S. revolving credit facility	25.0	—
Foreign credit facilities	7.7	4.4
Other	9.1	2.2
Debt issuance costs	(15.2)	(17.1)
Total debt	1,914.1	1,877.0
Short term debt and current portion of long-term debt	36.4	105.1
Total long-term debt	$ 1,877.7	$ 1,771.9

(a) Bearing interest at 7.875% effective February 15, 2016.

Revolving Credit Facility

The Company has an Asset Based Lending (ABL) Credit Facility, which is collateralized by the accounts receivable and inventory of the Company’s domestic operations. The revolving credit portion of the ABL facility is $400 million, which includes a letter of credit sub-facility of up to $200 million. The ABL facility includes a term loan (Term Loan) in the amount of $100.0 million.

In June 2017, the ABL facility was amended to, among other things, extend the duration of the facility from September 2020 to February 2022. As amended, the applicable interest rate for revolving credit borrowings under the ABL facility includes interest rate spreads based on available borrowing capacity that range between 1.75% and 2.25% for LIBOR-based borrowings and between 1.0% and 1.5% for base rate borrowings. The ABL facility contains a financial covenant whereby the Company must maintain a fixed charge coverage ratio of not less than 1.00:1.00 after an event of default has occurred and is continuing or if the undrawn availability under the ABL revolving credit portion of the facility is less than the greater of (i) 10%, as amended, of the then applicable maximum borrowing amount under the revolving credit portion of the ABL and any outstanding Term Loan balance, or (ii) $40.0 million. The Company does not meet this required fixed charge coverage ratio at September 30, 2017. As a result, the Company is not able to access $50.0 million of the revolving credit portion of the ABL facility until it meets the required ratio. Additionally, the Company must demonstrate liquidity, as calculated in accordance with the terms of the ABL facility, of at least $500 million on the date that is 91 days prior to June 1, 2019, the maturity date of the 9.375% Senior Notes due 2019 and at least $700 million on the date that is 91 days prior to January 15, 2021, the maturity date of the 5.95% Senior Notes due 2021, and that such liquidity is available at all times thereafter until the 9.375% Senior Notes due 2019 and the 5.95% Senior Notes due 2021 are paid in full or refinanced. Costs associated with entering into the ABL amendment were $1.0 million, and are being amortized, along with any previous unamortized deferred costs, to interest expense over the extended term of the facility ending February 2022.

Also in June 2017, the $100.0 million Term Loan was amended to extend the maturity date from November 2017 to February 2022 and to reduce the interest rate to 3.0% plus a LIBOR spread. The amended Term Loan can be prepaid in minimum increments of $50.0 million on or after the earlier of December 2018 or upon refinancing or retirement of the 9.375% Senior Notes due 2019 if certain minimum liquidity conditions are satisfied. The underwriting costs associated with amending the Term Loan were $0.8 million, and are being amortized, along with any previous unamortized deferred costs, to interest expense over the extended term of the loan ending February 2022.

As of September 30, 2017, there were $25.0 million of outstanding borrowings under the ABL facility, and $41.5 million was utilized to support the issuance of letters of credit. Average revolving credit borrowings under the ABL facility for the first nine months of 2017 and 2016 were $46 million and $109 million, respectively, bearing an average annual interest rate of 3.276% and 1.757%, respectively.

Note 6. Derivative Financial Instruments and Hedging

As part of its risk management strategy, the Company, from time-to-time, utilizes derivative financial instruments to manage its exposure to changes in raw material prices, energy costs, foreign currencies, and interest rates. In accordance with applicable accounting standards, the Company accounts for most of these contracts as hedges. In general, hedge effectiveness is determined by examining the relationship between offsetting changes in fair value or cash flows attributable to the item being hedged, and the financial instrument being used for the hedge. Effectiveness is measured utilizing regression analysis and other techniques to determine whether the change in the fair market value or cash flows of the derivative exceeds the change in fair value or cash flow of the hedged item. Calculated ineffectiveness, if any, is immediately recognized in the consolidated statements of operations.

The Company sometimes uses futures and swap contracts to manage exposure to changes in prices for forecasted purchases of raw materials, such as nickel, and natural gas. Under these contracts, which are generally accounted for as cash flow hedges, the price of the item being hedged is fixed at the time that the contract is entered into, and the Company is obligated to make or receive a payment equal to the net change between this fixed price and the market price at the date the contract matures.

The majority of ATI’s products are sold utilizing raw material surcharges and index mechanisms. However, as of September 30, 2017, the Company had entered into financial hedging arrangements, primarily at the request of its customers, related to firm orders, for an aggregate notional amount of approximately 17 million pounds of nickel with hedge dates through 2021. The aggregate notional amount hedged is approximately 20% of a single year’s estimated nickel raw material purchase requirements.

At September 30, 2017, the outstanding financial derivatives used to hedge the Company’s exposure to energy cost volatility included natural gas cost hedges. In the first nine months of 2016, due to changes in expected operating levels, the Company
concluded that additional portions of these natural gas hedges for 2016 and the first quarter of 2017 were ineffective based on

forecast changes in underlying natural gas usage. The Company recognized $0.4 million and $1.7 million of pre-tax losses for the three and nine months ended September 30, 2016, respectively, for natural gas cash flow hedge ineffectiveness, which is reported in selling and administrative expenses on the consolidated statement of operations.
At September 30, 2017, the Company hedged approximately 55% of the Company's forecasted domestic requirements for natural gas for the remainder of 2017, approximately 35% for 2018, and approximately 30% for 2019.
While the majority of the Company's direct export sales are transacted in U.S. dollars, foreign currency exchange contracts are used, from time-to-time, to limit transactional exposure to changes in currency exchange rates for those transactions

Table of Contents

denominated in a non-U.S. currency. The Company sometimes purchases foreign currency forward contracts that permit it to sell specified amounts of foreign currencies expected to be received from its export sales for pre-established U.S. dollar amounts at specified dates. The forward contracts are denominated in the same foreign currencies in which export sales are denominated. These contracts are designated as hedges of the variability in cash flows of a portion of the forecasted future export sales transactions which otherwise would expose the Company to foreign currency risk, primarily euros. In addition, the Company may also designate cash balances held in foreign currencies as hedges of forecasted foreign currency transactions.

In 2015, the Company net settled substantially all of its foreign currency forward contracts designated as cash flow hedges with 2016 and 2017 maturity dates. The portion of the deferred gains on these settled cash flow hedges determined to be effective is currently recognized in accumulated other comprehensive income and is reclassified to earnings when the underlying transactions occur. As of September 30, 2017, the Company held 10.8 million euro notional value of foreign currency forward contracts designated as fair value hedges with maturity dates through 2017. The Company recorded $0.5 million and $2.7 million of charges in the three and nine months ended September 30, 2017, respectively, and $0.5 million and $3.0 million of charges in the three and nine months ended September 30, 2016, respectively, in costs of sales on the consolidated statement of operations for maturities and mark-to-market changes on these fair value hedges.

The Company may enter into derivative interest rate contracts to maintain a reasonable balance between fixed- and floating-rate debt. There were no unsettled derivative financial instruments related to debt balances for the periods presented.

There are no credit risk-related contingent features in the Company’s derivative contracts, and the contracts contained no provisions under which the Company has posted, or would be required to post, collateral. The counterparties to the Company’s derivative contracts are substantial and creditworthy commercial banks that are recognized market makers. The Company controls its credit exposure by diversifying across multiple counterparties and by monitoring credit ratings and credit default swap spreads of its counterparties. The Company also enters into master netting agreements with counterparties when possible.

The fair values of the Company’s derivative financial instruments are presented below, representing the gross amounts recognized which are not offset by counterparty or by type of item hedged. All fair values for these derivatives were measured using Level 2 information as defined by the accounting standard hierarchy, which includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs derived principally from or corroborated by observable market data.

Table of Contents

(In millions) Asset derivatives	Balance sheet location	September 30, 2017	December 31, 2016
Derivatives designated as hedging instruments:			
Foreign exchange contracts	Prepaid expenses and other current assets	$ 0.2	$ 2.4
Natural gas contacts	Prepaid expenses and other current assets	0.1	0.2
Nickel and other raw material contracts	Prepaid expenses and other current assets	3.3	2.2
Foreign exchange contracts	Other assets	—	0.2
Natural gas contracts	Other assets	0.3	0.2
Nickel and other raw material contracts	Other assets	2.5	3.3
Total derivatives designated as hedging instruments		6.4	8.5
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Prepaid expenses and other current assets	0.2	0.6
Total derivatives not designated as hedging instruments		0.2	0.6
Total asset derivatives		$ 6.6	$ 9.1
Liability derivatives	Balance sheet location		
Derivatives designated as hedging instruments:			
Natural gas contracts	Accrued liabilities	$ 0.8	$ 2.5
Nickel and other raw material contracts	Accrued liabilities	4.8	6.7
Foreign exchange contracts	Accrued liabilities	0.7	—
Natural gas contracts	Other long-term liabilities	0.1	—
Nickel and other raw material contracts	Other long-term liabilities	5.7	9.4
Foreign exchange contracts	Other long-term liabilities	—	0.1
Total derivatives designated as hedging instruments		12.1	18.7
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Accrued Liabilities	0.2	—
Total derivatives not designated as hedging instruments		0.2	—
Total liability derivatives		$ 12.3	$ 18.7

For derivative financial instruments that are designated as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (OCI) and reclassified into earnings in the same period or periods during which the hedged item affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current period results. For derivative financial instruments that are designated as fair value hedges, changes in the fair value of these derivatives are recognized in current period results and are reported as changes within accrued liabilities and other on the consolidated statements of cash flows. The Company did not use net investment hedges for the periods presented. The effects of derivative instruments in the tables below are presented net of related income taxes, excluding any impacts of changes to income tax valuation allowances effecting results of operations or other comprehensive income, when applicable (see Note 13 for further explanation).

Assuming market prices remain constant with those at September 30, 2017, a loss of $1.7 million, net of tax and excluding income tax valuation allowance changes, is expected to be recognized over the next 12 months.

Table of Contents

Activity with regard to derivatives designated as cash flow hedges for the three and nine month periods ended September 30, 2017 and 2016 was as follows (in millions):

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)		Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (a)		Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (b)	
	Three months ended September 30,		Three months ended September 30,		Three months ended September 30,	
	2017	2016	2017	2016	2017	2016
Nickel and other raw material contracts	$ 5.6	$ 4.2	$ (0.9)	$ (2.2)	$ —	$ —
Natural gas contracts	—	(1.2)	(0.7)	(1.3)	—	(0.3)
Foreign exchange contracts	0.1	—	2.4	3.4	—	—
Total	$ 5.7	$ 3.0	$ 0.8	$ (0.1)	$ —	$ (0.3)

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)		Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (a)		Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (b)	
	Nine months ended September 30,		Nine months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016	2017	2016
Nickel and other raw material contracts	$ 1.2	$ 13.0	$ (2.5)	$ (9.9)	$ —	$ —
Natural gas contracts	(2.1)	1.1	(2.8)	(7.2)	—	(1.2)
Foreign exchange contracts	(0.1)	(0.5)	7.5	13.0	—	—
Total	$ (1.0)	$ 13.6	$ 2.2	$ (4.1)	$ —	$ (1.2)

(a) The gains (losses) reclassified from accumulated OCI into income related to the effective portion of the derivatives are presented in cost of sales in the same period or periods in which the hedged item affects earnings.

(b) The gains (losses) recognized in income on derivatives related to the ineffective portion and the amounts excluded from effectiveness testing are presented in selling and administrative expenses.

The disclosures of gains or losses presented above for nickel and other raw material contracts and foreign currency contracts do not take into account the anticipated underlying transactions. Since these derivative contracts represent hedges, the net effect of any gain or loss on results of operations may be fully or partially offset.

The Company has 10 million euro notional value outstanding as of September 30, 2017 of foreign currency forward contracts not designated as hedges, with maturity dates into the second quarter of 2018. These derivatives that are not designated as hedging instruments were as follows:

(In millions)	Amount of Gain (Loss) Recognized on Derivatives			
	Three months ended September 30,		Nine months ended September 30,	
Derivatives Not Designated as Hedging Instruments	2017	2016	2017	2016
Foreign exchange contracts	$(0.1)	$(0.2)	$(0.7)	$(0.1)

Changes in the fair value of foreign exchange contract derivatives not designated as hedging instruments are recorded in cost of sales and are reported as changes within accrued liabilities and other on the consolidated statements of cash flows.

13

Table of Contents

Note 7. Fair Value of Financial Instruments

The estimated fair value of financial instruments at September 30, 2017 was as follows:

(In millions)	Total Carrying Amount	Total Estimated Fair Value	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets(Level 1)	Significant Observable Inputs (Level 2)
Cash and cash equivalents	$ 124.9	$ 124.9	$ 124.9	$ —
Derivative financial instruments:				
Assets	6.6	6.6	—	6.6
Liabilities	12.3	12.3	—	12.3
Debt (a)	1,929.3	2,250.7	2,108.9	141.8

The estimated fair value of financial instruments at December 31, 2016 was as follows:

(In millions)	Total Carrying Amount	Total Estimated Fair Value	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)
Cash and cash equivalents	$ 229.6	$ 229.6	$ 229.6	$ —
Derivative financial instruments:				
Assets	9.1	9.1	—	9.1
Liabilities	18.7	18.7	—	18.7
Debt (a)	1,894.1	1,975.0	1,868.4	106.6

(a) The total carrying amount for debt excludes debt issuance costs related to the recognized debt liability which is presented in the consolidated balance sheet as a direct reduction from the carrying amount of the debt liability.

In accordance with accounting standards, fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Accounting standards established three levels of a fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. No transfers between levels were reported in 2017 or 2016.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Cash and cash equivalents: Fair value was determined using Level 1 information.

Derivative financial instruments: Fair values for derivatives were measured using exchange-traded prices for the hedged items. The fair value was determined using Level 2 information, including consideration of counterparty risk and the Company’s credit risk.

Table of Contents

Short-term and long-term debt: The fair values of the Company's publicly traded debt were based on Level 1 information. The fair values of the other short-term and long-term debt were determined using Level 2 information.

Note 8. Retirement Benefits

The Company has defined contribution retirement plans or defined benefit pension plans covering substantially all employees. Company contributions to defined contribution retirement plans are generally based on a percentage of eligible pay or based on hours worked. Benefits under the defined benefit pension plans are generally based on years of service and/or final average pay. The Company funds the U.S. pension plans in accordance with the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code.

The Company also sponsors several postretirement plans covering certain collectively-bargained salaried and hourly employees. The plans provide health care and life insurance benefits for eligible retirees. In most retiree health care plans, Company contributions towards premiums are capped based on the cost as of a certain date, thereby creating a defined contribution.

For the three month periods ended September 30, 2017 and 2016, the components of pension and other postretirement benefit expense for the Company's defined benefit plans included the following (in millions):

	Pension Benefits		Other Postretirement Benefits	
	Three months ended September 30,		Three months ended September 30,	
	2017	2016	2017	2016
Service cost - benefits earned during the year	$3.5	$5.2	$ 0.6	$ 0.6
Interest cost on benefits earned in prior years	29.2	31.4	3.7	4.0
Expected return on plan assets	(36.7)	(37.2)	—	—
Amortization of prior service cost (credit)	0.3	0.3	(0.7)	(0.7)
Amortization of net actuarial loss	15.6	16.3	2.2	2.4
Total retirement benefit expense	$11.9	$16.0	$ 5.8	$ 6.3

For the nine month periods ended September 30, 2017 and 2016, the components of pension and other postretirement benefit expense for the Company's defined benefit plans included the following (in millions):

	Pension Benefits		Other Postretirement Benefits	
	Nine months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Service cost - benefits earned during the year	$10.5	$15.5	$1.8	$1.9
Interest cost on benefits earned in prior years	87.6	94.1	11.0	12.0
Expected return on plan assets	(110.1)	(111.5)	—	—
Amortization of prior service cost (credit)	0.9	0.9	(2.1)	(0.9)
Amortization of net actuarial loss	46.9	49.0	6.7	7.2
Total retirement benefit expense	$35.8	$48.0	$17.4	$20.2

Effective January 31, 2017, closure of the U.K. defined benefit pension plan to future accruals for service and pay (hard freeze) occurred. In March 2017, the Company made a $135 million cash contribution to the ATI Pension Plan, its U.S. qualified defined benefit pension plan, completing the Company's funding requirements for 2017. In July 2016, the Company made a $115 million contribution to the ATI Pension Plan.

Note 9. Income Taxes

The Company maintains income tax valuation allowances on its U.S. Federal and state deferred tax assets due to a three year cumulative loss condition, which limits the ability to consider other positive subjective evidence, such as projections of future results, to assess the realizability of deferred tax assets. Results in both 2017 and 2016 include impacts from income taxes that differ from a standard 35% tax rate, primarily related to income tax valuation allowance changes. Third quarter 2017 results included a benefit for income taxes of $1.9 million, which includes the impact of $106 million pre-tax non-deductible goodwill impairment and $0.3 million of discrete tax benefits. The third quarter 2016 benefit for income taxes was $4.3 million, which includes a $173.1 million income tax valuation allowance charge on U.S. federal deferred tax assets, and $4.1 million of discrete charges. The third quarter 2016 actions to indefinitely idle the Rowley, UT titanium sponge production facility resulted in a reassessment of the realizability of U.S. federal deferred tax assets.

For the first nine months of 2017, the benefit for income taxes was $2.0 million, compared to a benefit for income taxes of $64.4 million, or 9.1% of the loss before income taxes, for the comparable 2016 period. The first nine months of 2017 included discrete tax benefits of $7.0 million, largely for the effects of amending tax returns for prior periods in certain domestic jurisdictions, and the first nine months of 2016 included discrete tax expense of $0.5 million.

For the three and nine months ended September 30, 2017, the Company determined that it was unable to make a reliable estimate of the annual effective tax rate for the Company's domestic operations, as insignificant changes in projected results for these operations can produce a significant variation in its annual effective tax rate. Therefore, the Company recorded tax expense for these operations for the three and nine months ended September 30, 2017 based on the actual year to date effective rate for these periods.

Note 10. Business Segments

The Company operates in two business segments: High Performance Materials & Components (HPMC) and Flat Rolled Products (FRP). The measure of segment operating profit, which is used to analyze the performance and results of the business segments, excludes all effects of LIFO inventory accounting and any related changes in net realizable value inventory reserves which offset the Company’s aggregate net debit LIFO valuation balance, income taxes, corporate expenses, net interest expense, closed operations expenses and restructuring costs, if any. Management believes segment operating profit, as defined, provides an appropriate measure of controllable operating results at the business segment level. Following is certain financial information with respect to the Company’s business segments for the periods indicated (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Total sales:				
High Performance Materials & Components	$526.3	$474.7	$1,593.3	$1,493.7
Flat Rolled Products	372.3	321.7	1,118.5	927.2
	898.6	796.4	2,711.8	2,420.9
Intersegment sales:				
High Performance Materials & Components	13.4	12.9	43.6	40.5
Flat Rolled Products	16.1	13.0	53.0	41.9
	29.5	25.9	96.6	82.4
Sales to external customers:				
High Performance Materials & Components	512.9	461.8	1,549.7	1,453.2
Flat Rolled Products	356.2	308.7	1,065.5	885.3
	$869.1	$770.5	$2,615.2	$2,338.5
Operating profit (loss):				
High Performance Materials & Components	$61.7	$47.0	$180.6	$114.9
Flat Rolled Products	(7.3)	(20.8)	14.6	(162.2)
Total operating profit (loss)	54.4	26.2	195.2	(47.3)
LIFO and net realizable value reserves	(0.1)	—	(0.2)	0.4
Corporate expenses	(14.8)	(9.8)	(36.9)	(32.6)
Closed operations and other expenses	(12.2)	(15.4)	(28.4)	(24.6)
Impairment of goodwill (See Note 4)	(114.4)	—	(114.4)	—
Restructuring and other charges	—	(499.9)	—	(509.9)
Interest expense, net	(34.2)	(32.6)	(102.2)	(91.2)
Loss before income taxes	$(121.3)	$(531.5)	$(86.9)	$(705.2)

Restructuring and other charges for the third quarter ended September 30, 2016 primarily relate to the indefinite idling of the
Company’s Rowley, UT titanium sponge facility and include $471.3 million of long-lived asset impairment charges, $11.3 million of inventory valuation charges for titanium sponge that are classified in cost of sales, and $17.3 million of facility shutdown, idling and employee benefit costs. The nine months ended September 30, 2016 also include a $9.0 million charge for severance obligations in the FRP operations, and a $1.0 million charge for severance obligations in the HPMC segment.

Table of Contents

Results for the HPMC segment exclude the Rowley, UT titanium sponge operations beginning with the third quarter of 2016, with such operations being reported in closed operations and other expenses. Reserves for restructuring charges at September 30, 2017 were $9.1 million, of which $3.1 million relates to severance and employee benefit costs and $6.0 million to closure costs. The decline in these reserves compared to $33.1 million at December 31, 2016 is primarily due to payments. These restructuring reserves are expected to be substantially paid in 2017.

Note 11. Per Share Information

The following table sets forth the computation of basic and diluted loss per common share:

(In millions, except per share amounts)	Three Months Ended September 30, 2017	2016	Nine months ended September 30, 2017	2016
Numerator:				
Numerator for basic loss per common share –				
Net loss attributable to ATI	$(121.2)	$(530.8)	$(93.6)	$(650.8)
Effect of dilutive securities:				
4.75% Convertible Senior Notes due 2022	—	—	—	—
Numerator for diluted loss per common share –				
Net loss attributable to ATI after assumed conversions	$(121.2)	$(530.8)	$(93.6)	$(650.8)
Denominator:				
Denominator for basic net loss per common share – weighted average shares	107.7	107.3	107.7	107.3
Effect of dilutive securities:				
Share-based compensation	—	—	—	—
4.75% Convertible Senior Notes due 2022	—	—	—	—
Denominator for diluted net loss per common share – adjusted weighted average shares and assumed conversions	107.7	107.3	107.7	107.3
Basic net loss attributable to ATI per common share	$(1.12)	$(4.95)	$(0.87)	$(6.07)
Diluted net loss attributable to ATI per common share	$(1.12)	$(4.95)	$(0.87)	$(6.07)

Common stock that would be issuable upon the assumed conversion of the 2022 Convertible Notes and other option equivalents and contingently issuable shares are excluded from the computation of contingently issuable shares, and therefore, from the denominator for diluted earnings per share, if the effect of inclusion is anti-dilutive. There were 20.9 million and 20.7 million anti-dilutive shares for the three and nine month periods ended September 30, 2017. There were 21.0 million and 10.3 million anti-dilutive shares for the three and nine month periods ended September 30, 2016, respectively.

Note 12. Financial Information for Subsidiary and Guarantor Parent

The payment obligations under the $150 million 6.95% debentures due 2025 issued by Allegheny Ludlum, LLC (the “Subsidiary”) are fully and unconditionally guaranteed by Allegheny Technologies Incorporated (the “Guarantor Parent”). In accordance with positions established by the Securities and Exchange Commission, the following financial information sets forth separately financial information with respect to the Subsidiary, the non-guarantor subsidiaries and the Guarantor Parent. The principal elimination entries eliminate investments in subsidiaries and certain intercompany balances and transactions.

ATI is the plan sponsor for the ATI Pension Plan, the Company’s U.S. qualified defined benefit pension plan (the “Plan”) which covers certain current and former employees of the Subsidiary and the non-guarantor subsidiaries. As a result, the balance sheets presented for the Subsidiary and the non-guarantor subsidiaries do not include any Plan assets or liabilities, or the related deferred taxes and valuation allowances. The Plan assets, liabilities and related deferred taxes and pension income or expense are recognized by the Guarantor Parent. Management and royalty fees charged to the Subsidiary and to the non-guarantor subsidiaries by the Guarantor Parent have been excluded solely for purposes of this presentation. The effects of income tax valuation allowances on U.S. Federal and State deferred tax assets are excluded from the Subsidiary’s financial results, and are reported by the Guarantor Parent or the non-guarantor subsidiaries, as applicable.

Table of Contents

Allegheny Technologies Incorporated
Financial Information for Subsidiary and Guarantor Parent
Balance Sheets
September 30, 2017

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Assets:					
Cash and cash equivalents	$ 2.1	$ 7.4	$ 115.4	$ —	$ 124.9
Accounts receivable, net	0.1	140.1	385.7	—	525.9
Intercompany notes receivable	—	—	3,425.7	(3,425.7)	—
Inventories, net	—	154.2	946.9	—	1,101.1
Prepaid expenses and other current assets	9.7	10.0	32.5	—	52.2
Total current assets	11.9	311.7	4,906.2	(3,425.7)	1,804.1
Property, plant and equipment, net	0.9	1,579.6	910.4	—	2,490.9
Goodwill	—	—	531.9	—	531.9
Intercompany notes receivable	—	—	200.0	(200.0)	—
Investment in subsidiaries	5,524.0	37.7	—	(5,561.7)	—
Other assets	26.5	18.6	203.1	—	248.2
Total assets	$ 5,563.3	$ 1,947.6	$ 6,751.6	$ (9,187.4)	$ 5,075.1
Liabilities and stockholders' equity:					
Accounts payable	$ 3.7	$ 148.8	$ 198.0	$ —	$ 350.5
Accrued liabilities	42.9	83.1	160.7	—	286.7
Intercompany notes payable	1,783.8	1,641.9	—	(3,425.7)	—
Short term debt and current portion of long-term debt	0.3	0.3	35.8	—	36.4
Total current liabilities	1,830.7	1,874.1	394.5	(3,425.7)	673.6
Long-term debt	1,623.8	149.8	104.1	—	1,877.7
Intercompany notes payable	—	200.0	—	(200.0)	—
Accrued postretirement benefits	—	235.6	67.6	—	303.2
Pension liabilities	630.5	4.8	42.9	—	678.2
Deferred income taxes	14.1	—	—	—	14.1
Other long-term liabilities	16.7	18.4	45.7	—	80.8
Total liabilities	4,115.8	2,482.7	654.8	(3,625.7)	3,627.6
Total stockholders' equity (deficit)	1,447.5	(535.1)	6,096.8	(5,561.7)	1,447.5
Total liabilities and stockholders' equity	$ 5,563.3	$ 1,947.6	$ 6,751.6	$ (9,187.4)	$ 5,075.1

Table of Contents

Allegheny Technologies Incorporated
Financial Information for Subsidiary and Guarantor Parent
Statements of Operations and Comprehensive Income
For the three months ended September 30, 2017

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Sales	$ —	$ 287.9	$ 581.2	$ —	$ 869.1
Cost of sales	10.4	283.8	481.6	—	775.8
Gross profit (loss)	(10.4)	4.1	99.6	—	93.3
Selling and administrative expenses	25.8	8.6	31.8	—	66.2
Impairment of goodwill	—	—	114.4	—	114.4
Operating loss	(36.2)	(4.5)	(46.6)	—	(87.3)
Interest income (expense), net	(40.1)	(22.9)	28.8	—	(34.2)
Other income (loss) including equity in income of unconsolidated subsidiaries	(45.0)	0.3	(0.1)	45.0	0.2
Income (loss) before income tax provision (benefit)	(121.3)	(27.1)	(17.9)	45.0	(121.3)
Income tax provision (benefit)	(1.9)	(8.6)	28.3	(19.7)	(1.9)
Net income (loss)	(119.4)	(18.5)	(46.2)	64.7	(119.4)
Less: Net income attributable to noncontrolling interests	—	—	1.8	—	1.8
Net income (loss) attributable to ATI	$ (119.4)	$ (18.5)	$ (48.0)	$ 64.7	$ (121.2)
Comprehensive income (loss) attributable to ATI	$ (63.5)	$ (15.5)	$ (28.5)	$ 37.2	$ (70.3)

Allegheny Technologies Incorporated
Financial Information for Subsidiary and Guarantor Parent
Statements of Operations and Comprehensive Income
For the nine months ended September 30, 2017

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Sales	$ —	$ 866.3	$ 1,748.9	$ —	$ 2,615.2
Cost of sales	33.4	822.5	1,440.9	—	2,296.8
Gross profit (loss)	(33.4)	43.8	308.0	—	318.4
Selling and administrative expenses	70.1	27.0	95.3	—	192.4
Impairment of goodwill	—	—	114.4	—	114.4
Operating income (loss)	(103.5)	16.8	98.3	—	11.6
Interest income (expense), net	(118.4)	(66.6)	82.8	—	(102.2)
Other income (loss) including equity in income of unconsolidated subsidiaries	135.0	1.1	2.6	(135.0)	3.7
Income (loss) before income tax provision (benefit)	(86.9)	(48.7)	183.7	(135.0)	(86.9)
Income tax provision (benefit)	(2.0)	(16.3)	97.4	(81.1)	(2.0)
Net income (loss)	(84.9)	(32.4)	86.3	(53.9)	(84.9)
Less: Net income attributable to noncontrolling interests	—	—	8.7	—	8.7
Net income (loss) attributable to ATI	$ (84.9)	$ (32.4)	$ 77.6	$ (53.9)	$ (93.6)
Comprehensive income (loss) attributable to ATI	$ (0.3)	$ (27.1)	$ 109.9	$ (98.7)	$ (16.2)

Table of Contents

Condensed Statements of Cash Flows
For the nine months ended September 30, 2017

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	$ (84.2)	$ (83.1)	$ 113.5	$ —	$ (53.8)
Investing Activities:					
Purchases of property, plant and equipment	(0.5)	(27.4)	(57.4)	—	(85.3)
Net receipts/(payments) on intercompany activity	—	—	(205.1)	205.1	—
Asset disposals and other	—	0.1	3.1	—	3.2
Cash flows provided by (used in) investing activities	(0.5)	(27.3)	(259.4)	205.1	(82.1)
Financing Activities:					
Borrowings on long-term debt	—	—	8.5	—	8.5
Payments on long-term debt and capital leases	(0.3)	(0.2)	(1.4)	—	(1.9)
Net borrowings under credit facilities	—	—	28.0	—	28.0
Debt issuance costs	—	—	(0.8)	—	(0.8)
Net receipts/(payments) on intercompany activity	89.6	115.5	—	(205.1)	—
Sale to noncontrolling interests	—	—	2.2	—	2.2
Shares repurchased for income tax withholding on share-based compensation and other	(4.8)	—	—	—	(4.8)
Cash flows provided by (used in) financing activities	84.5	115.3	36.5	(205.1)	31.2
Increase (decrease) in cash and cash equivalents	$ (0.2)	$ 4.9	$ (109.4)	$ —	$ (104.7)

Table of Contents

Allegheny Technologies Incorporated
Financial Information for Subsidiary and Guarantor Parent
Balance Sheets
December 31, 2016

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Assets:					
Cash and cash equivalents	$ 2.3	$ 2.5	$ 224.8	$ —	$ 229.6
Accounts receivable, net	0.1	107.8	344.2	—	452.1
Intercompany notes receivable	—	—	2,892.9	(2,892.9)	—
Inventories, net	—	106.7	930.3	—	1,037.0
Prepaid expenses and other current assets	6.6	5.2	36.0	—	47.8
Total current assets	9.0	222.2	4,428.2	(2,892.9)	1,766.5
Property, plant and equipment, net	1.3	1,583.6	914.0	—	2,498.9
Goodwill	—	—	641.9	—	641.9
Intercompany notes receivable	—	—	200.0	(200.0)	—
Investment in subsidiaries	5,241.2	37.7	—	(5,278.9)	—
Other assets	23.0	25.5	214.2	—	262.7
Total assets	$ 5,274.5	$ 1,869.0	$ 6,398.3	$ (8,371.8)	$ 5,170.0
Liabilities and stockholders' equity:					
Accounts payable	$ 3.1	$ 97.4	$ 193.8	$ —	$ 294.3
Accrued liabilities	54.6	83.3	171.4	—	309.3
Intercompany notes payable	1,341.1	1,551.8	—	(2,892.9)	—
Short term debt and current portion of long-term debt	0.4	0.3	104.4	—	105.1
Total current liabilities	1,399.2	1,732.8	469.6	(2,892.9)	708.7
Long-term debt	1,621.7	150.0	0.2	—	1,771.9
Intercompany notes payable	—	200.0	—	(200.0)	—
Accrued postretirement benefits	—	244.0	73.7	—	317.7
Pension liabilities	778.5	5.2	44.2	—	827.9
Deferred income taxes	15.6	—	—	—	15.6
Other long-term liabilities	14.7	18.1	50.6	—	83.4
Total liabilities	3,829.7	2,350.1	638.3	(3,092.9)	3,725.2
Total stockholders' equity (deficit)	1,444.8	(481.1)	5,760.0	(5,278.9)	1,444.8
Total liabilities and stockholders' equity	$ 5,274.5	$ 1,869.0	$ 6,398.3	$ (8,371.8)	$ 5,170.0

21

Table of Contents

Allegheny Technologies Incorporated
Financial Information for Subsidiary and Guarantor Parent
Statements of Operations and Comprehensive Income
For the three months ended September 30, 2016

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Sales	$—	$ 253.0	$ 517.5	$ —	$ 770.5
Cost of sales	14.0	266.6	439.7	—	720.3
Gross profit (loss)	(14.0)	(13.6)	77.8	—	50.2
Selling and administrative expenses	23.8	4.2	32.5	—	60.5
Restructuring charges	—	0.5	488.1	—	488.6
Operating loss	(37.8)	(18.3)	(442.8)	—	(498.9)
Interest income (expense), net	(36.5)	(19.3)	23.2	—	(32.6)
Other income (loss) including equity in income of unconsolidated subsidiaries	(457.2)	0.2	(0.2)	457.2	—
Income (loss) before income tax provision (benefit)	(531.5)	(37.4)	(419.8)	457.2	(531.5)
Income tax provision (benefit)	(4.3)	(9.1)	(165.8)	174.9	(4.3)
Net income (loss)	(527.2)	(28.3)	(254.0)	282.3	(527.2)
Less: Net income attributable to noncontrolling interests	—	—	3.6	—	3.6
Net income (loss) attributable to ATI	$ (527.2)	$ (28.3)	$ (257.6)	$ 282.3	$ (530.8)
Comprehensive income (loss) attributable to ATI	$ (516.8)	$ (27.0)	$ (260.0)	$ 285.0	$ (518.8)

Allegheny Technologies Incorporated
Financial Information for Subsidiary and Guarantor Parent
Statements of Operations and Comprehensive Income
For the nine months ended September 30, 2016

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Sales	$—	$ 727.7	$ 1,610.8	$ —	$ 2,338.5
Cost of sales	43.0	852.0	1,378.3	—	2,273.3
Gross profit (loss)	(43.0)	(124.3)	232.5	—	65.2
Selling and administrative expenses	66.3	18.8	97.3	—	182.4
Restructuring charges	—	9.5	489.1	—	498.6
Operating loss	(109.3)	(152.6)	(353.9)	—	(615.8)
Interest income (expense), net	(101.4)	(51.0)	61.2	—	(91.2)
Other income (loss) including equity in income of unconsolidated subsidiaries	(494.5)	0.6	1.5	494.2	1.8
Income (loss) before income tax provision (benefit)	(705.2)	(203.0)	(291.2)	494.2	(705.2)
Income tax provision (benefit)	(64.4)	(70.1)	(116.3)	186.4	(64.4)
Net income (loss)	(640.8)	(132.9)	(174.9)	307.8	(640.8)
Less: Net income attributable to noncontrolling interests	—	—	10.0	—	10.0
Net income (loss) attributable to ATI	$ (640.8)	$ (132.9)	$ (184.9)	$ 307.8	$ (650.8)
Comprehensive income (loss) attributable to ATI	$ (592.6)	$ (114.2)	$ (199.0)	$ 307.8	$ (598.0)

Table of Contents

Condensed Statements of Cash Flows
For the nine months ended September 30, 2016

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	$ (73.0)	$ (183.7)	$ 169.0	$ (24.0)	$ (111.7)
Investing Activities:					
Purchases of property, plant and equipment	(0.5)	(93.0)	(81.4)	—	(174.9)
Net receipts/(payments) on intercompany activity	—	—	(102.0)	102.0	—
Asset disposals and other	—	—	2.1	—	2.1
Cash flows provided by (used in) investing activities	(0.5)	(93.0)	(181.3)	102.0	(172.8)
Financing Activities:					
Borrowings on long-term debt	287.5	—	100.0	—	387.5
Payments on long-term debt and capital leases	(0.5)	(0.2)	(1.7)	—	(2.4)
Net borrowings under credit facilities	—	—	2.4	—	2.4
Debt issuance costs	(9.4)	—	(1.0)	—	(10.4)
Net receipts/(payments) on intercompany activity	(176.4)	278.4	—	(102.0)	—
Dividends paid to stockholders	(25.8)	—	(24.0)	24.0	(25.8)
Dividends paid to noncontrolling interests	—	—	(16.0)	—	(16.0)
Acquisition of noncontrolling interests	—	—	(12.2)	—	(12.2)
Cash flows provided by (used in) financing activities	75.4	278.2	47.5	(78.0)	323.1
Increase in cash and cash equivalents	$ 1.9	$ 1.5	$ 35.2	$ —	$ 38.6

Table of Contents

Note 13. Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss) (AOCI) by component, net of tax, for the three month period ended September 30, 2017 were as follows (in millions):

	Post-retirement benefit plans	Currency translation adjustment	Unrealized holding gains on securities	Derivatives	Deferred Tax Asset Valuation Allowance	Total
Attributable to ATI:						
Balance, June 30, 2017	$ (943.5)	$ (72.4)	$ —	$ (5.7)	$ (45.6)	$(1,067.2)
OCI before reclassifications	—	19.2	—	5.7	—	24.9
Amounts reclassified from AOCI	(a) 10.5	(b) —	(b) —	(c) (0.8)	16.3	26.0
Net current-period OCI	10.5	19.2	—	4.9	16.3	50.9
Balance, September 30, 2017	$ (933.0)	$ (53.2)	$ —	$ (0.8)	$ (29.3)	$(1,016.3)
Attributable to noncontrolling interests:						
Balance, June 30, 2017	$ —	$ 11.9	$ —	$ —	$ —	$11.9
OCI before reclassifications	—	5.0	—	—	—	5.0
Amounts reclassified from AOCI	—	(b) —	—	—	—	—
Net current-period OCI	—	5.0	—	—	—	5.0
Balance, September 30, 2017	$ —	$ 16.9	$ —	$ —	$ —	$16.9

The changes in AOCI by component, net of tax, for the nine month period ended September 30, 2017 were as follows (in millions):

	Post-retirement benefit plans	Currency translation adjustment	Unrealized holding gains on securities	Derivatives	Deferred Tax Asset Valuation Allowance	Total
Attributable to ATI:						
Balance, December 31, 2016	$ (965.5)	$ (85.0)	$ —	$ 2.4	$ (45.6)	$(1,093.7)
OCI before reclassifications	—	31.8	—	(1.0)	—	30.8
Amounts reclassified from AOCI	(a) 32.5	(b) —	(b) —	(c) (2.2)	16.3	46.6
Net current-period OCI	32.5	31.8	—	(3.2)	16.3	77.4
Balance, September 30, 2017	$ (933.0)	$ (53.2)	$ —	$ (0.8)	$ (29.3)	$(1,016.3)
Attributable to noncontrolling interests:						
Balance, December 31, 2016	$ —	$ 9.7	$ —	$ —	$ —	$9.7
OCI before reclassifications	—	7.2	—	—	—	7.2
Amounts reclassified from AOCI	—	(b) —	—	—	—	—
Net current-period OCI	—	7.2	—	—	—	7.2
Balance, September 30, 2017	$ —	$ 16.9	$ —	$ —	$ —	$16.9

(a) Amounts were included in net periodic benefit cost for pension and other postretirement benefit plans (see Note 8).

(b) No amounts were reclassified to earnings.

(c) Amounts related to the effective portion of the derivatives are included in cost of goods sold in the period or periods the hedged item affects earnings. Amounts related to the ineffective portion of the derivatives are presented in selling and administrative expenses on the consolidated statement of operations (see Note 6).

Table of Contents

The changes in AOCI by component, net of tax, for the three month period ended September 30, 2016 were as follows (in millions):

	Post-retirement benefit plans	Currency translation adjustment	Unrealized holding gains on securities	Derivatives	Deferred Tax Asset Valuation Allowance	Total
Attributable to ATI:						
Balance, June 30, 2016	$ (913.7)	$ (59.8)	$ —	$ (0.2)	$ —	$ (973.7)
OCI before reclassifications	—	(2.8)	—	3.0	—	0.2
Amounts reclassified from AOCI	(a) 11.4	(b) —	(b) —	(c) 0.4	—	11.8
Net current-period OCI	11.4	(2.8)	—	3.4	—	12.0
Balance, September 30, 2016	$ (902.3)	$ (62.6)	$ —	$ 3.2	$ —	$ (961.7)
Attributable to noncontrolling interests:						
Balance, June 30, 2016	$ —	$ 16.4	$ —	$ —	$ —	$ 16.4
OCI before reclassifications	—	(1.6)	—	—	—	(1.6)
Amounts reclassified from AOCI	—	(b) —	—	—	—	—
Net current-period OCI	—	(1.6)	—	—	—	$ (1.6)
Balance, September 30, 2016	$ —	$ 14.8	$ —	$ —	$ —	$ 14.8

The changes in AOCI by component, net of tax, for the nine month period ended September 30, 2016 were as follows (in millions):

	Post-retirement benefit plans	Currency translation adjustment	Unrealized holding gains on securities	Derivatives	Deferred Tax Asset Valuation Allowance	Total
Attributable to ATI:						
Balance, December 31, 2015	$ (951.2)	$ (47.6)	$ —	$ (15.7)	$ —	$ (1,014.5)
OCI before reclassifications	13.9	(15.0)	—	13.6	—	12.5
Amounts reclassified from AOCI	(a) 35.0	(b) —	(b) —	(c) 5.3	—	40.3
Net current-period OCI	48.9	(15.0)	—	18.9	—	52.8
Balance, September 30, 2016	$ (902.3)	$ (62.6)	$ —	$ 3.2	$ —	$ (961.7)
Attributable to noncontrolling interests:						
Balance, December 31, 2015	$ —	$ 19.4	$ —	$ —	$ —	$ 19.4
OCI before reclassifications	—	(4.6)	—	—	—	(4.6)
Amounts reclassified from AOCI	—	(b) —	—	—	—	—
Net current-period OCI	—	(4.6)	—	—	—	$ (4.6)
Balance, September 30, 2016	$ —	$ 14.8	$ —	$ —	$ —	$ 14.8

(a) Amounts were included in net periodic benefit cost for pension and other postretirement benefit plans (see Note 8).

(b) No amounts were reclassified to earnings.

(c) Amounts related to the effective portion of the derivatives are included in cost of goods sold in the period or periods the hedged item affects earnings. Amounts related to the ineffective portion of the derivatives are presented in selling and administrative expenses on the consolidated statement of operations (see Note 6).

Other comprehensive income (loss) amounts (OCI) reported above by category are net of applicable income tax expense (benefit) for each year presented. Income tax expense (benefit) on OCI items is recorded as a change in a deferred tax asset or liability. Amounts recognized in OCI in 2017 include the impact of any deferred tax asset valuation allowances, when applicable, resulting from the Company's three year cumulative loss position. Foreign currency translation adjustments, including those pertaining to noncontrolling interests, are generally not adjusted for income taxes as they relate to indefinite investments in non-U.S. subsidiaries.

25

Table of Contents

Reclassifications out of AOCI for the three and nine month periods ended September 30, 2017 and 2016 were as follows:

Details about AOCI Components (In millions)	Amount reclassified from AOCI Three months ended September 30, 2017	Three months ended September 30, 2016		Nine months ended September 30, 2017	Nine months ended September 30, 2016		Affected line item in the statements of operations
Postretirement benefit plans							
Prior service (cost) credit	$0.4	$ 0.4	(a)	$ 1.2	$ —	(a)	
Actuarial losses	(17.8)	(18.7)	(a)	(53.6)	(56.2)	(a)	
	(17.4)	(18.3)	(c)	(52.4)	(56.2)	(c)	Total before tax
	(6.9)	(6.9)		(19.9)	(21.2)		Tax provision (benefit) (d)
	$(10.5)	$ (11.4)		$ (32.5)	$ (35.0)		Net of tax
Derivatives							
Nickel and other raw material contracts	$(1.5)	$ (3.5)	(b)	$ (4.0)	$ (15.9)	(b)	
Natural gas contracts	(1.1)	(2.5)	(b)	(4.5)	(13.5)	(b)	
Foreign exchange contracts	3.8	5.4	(b)	12.0	20.9	(b)	
	1.2	(0.6)	(c)	3.5	(8.5)	(c)	Total before tax
	0.4	(0.2)		1.3	(3.2)		Tax provision (benefit) (d)
	$0.8	$ (0.4)		$ 2.2	$ (5.3)		Net of tax

(a) Amounts are included in the computation of pension and other postretirement benefit expense, which is reported in both cost of goods sold and selling and administrative expenses (see Note 8).

(b) Amounts related to the effective portion of the derivatives are included in cost of goods sold in the period or periods the hedged item affects earnings. Amounts related to the ineffective portion of the derivatives are presented in selling and administrative expenses on the consolidated statement of operations (see Note 6).

(c) For pretax items, positive amounts are income and negative amounts are expense in terms of the impact to net income. Tax effects are presented in conformity with ATI’s presentation in the consolidated statements of operations.

(d) These amounts exclude the impact of any deferred tax asset valuation allowance, when applicable.

Note 14. Commitments and Contingencies

The Company is subject to various domestic and international environmental laws and regulations that govern the discharge of pollutants and disposal of wastes, and which may require that it investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations. The Company could incur substantial cleanup costs, fines, and civil or criminal sanctions, third party property damage or personal injury claims as a result of violations or liabilities under these laws or noncompliance with environmental permits required at its facilities. The Company is currently involved in the investigation and remediation of a number of its current and former sites, as well as third party sites.

Environmental liabilities are recorded when the Company’s liability is probable and the costs are reasonably estimable. In many cases, however, the Company is not able to determine whether it is liable or, if liability is probable, to reasonably estimate the loss or range of loss. Estimates of the Company’s liability remain subject to additional uncertainties, including the nature and extent of site contamination, available remediation alternatives, the extent of corrective actions that may be required, and the number, participation, and financial condition of other potentially responsible parties (PRPs). The Company adjusts its accruals to reflect new information as appropriate. Future adjustments could have a material adverse effect on the Company’s consolidated results of operations in a given period, but the Company cannot reliably predict the amounts of such future adjustments.

At September 30, 2017, the Company’s reserves for environmental remediation obligations totaled approximately $14 million, of which $8 million was included in other current liabilities. The reserve includes estimated probable future costs of $2 million for federal Superfund and comparable state-managed sites; $10 million for formerly owned or operated sites for which the Company has remediation or indemnification obligations; $1 million for owned or controlled sites at which Company operations have been discontinued; and $1 million for sites utilized by the Company in its ongoing operations. The timing of expenditures depends on a number of factors that vary by site. The Company expects that it will expend present accruals over many years and that remediation of all sites with which it has been identified will be completed within thirty years. The

Table of Contents

Company continues to evaluate whether it may be able to recover a portion of past and future costs for environmental liabilities from third parties and to pursue such recoveries where appropriate.

Based on currently available information, it is reasonably possible that costs for recorded matters may exceed the Company's recorded reserves by as much as $13 million. Future investigation or remediation activities may result in the discovery of additional hazardous materials, potentially higher levels of contamination than discovered during prior investigation, and may impact costs of the success or lack thereof in remedial solutions. Therefore, future developments, administrative actions or liabilities relating to environmental matters could have a material adverse effect on the Company's consolidated financial condition or results of operations.

See Note 21. Commitments and Contingencies to the Company's consolidated financial statements in the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2016 for a discussion of legal proceedings affecting the Company.

A number of other lawsuits, claims and proceedings have been or may be asserted against the Company relating to the conduct of its currently and formerly owned businesses, including those pertaining to product liability, patent infringement, commercial, government contracting, construction, employment, employee and retiree benefits, taxes, environmental, health and safety and occupational disease, and stockholder and corporate governance matters. While the outcome of litigation cannot be predicted with certainty, and some of these lawsuits, claims or proceedings may be determined adversely to the Company, management does not believe that the disposition of any such pending matters is likely to have a material adverse effect on the Company's financial condition or liquidity, although the resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's consolidated results of operations for that period.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

ATI is a global manufacturer of technically advanced specialty materials and complex components. Our largest market is aerospace & defense, representing approximately 50% of total sales and led by jet engines. Additionally, we have a strong presence in the oil & gas, electrical energy, medical, and automotive markets. In aggregate, these key markets represent about 80% of our revenue. ATI is a market leader in manufacturing differentiated products that require our unique manufacturing and precision machining capabilities as well as our innovative new product development competence. Our capabilities range from alloy development through final production of highly engineered finished components. We are a leader in producing powders for use in next-generation jet engine forgings and 3D-printed aerospace products.

We anticipate significant industry demand growth for advanced powder materials required to satisfy higher aerospace and defense market production requirements, and for emerging additive manufacturing of parts and components. To proactively meet this growing demand for complex powder alloy products, ATI designed and built an all-new nickel and super alloy powder production facility in North Carolina, which is in the final stages of industry and customer qualifications. Additionally, we recently announced an expansion of our titanium alloys powder production capabilities, which is expected to be completed in early 2019, and in July 2017 we formed a joint venture with GE Aviation for the development of a new meltless titanium alloy powder manufacturing process that eliminates the traditional melt step used prior to converting base material to powder form. The JV will construct a new R&D pilot production facility to focus on increasing the scale of this GE-developed manufacturing process.

ATI reported third quarter 2017 sales of $869.1 million and loss before tax of $121.3 million, compared to sales of $770.5 million and a loss before tax of $531.5 million for the third quarter 2016. Our gross profit was $93.3 million, or 10.7% of sales, a $43.1 million improvement compared to the third quarter 2016, reflecting the benefits of our growing position on next-generation commercial aerospace programs and the significant restructuring actions taken in 2016 to improve our operating efficiencies and cost structure. Results for the third quarter 2017 include a pre-tax non-cash goodwill impairment charge of $114.4 million ($113.6 million after-tax, or ($1.05) per share) for ATI Cast Products, our titanium investment casting business in the High Performance Materials & Components segment. Net loss attributable to ATI was $121.2 million, or $(1.12) per share, in the third quarter 2017 compared to a net loss attributable to ATI of $530.8 million, or $(4.95) per share, for the third quarter 2016. The third quarter 2016 results included pre-tax restructuring and other charges of $499.9 million ($329.1 million after-tax, or ($3.07) per share) relating primarily to the indefinite idling of the Rowley, UT titanium sponge production facility and consolidation of other higher-cost titanium operations. The 2016 charges included $471.3 million of non-cash impairment charges, $17.3 million of shutdown, idling and employee benefit costs and $11.3 million of titanium sponge inventory valuation adjustments. Results in the third quarter 2016 also included $9.3 million pre-tax ($6.1 million after-tax, or ($0.06) per share) of Rowley excess operating costs. As a result of these charges, ATI also recorded a $173.1 million, or $(1.61) per share, non-cash income tax valuation allowance charge in the third quarter of 2016 related to U.S. federal tax benefits. The total after-tax

Table of Contents

charges, including the income tax valuation allowance charge, for the third quarter 2016 were $508.3 million, or $(4.74) per share. Results in both periods include impacts from income taxes that differ from a standard 35% tax rate, primarily related to income tax valuation allowance changes as well as a non-deductible goodwill impairment charge for the third quarter 2017.

We operate in two business segments, High Performance Materials & Components (HPMC) and Flat Rolled Products (FRP). Compared to the third quarter 2016, sales increased 11% in the HPMC segment and 15% in the FRP segment. The commercial aerospace market, which represented 63% of third quarter 2017 HPMC sales, were 9% higher than the third quarter 2016, with strong growth in the commercial jet engine market. In addition, HPMC third quarter sales included higher demand in the oil & gas industry, which improved over 50% versus the prior year period. The increase in sales in the FRP segment were due to stronger mix of high-value products, higher shipments of standard stainless products, and slightly higher selling prices for most standard stainless and Precision Rolled Strip products.

ATI reported sales for the first nine months of 2017 of $2.62 billion and loss before tax of $86.9 million, compared to sales of $2.34 billion and a loss before tax of $705.2 million, for the first nine months of 2016. Our gross profit was $318.4 million, or 12.2% of sales, a $253.2 million improvement compared to the first nine months of 2016. ATI's 2017 results include the third quarter's $114.4 million pre-tax goodwill impairment charge, and 2016 results include the third quarter's $499.9 million of pre-tax restructuring and other charges, both discussed above. Results for the first nine months of 2016 also include $48 million of costs associated with the work stoppage and return to work of USW-represented employees in March 2016, a $9.0 million charge for the reduction of approximately one-third of FRP's salaried workforce and $1.0 million for severance actions in the HPMC segment. Net loss attributable to ATI was $93.6 million, or $(0.87) per diluted share, in the first nine months of 2017 compared to a net loss attributable to ATI of $650.8 million, or $(6.07) per share, for the first nine months of 2016.

Compared to the first nine months of 2016, sales increased 20% in the FRP business segment and 7% in the HPMC business segment. HPMC sales reflect stronger demand for nickel-based and specialty alloys mill products, and forged components. FRP sales compared to the prior year period include stronger shipments of both high-value and standard products due to higher operating levels following a new labor agreement.

ATI's sales to the aerospace & defense market increased 9%, to $427.7 million in the third quarter 2017, compared to the third quarter of 2016. HPMC commercial jet engine sales increased $26 million, or 13%, compared to the third quarter 2016, including a 25% increase in forged products.

Demand from the global aerospace & defense, oil & gas, electrical energy, automotive and medical markets represented 78% and 79% of our sales for the three and nine months ended September 30, 2017, respectively.

Comparative information for our overall revenues (in millions) by market and their respective percentages of total revenues for the three and nine month periods ended September 30, 2017 and 2016 were as follows:

Market	Three months ended September 30, 2017		Three months ended September 30, 2016	
Aerospace & Defense	$427.7	49 %	$391.9	51 %
Oil & Gas	98.4	11 %	69.1	9 %
Automotive	61.7	7 %	60.1	7 %
Electrical Energy	48.5	6 %	43.9	6 %
Medical	44.5	5 %	46.4	6 %
Subtotal - Key Markets	680.8	78 %	611.4	79 %
Food Equipment & Appliances	54.5	6 %	43.1	6 %
Construction/Mining	48.3	6 %	45.9	6 %
Electronics/Computers/Communication	42.3	5 %	29.7	4 %
Transportation	24.3	3 %	21.2	3 %
Other	18.9	2 %	19.2	2 %
Total	$869.1	100 %	$770.5	100 %

Table of Contents

Market	Nine months ended September 30, 2017			Nine months ended September 30, 2016		
Aerospace & Defense	$1,280.5	49	%	$1,196.6	51	%
Oil & Gas	289.7	11	%	200.5	9	%
Automotive	206.4	8	%	169.4	7	%
Electrical Energy	144.2	6	%	182.1	8	%
Medical	142.7	5	%	150.8	6	%
Subtotal - Key Markets	2,063.5	79	%	1,899.4	81	%
Food Equipment & Appliances	168.9	6	%	119.4	5	%
Construction/Mining	144.6	6	%	119.6	5	%
Electronics/Computers/Communication	108.2	4	%	76.2	3	%
Transportation	65.5	3	%	61.2	3	%
Other	64.5	2	%	62.7	3	%
Total	$2,615.2	100	%	$2,338.5	100	%

For the third quarter 2017, international sales increased 16% to $363 million and represented 42% of total sales, compared to $313 million, or 41% of total sales, for the third quarter 2016. ATI's international sales are mostly to the aerospace, oil & gas, electrical energy, automotive and medical markets. Sales of our high-value products represented 84% of total sales, the majority of which were consumed by our aerospace & defense customers, for the three months ended September 30, 2017. Comparative information for our major high-value and standard products based on their percentages of our total sales is as follows:

	Three months ended September 30,			
	2017		2016	
High-Value Products				
Nickel-based alloys and specialty alloys	28	%	26	%
Precision forgings, castings and components	19	%	17	%
Titanium and titanium-based alloys	17	%	19	%
Precision and engineered strip	14	%	15	%
Zirconium and related alloys	6	%	7	%
Total High-Value Products, excluding GOES	84	%	84	%
GOES (grain-oriented electrical steel)	—	%	—	%
Total High-Value Products, including GOES	84	%	84	%
Standard Products				
Stainless steel sheet	9	%	8	%
Specialty stainless sheet	4	%	5	%
Stainless steel plate and other	3	%	3	%
Total Standard Products	16	%	16	%
Grand Total	100	%	100	%

Table of Contents

For the first nine months of 2017, international sales increased 12% to $1.06 billion and represented 41% of total sales, compared to $947 million, or 41% of total sales, for the first nine months of 2016. Sales of our high-value products represented 83% of total sales for the nine months ended September 30, 2017. Comparative information for our major high-value and standard products based on their percentages of our total sales is as follows:

	Nine months ended September 30,	
	2017	2016
High-Value Products		
Nickel-based alloys and specialty alloys	27 %	27 %
Precision forgings, castings and components	19 %	18 %
Titanium and titanium-based alloys	17 %	20 %
Precision and engineered strip	14 %	13 %
Zirconium and related alloys	6 %	8 %
Total High-Value Products, excluding GOES	83 %	86 %
GOES (grain-oriented electrical steel)	— %	1 %
Total High-Value Products, including GOES	83 %	87 %
Standard Products		
Stainless steel sheet	9 %	6 %
Specialty stainless sheet	4 %	4 %
Stainless steel plate and other	4 %	3 %
Total Standard Products	17 %	13 %
Grand Total	100%	100%

Total titanium mill product shipments, including Uniti joint venture conversion, were 8.4 million pounds in the third quarter 2017, bringing the first nine months 2017 to a total of 25.2 million pounds. These volumes represent a 10% increase compared to the third quarter of 2016 and a 4% increase compared to the first nine months of 2016, with generally stronger demand for sheet and plate products for global industrial markets.

Segment operating profit for the third quarter 2017 was $54.4 million, or 6.3% of sales, more than doubling the third quarter of 2016 segment operating profit of $26.2 million, or 3.4% of sales. For the first nine months of 2017, segment operating profit was $195.2 million, or 7.5% of sales, compared to segment operating loss of $47.3 million, or (2.0)% of sales, for the first nine months of 2016. Segment operating profit as a percentage of sales for the three and nine month periods ended September 30, 2017 and 2016 was:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	227	92

NOI after indirect operating and leasehold expense	$ 909	$ 27	$ 669	$ (42)	$ 1,578	$ (15)
Avg. sq. ft. occupancy	83%	72%	72%	53%	78%	55%
No. of properties	10	1	12	9	22	10

(1) Table includes the total operating results of each storage center regardless of Shurgard s percentage ownership interest in that storage center.

(2) Indirect operating expense includes certain shared property costs such as district and corporate management, purchasing, national contracts, personnel and marketing, as well as certain overhead costs allocated to property operations such as business information technology, legal services, human resources and accounting. It does not include internal real estate acquisition cost or abandoned

development expense. Indirect operating expense is allocated to storage centers based on number of months in operation during the period. Increases in NOI from the comparable prior year period for the New Store portfolio reflect the greater number of properties and, correspondingly, property months for the periods presented. Although this increase gives some indication of how much of Shurgard s overall NOI growth results from New Store, Shurgard does not regard NOI as a good method of evaluating the performance of assets within this segment. Rather, it uses other methods, such as comparisons of actual results to targeted NOI for the appropriate period from opening or at maturity. The performance of Shurgard s domestic acquisitions and developments are discussed below.

Domestic Acquisitions

Shurgard continues to seek acquisition opportunities for high quality storage centers that meet its investment standards. It pursues only those properties that enhance its existing network of storage centers or allow us to establish significant market presence in new markets (i.e. establish greater market presence or expand an established market to create greater economies of scale). Key operating data for Shurgard s acquisitions are discussed below.

181

Table of Contents

The following table summarizes Shurgard s domestic acquisition activity from 2004 to 2006 as of March 31, 2006:

	Number of Properties (3)	Total Storage Center Cost (1)	Total Net Rentable square feet	Average Occupancy Three months ended, 3/31/2006	Average Occupancy Three months ended, 3/31/2005	Average Annual Rent (per sq. ft) (2) Three months ended, 3/31/2006	Average Annual Rent (per sq. ft) (2) Three months ended, 3/31/2005
		(in millions)					
Acquisitions in 2006		$				$	$
Acquisitions in 2005	10	44.5	751,000	83%	72%	9.40	8.49
Acquisitions in 2004	7	52.8	504,000	87%	86%	16.12	14.34

(1) Total storage center costs include all costs capitalized to storage centers since the store was acquired or developed and excludes related intangible assets.

(2) Average annual rent per square foot is calculated by dividing actual rent collected by the average number of square feet occupied during the period.

(3) Number of properties at March 31, 2006. The 2005 first quarter results include only one property.

Shurgard had no acquisitions in the first quarter of 2006.

In the first quarter of 2005, Shurgard acquired one property in North Carolina through Shurgard/Morningstar Storage Centers, LLC, one of its consolidated subsidiaries, in which it owns 74%, for $3.0 million (including $121,000 paid for a non-compete agreement). In the second quarter of 2005, Shurgard completed the purchase of six storage centers in North Carolina for an aggregate purchase price of $26 million. These storage centers are managed by affiliates of certain members of Shurgard/ Morningstar Storage Centers, LLC that are unrelated to Shurgard.

In the second quarter of 2005, Shurgard also acquired Central Parkway Storage, Inc. (CPI), which owns two storage properties in Florida. Shurgard had a pre-existing relationship with the shareholders of CPI and as part of the transaction Shurgard settled approximately $1.2 million of liabilities due to the CPI shareholders. Shurgard also settled an option it had to acquire an interest on a property owned by them and recorded a gain on that option of approximately $555,000. The net consideration Shurgard issued in these transactions was approximately $10.4 million and consisted of 127,684 shares of common stock ($5.5 million) and cash ($4.9 million). The amount of the consideration allocated to storage centers and related assets was $9.8 million. Shurgard also agreed to provide the sellers of CPI, at their request, a line of credit collateralized by the stock issued in the acquisition for up to 50% of the value of such stock for a term not to exceed 13 months with monthly interest payable at prime. Shurgard has made no advances under this facility.

Also in the second quarter of 2005, Shurgard contributed three storage centers in California to a joint venture. The development manager of these storage centers contributed an additional storage center in California (subject to a mortgage due to Shurgard) to the venture. Shurgard cancelled the mortgage on that storage center and received an approximate 85% interest in the venture; its partner received an approximate 15% interest in the venture. Shurgard consolidates this joint venture in its financial statements.

In 2004, Shurgard purchased seven storage centers: one in North Carolina for $6.3 million (including $376,000 paid to secure a non-competition agreement), and another two in California for $5.2 million and $8.8 million in two separate transactions. Shurgard also acquired one in each of Indiana and New Jersey and two in New York for an aggregate of $10.8 million plus $17.4 million of assumed debt.

Domestic Development

Shurgard s investment strategy includes development of new storage centers in markets in which it currently operates and those it has identified as underserved with high barriers to entry. Shurgard normally projects new storage properties to rent up at a rate between 3% and 4% per month. Shurgard s current development portfolio is

182

Table of Contents

renting up at an average of 4.1% per month. Shurgard can give no assurance that the pace of rent up noted above regarding the development projects will continue. Actual occupancy levels and rates could be lower if Shurgard experience competition from other self-storage properties and other storage alternatives located in close proximity to its developments.

The following table summarizes key operating data from Shurgard s domestic developments in 2004, 2005, and the first three months of 2006:

	Number of Properties	Total Storage Center Cost (1) (in millions)	Total Net Rentable square feet	Average Occupancy Three months ended, 3/31/2006	Average Occupancy Three months ended, 3/31/2005	Average Annual Rent (per sq. ft) (2) Three months ended, 3/31/2006	Average Annual Rent (per sq. ft) (2) Three months ended, 3/31/2005
Developments in 2006		$				$	$
Developments in 2005	3	11.1	156,000	62%		18.27	
Developments in 2004	9	47.2	507,000	75%	53%	14.08	11.15
Development total	12	$ 58.3	663,000	72%	53%	$ 14.93	$ 11.15

	Segment Revenue Three months ended, 3/31/2006 (in thousands)	Segment Revenue Three months ended, 3/31/2005 (in thousands)	NOI (after leasehold expense) Three months ended, 3/31/2006 (in thousands)	NOI (after leasehold expense) Three months ended, 3/31/2005 (in thousands)
Developments in 2006	$	$	$	$
Developments in 2005	505		79	
Developments in 2004	1,443	592	714	44
Development total	$ 1,948	$ 592	$ 793	$ 44

(1) Total costs capitalized to storage centers since the store was acquired or developed.
(2) Average annual rent per square foot is calculated by dividing actual rent collected by the average number of square feet occupied during the period. On the year of opening, the average annual rent is lower as the store has not been opened a full year.

Shurgard had no new developments in the first quarter of 2006.

In 2005, Shurgard opened one new storage center in California and one in Oregon in the third quarter and one storage center in Florida in the fourth quarter. The Oregon storage center is a redevelopment at a site where it had torn down an older facility in October 2004. The California storage center is under an operating lease. Those storage centers had an average occupancy of 68% at March 31, 2006, after being opened an average of seven months.

In 2004, Shurgard opened nine new storage centers: two in California and one each in: North Carolina, Michigan, New Jersey, Washington, Pennsylvania, Texas and Colorado. The 2004 developments were open an average of 22 months and had an average occupancy of 76% at March 31, 2006. Most stores are renting up as anticipated except one in Michigan and one in North Carolina that are renting up more slowly than expected. Shurgard believes the slow rent up in Michigan is primarily due to the economic slowdown in that state.

Table of Contents

Domestic Development and Redevelopment Projects Under Construction

In addition to the operating properties discussed in Segment Performance, Shurgard has properties under construction or pending construction and various redevelopment projects on existing properties. The following table summarizes the domestic properties under construction as of March 31, 2006:

	Number of Projects	Estimated Completed Cost of Projects(1)	Total Cost to Date as of March 31, 2006
		(dollars in millions)	
Developments:			
Construction in progress	8	$ 63.2	$ 41.0
Land purchased pending construction (2)	3	18.7	5.9
Total Developments	11	81.9	46.9
Redevelopment projects:			
Construction in progress	4	12.3	4.4
Total	15	$ 94.2	$ 51.3

(1) The actual completed cost of these projects could vary due to delays during construction caused by weather, unforeseen site conditions, labor shortages, personnel turnover, scheduling problems with contractors, subcontractors or suppliers, or resource constraints. (See *Risk Factors Risks Relating to Shurgard s Business.*)

(2) In May 2006, Shurgard abandoned one project for which it had acquired land of $0.9 million.

European Same Store

The following tables summarize the performance of European Same Store for the three-month periods ended March 31, 2006 and 2005. European Same Store includes properties located in all of the European markets in which Shurgard operates.

European Same Store comparison by market	Number of Properties	Q1 2006 Average Occupancy	Occupancy at March 31, 2006	Percent change compared to prior year quarter: Segment Revenue	NOI (after leasehold expenses)	Occupancy	Rate
Belgium	18	78%	79%	9.7%	(7.7%)	9.5%	(0.2%)(a)
Netherlands	29	77%	78%	24.3%	72.1%	30.7%	(4.2%)(b)
Germany	5	62%	64%	35.7%	N/A	50.5%	(9.1%)(b)
France	30	80%	80%	15.4%	50.7%	13.8%	0.7% (c)
Sweden	22	86%	88%	21.6%	37.2%	17.4%	4.4%
Denmark	5	90%	92%	21.3%	47.9%	11.2%	8.9%
United Kingdom	14	78%	77%	17.0%	22.9%	14.4%	2.9%
Europe Totals	123	80%	80%	18.4%	38.2%	17.6%	0.6%

(a) The decrease in NOI is primarily due to significantly higher advertising expenses incurred in relation with a marketing campaign in the first quarter of 2006.

(b) Shurgard adjusted its rates downwards in order to improve occupancy.

(c) The significant increase in NOI is primarily due to a combination of higher revenue and lower marketing expenses.

184

Table of Contents

Same Store Results (1)	For the three months ended March 31, 2006	2005	% Change
	(dollars in thousands except average rent)		
Segment revenue	$ 32,123	$ 27,134	18.4% (a)
Operating expense:			
Personnel expenses	4,638	4,117	12.7% (b)
Real estate taxes	1,536	1,384	11.0% (c)
Repairs and maintenance	995	1,073	(7.3%)
Marketing expense	2,281	2,900	(21.3%)(d)
Utilities and phone expenses	1,041	1,040	0.1%
Cost of goods sold	1,069	951	12.4% (e)
Store admin and other expenses	2,363	2,424	(2.5%)
Direct operating and real estate tax expense	13,923	13,889	0.2%
NOI	18,200	13,245	37.4%
Leasehold expense	654	548	19.3%
NOI after leasehold expense	17,546	12,697	38.2% (f)
Indirect operating expense (2)	2,637	4,131	(36.2%)(g)
NOI after indirect operating and leasehold expense	$ 14,909	$ 8,566	74.0%
Avg. annual rent per sq. ft. (3)	$ 21.93	$ 21.80	0.6%
Avg. sq. ft. occupancy	80%	68%	17.6%
Total net rentable sq. ft.	6,655,000	6,655,000	
Number of properties	123	123	

(1) Amounts for both quarters have been translated from local currencies to U.S. dollars at a constant exchange rate $1.20 to the euro (the average exchange rate for the first quarter of 2006).

(2) Indirect operating expense includes certain shared property costs such as regional management, national contracts, personnel and marketing, as well as certain overhead costs allocated to property operations such as business information technology, human resources and accounting. Indirect operating expenses do not include internal real estate acquisition costs or abandoned development expense. Indirect operating expense is allocated to storage centers based on number of months in operation during the period.

(3) Average annual rent per square foot is calculated by dividing actual rent collected by the average number of square feet occupied during the period.

(a) Revenue increased at constant exchange rates, primarily as a result of increases in occupancy that were achieved through heightened marketing, better pricing management and improved retention of existing customers. When the 27 most recent additions to the Same Store pool are excluded from this analysis the remaining 96 stores in the pool generated growth in revenue of approximately 14%.

(b) Personnel expenses increased during the first quarter due to an increase of expenses for the stock appreciation rights plan and an increase in bonuses due to improved financial results in 2006.

(c) Real estate taxes increased due to a tax credit in the United Kingdom received in the first quarter of 2005.

(d) Marketing expenses decreased reflecting economies of scale and the focus placed on the New Stores portfolio in the first quarter 2006.

(e) Cost of goods sold increased due to higher retail sales.

(f) When the 27 most recent additions to the Same Store pool are excluded from this analysis the remaining 96 stores in the pool generated growth in NOI after leasehold expenses of approximately 26%.

(g) Indirect expenses decreased as a result of the reorganization initiated in the second quarter of 2005. Also the growth in Shurgard s New Store portfolio resulted in a higher allocation of indirect expenses to its New Stores.

185

Table of Contents

Shurgard presents its segment results above at constant exchange rate in order to facilitate comparison between reported periods, whereas results are recognized in its statements of income at each period s respective rates. The following table presents a reconciliation of the European Same Store results for the three-month period ended March 31, 2005, translated to U.S. dollars at a constant exchange rate to Same Store results translated at the average exchange rate. Each of the categories presented is reconciled in Note 16 to Shurgard s condensed consolidated financial statements for the three months ended March 31, 2006.

Three months ended March 31, 2005	Same Store (1)	Exchange Difference	Total (2)
Segment revenue	$ 27,134	$ 2,583	$ 29,717
Direct operating and real estate tax expense	13,889	1,320	15,209
NOI	13,245	1,263	14,508
Leasehold expense	548	54	602
NOI after leasehold expense	12,697	1,209	13,906
Indirect operating expense	4,131	376	4,507
NOI after indirect and leasehold expense	$ 8,566	$ 833	$ 9,399

(1) Amounts are translated from local currencies to U.S. dollars using the average exchange rate for the first quarter of 2006.
(2) Amounts are translated from local currencies to U.S. dollars using the average exchange rate for the first quarter of 2005 for the purpose of reconciliation with the condensed consolidated financial statements.

European New Store

The following table summarizes European New Store operating performance as defined at March 31, 2006:

European New Store Results (1)	Developments Three months ended March 31, 2006	Developments Three months ended March 31, 2005	Acquisitions Three months ended March 31, 2006	Acquisitions Three months ended March 31, 2005	New Store Three months ended March 31, 2006	New Store Three months ended March 31, 2005
			(dollars in thousands)			
Segment revenue	$ 2,388	$ 661	$ 1,126	$	$ 3,514	$ 661
Direct operating and real estate tax expense	3,289	1,517	714		4,003	1,517
NOI	(901)	(856)	412		(489)	(856)
Leasehold expense	90		227		317	
NOI after leasehold expense	(991)	(856)	185		(806)	(856)
Indirect operating expense (2)	714	528	143		857	528
NOI after indirect operating and leasehold expense	$ (1,705)	$ (1,384)	$ 42	$	$ (1,663)	$ (1,384)
Avg. sq. ft. occupancy	33%	8%	74%		41%	8%
No. of properties	26	12	9		35	12

(1) Amounts for both years have been translated from local currencies at a constant exchange rate using the average exchange rate for the first quarter of 2006.
(2) Indirect operating expense includes certain shared property costs such as regional management, national contracts, personnel and marketing, as well as certain overhead costs allocated to property operations such as business information technology, human resources and accounting. Indirect operating expense does not include internal real estate acquisition cost or abandoned development expense.

Indirect operating expense is allocated to storage centers based on number of months in operation during the period.
On January 23, 2006, Shurgard s subsidiary Second Shurgard completed the acquisition of 3S Self-Storage Systems SAS a company that operates nine self-storage facilities in various metropolitan areas in France where

186

Table of Contents

Shurgard already has operating properties. 3S Self-Storage Systems SAS owns six of the facilities and leases the other three under operating leases. One of the facilities is held for sale and is not included in the above operating performance results. Shurgard completed the acquisition through its 20% owned Second Shurgard subsidiary for total cash consideration and acquisition costs of approximately $47.4 million. Shurgard financed the acquisition with $20.0 million from draws on Second Shurgard s credit facility and the remainder with Second Shurgard s cash from equity contributions provided by Shurgard and its 80% joint venture partner.

On March 31, 2006, Shurgard s subsidiary Second Shurgard completed the acquisition of one single storage center in France for $3.1 million.

Shurgard presents its segment results above at constant exchange rate in order to facilitate comparison between reported periods, whereas results are recognized in its statements of income at each period s respective rates. The following table presents a reconciliation of the European New Store results for the three-month period ended March 31, 2005 translated to U.S. dollars at a constant exchange rate to New Store results translated at average exchange rate. Each of the categories presented is reconciled in Note 16 to Shurgard s condensed consolidated financial statements for the three months ended March 31, 2006.

Three months ended March 31, 2005	New Store (1)	Exchange Difference (in thousands)	Total (2)
Segment revenue	$ 661	$ 60	$ 721
Direct operating and real estate tax expense	1,517	136	1,653
NOI	(856)	(76)	(932)
Leasehold expense			
NOI after leasehold expense	(856)	(76)	(932)
Indirect operating expense	528	48	576
NOI after indirect and leasehold expense	$ (1,384)	$ (124)	$ (1,508)

(1) Amounts are translated from local currencies to U.S. dollars using the average exchange rate for the first quarter of 2006.

(2) Amounts are translated from local currencies to U.S. dollars using the average exchange rate for the first quarter of 2005 for purpose of reconciliation with the condensed consolidated financial statements.

187

Table of Contents

European Developments and Acquisitions

The following table summarizes European developments opened through March 31, 2006 (and acquisitions completed in the first quarter of 2006, as well as a one store acquisition during the third quarter of 2004) by country:

New store:	Number of Properties	Storage Center Cost Development Cost (1) (in millions)	Storage Center Cost Total Cost (2) (in millions)	Total Net Rentable sq. ft.	Average Occupancy For the three months ended March 31, 2006	Average Occupancy For the three months ended March 31, 2005	Average Annual Rent (per sq. ft) (3) (4) For the three months ended March 31, 2006	Average Annual Rent (per sq. ft) (3) (4) For the three months ended March 31, 2005
Opened in 2006								
France	9	$ 45.8	$ 45.8	378,000	73.7%		$ 16.36	$
Total opened in 2006	9	$ 45.8	$ 45.8	378,000	73.7%		$ 16.36	$
Opened in 2005								
Belgium	1	$ 6.5	$ 6.5	55,000	13.0%		$ 14.51	$
Netherlands	3	12.1	12.1	143,000	15.5%		16.51	
Germany	2	11.9	12.0	92,000	18.2%		17.04	
France	5	39.2	39.4	291,000	17.6%		17.65	
Denmark	1	7.5	7.5	50,000	36.3%		20.38	
United Kingdom	2	20.3	20.5	80,000	31.1%		33.72	
Total opened in 2005 (a)	14	$ 97.5	$ 98.0	711,000	19.7%		$ 20.44	$
Developed in 2004								
Germany	4	$ 25.9	$ 26.1	196,000	52.3%	21.1%	$ 16.97	$ 17.86
France	4	23.7	24.0	220,000	39.9%	12.0%	18.37	20.98
Denmark	2	14.2	14.3	99,000	70.6%	34.3%	20.24	19.96
United Kingdom	2	15.8	15.9	50,000	40.5%	6.6%	38.14	45.94
Total developed in 2004 (b)	12	$ 79.6	$ 80.3	565,000	49.7%	18.0%	$ 19.75	$ 20.74
New Store Total	35	$ 222.9	$ 224.1	1,654,000	41.4%	8.3%	$ 18.65	$ 20.74
Same store:								
Acquired in 2004								
United Kingdom	1	$ 14.6	$ 14.9	38,000	78.0%	78.0%	$ 54.58	$ 50.06
Total acquired in 2004	1	$ 14.6	$ 14.9	38,000	78.0%	78.0%	$ 54.58	$ 50.06
Opened in 2003								
Belgium	1	$ 3.4	$ 4.7	45,000	83.2%	62.7%	$ 15.83	$ 15.30
Netherlands	7	38.4	40.9	351,000	74.5%	43.9%	19.30	20.81
Germany	5	33.9	34.2	262,000	62.3%	41.4%	13.47	14.82
France	7	42.3	45.8	378,000	69.3%	42.0%	18.86	21.35
Sweden	2	11.1	14.0	93,000	82.6%	54.5%	17.52	17.32
Denmark	1	7.6	10.2	50,000	96.5%	87.8%	24.87	22.55
United Kingdom	3	31.3	40.5	151,000	73.3%	48.6%	35.95	39.20
Total opened in 2003	26	$ 168.0	$ 190.3	1,330,000	72.2%	46.4%	$ 20.12	$ 21.65

188

Table of Contents

New store:	Number of Properties	Storage Center Cost Development Cost (1) (in millions)	Total Cost (2)	Total Net Rentable sq. ft.	Average Occupancy For the three months ended March 31, 2006	2005	Average Annual Rent (per sq. ft.) (3) (4) For the three months ended March 31, 2006	2005
Opened in 2002 and before								
Belgium	17	$ 76.0	$ 112.2	995,000	78.2%	72.1%	$ 15.83	$ 15.87
Netherlands	22	114.0	167.4	1,177,000	78.4%	63.9%	20.38	21.06
France	23	130.4	193.3	1,234,000	83.7%	79.2%	24.09	23.12
Sweden	20	106.3	163.0	1,128,000	86.8%	75.2%	20.47	19.53
Denmark	4	27.2	39.1	211,000	88.3%	79.2%	22.88	21.08
United Kingdom	10	97.5	146.6	542,000	78.9%	72.8%	35.94	34.19
Total opened before 2003	96	$ 551.4	$ 821.6	5,287,000	81.8%	72.9%	$ 22.11	$ 21.61
Same Store Total (c)	123	$ 734.0	$ 1,026.8	6,655,000	79.9%	67.6%	$ 21.93	$ 21.80

	Segment Revenue (3) For the three months ended March 31, 2006 (in thousands)	2005	NOI (3) (after leasehold expense) For the three months ended March 31, 2006 (in thousands)	2005
New store:				
Opened in 2006				
France	$ 1,126	$	$ 182	$
Total opened in 2006	$ 1,126	$	$ 182	$
Opened in 2005				
Belgium	$ 30	$	$ (107)	$
Netherlands	110		(497)	
Germany	82		(139)	(15)
France	271		(319)	
Denmark	112		(14)	(43)
United Kingdom	238		(55)	(50)
Total opened in 2005 (a)	$ 843	$	$ (1,131)	$ (108)
Developed in 2004				
Germany	$ 464	$ 203	$ (2)	$ (276)
France	464	165	25	(299)
Denmark	399	211	159	(29)
United Kingdom	218	82	(39)	(144)
Total developed in 2004 (b)	$ 1,545	$ 661	$ 143	$ (748)
New Store Total	$ 3,514	$ 661	$ (806)	$ (856)

189

	Segment Revenue (3) For the three months ended March 31, 2006	2005	NOI (3) (after leasehold expense) For the three months ended March 31, 2006	2005
	(in thousands)		(in thousands)	
Same store:				
Acquired in 2004				
United Kingdom	$ 416	$ 379	$ 250	$ 246
Total acquired in 2004	$ 416	$ 379	$ 250	$ 246
Opened in 2003				
Belgium	$ 166	$ 117	$ 43	$ 44
Netherlands	1,340	844	598	18
Germany	590	435	98	(52)
France	1,402	951	622	78
Sweden	382	264	176	59
Denmark	329	266	190	133
United Kingdom	1,081	797	601	312
Total opened in 2003	$ 5,290	$ 3,674	$ 2,328	$ 592
Opened in 2002 and before				
Belgium	$ 3,412	$ 3,143	$ 1,653	$ 1,793
Netherlands	5,014	4,268	2,768	1,938
France	7,037	6,365	4,121	3,072
Sweden	5,618	4,671	3,291	2,467
Denmark	1,165	966	663	444
United Kingdom	4,171	3,668	2,472	2,145
Total opened before 2003	$ 26,417	$ 23,081	$ 14,968	$ 11,859
Same Store Total (c)	$ 32,123	$ 27,134	$ 17,546	$ 12,697

(1) Development cost of these projects is reported in U.S. dollars translated at the March 31, 2006 exchange rate of $1.21 to the euro. Operating results (see note (3) below) are reported at the average exchange rate for the first quarter ended March 31, 2006, which was $1.20 to the euro. To the extent these exchange rates differ, Shurgard believes this data does not allow for an accurate measure of property investment yield. Shurgard believes the application of a constant exchange rate to both the property cost and operating results may provide a more meaningful measure of investment yield. The cost of the storage centers exclude the excess cost of approximately $294 million Shurgard paid for ownership interests acquired in Shurgard Europe in 2003 and 2005.

(2) Total storage center cost includes all cost capitalized to storage centers since the store was acquired or developed. The costs are reported in U.S. dollars translated at the March 31, 2006 exchange rate of $1.21 to the euro. Operating results (see note (3) below) are reported at the average exchange rate for the first quarter ended March 31, 2006, which was $1.20 to the euro. To the extent these exchange rates differ, Shurgard believes it does not allow for an accurate measure of property investment yield. Shurgard believes the application of a constant exchange rate to both the property cost and operating results may provide a more meaningful measure of investment yield.

(3) The amounts have been translated from local currencies at a constant exchange rate using the average exchange rate for the first quarter of 2006.

(4) Average annual rent per square foot is calculated by dividing actual rent collected by the average number of square feet occupied during the period. The average annual rent is lower in the first year of operations as the store has not been opened a full year.

Table of Contents

Shurgard s storage centers are renting up in all markets, based on continued targeted marketing and training initiatives launched in 2004 and improvements to its price management, including when necessary reducing rental rates to support occupancy growth. Shurgard believes these initiatives are continuing to generate positive results since the end of the first quarter of 2005, as illustrated by the improvement in occupancy rates as follows:

(a) The storage centers opened in 2005 had an average occupancy of 27.5% as of March 31, 2006, after an average of 7 months of operations.

(b) The storage centers developed in 2004 had an average occupancy of 53.6% as of March 31, 2006, after an average of 19 months of operations. In 2004, Shurgard developed one store in Shurgard Europe and 11 developments through First Shurgard and Second Shurgard, six of which opened in the fourth quarter.

(c) The storage centers included in Same Store had an average occupancy of 80.3% as of March 31, 2006.

European Developments Under Construction

The following table summarizes European development projects in progress at March 31, 2006. As of March 31, 2006, Shurgard was developing all European storage centers through Shurgard Europe s joint ventures:

	Number of Projects	First Shurgard and Second Shurgard Estimated Completed Cost of Projects (1)	Total Cost to Date as of March 31, 2006
		(dollars in millions)	
Construction in Progress			
France	1	$ 7.2	$ 2.9
Sweden	1	6.5	4.5
United Kingdom	1	11.4	6.7
	3	25.1	14.1
Land purchased pending construction			
France	2	$ 18.4	$ 8.2
United Kingdom	1	7.2	3.3
	3	25.6	11.5
Total	6	$ 50.7	$ 25.6

(1) The actual completed cost of projects could vary due to delays during construction caused by weather, unforeseen site conditions, labor shortages, personnel turnover, scheduling problems with contractors, subcontractors or suppliers, or resource constraints. (See *Risk Factors Risks Relating to Shurgard s Business.*)

Shurgard s Funds from Operations as of March 31, 2006

Shurgard uses Funds from Operations (FFO) in addition to net earnings to report its operating results. Shurgard uses the definition of FFO adopted by the National Association of Real Estate Investment Trusts (NAREIT). Accordingly, FFO is defined as net income (computed in accordance with GAAP), excluding gains (losses) on dispositions of interests in depreciated operating properties and real estate depreciation and amortization expenses. FFO includes its share of FFO of unconsolidated real estate ventures and discontinued operations and excludes minority interests in real estate depreciation and amortization expenses. Shurgard believes FFO is a meaningful disclosure as a supplement to net earnings because net earnings assumes that the values of real estate assets diminish predictably over time as reflected through depreciation and amortization expenses. Shurgard believes that the values of real estate assets fluctuate due to market conditions. Shurgard s calculation of FFO may not be comparable to similarly titled measures reported by other companies because not

191

Table of Contents

all companies calculate FFO in the same manner. FFO is not a liquidity measure and should not be considered as an alternative to cash flows or indicative of cash available for distribution. It also should not be considered an alternative to net income, as determined in accordance with U.S. GAAP, as an indication of the company s financial performance.

The following table sets forth the calculation of FFO in accordance with the NAREIT definition:

	For the three months ended March 31,	
	2006	2005
	(in thousands)	
Net income	$ 5,059	$ 5,256
Depreciation and amortization (1)	22,271	19,723
Loss (gain) on sale of operating properties (2)	82	(6,423)
Cumulative effect of change in accounting principle	200	
FFO	27,612	18,556
Preferred dividends and other (3)	(3,037)	(3,042)
FFO attributable to common shareholders	$ 24,575	$ 15,514

(1) Excludes depreciation related to non-real estate assets and minority interests in depreciation and amortization and includes depreciation and amortization of discontinued operations.

(2) Shurgard has included in FFO net gains of sale of land and non-real estate operating assets of approximately $110,000 for the three-month period ended March 31, 2006, and net losses of $10,000 for the three-month period ended March 31, 2005. Additionally, Shurgard has included in FFO income from discontinued operations of $68,000 and $216,000 for the three-month periods ended March 31, 2006 and 2005, respectively.

(3) Net of impact of antidilutive securities.

Shurgard s Off Balance Sheet Arrangements as of March 31, 2006

Shurgard had no off balance sheet arrangements as of March 31, 2006.

Shurgard s Related Party Affiliation as of March 31, 2006

Charles K. Barbo, the chairman of the Shurgard board of directors, indirectly owns a 0.5% ownership interest in a limited partnership known as Shurgard Institutional Fund L.P. I, a consolidated subsidiary of Shurgard. Shurgard owns a 99% interest in this entity.

Shurgard s Financial Condition, Liquidity and Capital Resources as of March 31, 2006

Shurgard s primary cash requirements are for payments of operating expenses, debt service, dividends on common and preferred stock, expansions and improvements to existing properties, and acquisitions and developments of new properties. Shurgard believes that its liquidity and capital resources are adequate for its near-term and longer- term requirements. Shurgard had cash and cash equivalents of $36.6 million at March 31, 2006, and $39.8 million at December 31, 2005. As of March 31, 2006, it had $79.3 million available under its domestic revolving line of credit compared to $116.5 million as of December 31, 2005.

As a REIT, Shurgard s ability to retain cash flow for reinvestment is restricted. In order for us to qualify as a REIT for federal income tax purposes, Shurgard is required, among other things, to make distributions to its shareholders of at least 90% of its REIT taxable income. During the three months ended March 31, 2006 and 2005, Shurgard distributed $32.3 million and $28.6 million, respectively, to its shareholders. Shurgard expects to use its cash flow from operating activities for distributions to shareholders. Amounts accumulated in the interim period between distributions are used to temporarily repay amounts outstanding under its line of credit or invested short-term.

192

Up until 2004, Shurgard relied primarily on the public debt and equity markets for its long-term financing. Because Shurgard did not file a fully compliant annual report on Form 10-K for 2004 until October 14, 2005, it is not eligible to access the public capital markets to raise equity or debt capital using a short-form registration statement on Form S-3 until November of 2006. Shurgard has traditionally used proceeds from borrowings under its credit facilities to fund its property development and acquisition requirements. Shurgard has also used these proceeds to repay maturing corporate or mortgage debt and for other corporate purposes. Although Shurgard used to subsequently repay these borrowings with proceeds from public debt and equity offerings, it currently anticipates utilizing its credit facilities, which mature in February of 2008.

Shurgard believes that the development joint venture structure provides several advantages to Shurgard Europe at this stage in its growth. It allows Shurgard Europe to expand the Shurgard brand with less capital and, therefore, represents a more efficient use of its capital. Even if Shurgard Europe does not ultimately acquire the properties developed by the joint venture, the development and management fees provide it with a stable source of income. Currently, Shurgard employs a joint venture development strategy that is funded approximately 42% through equity and the remainder through debt financing. Shurgard has a 20% ownership interest in the related joint ventures. Shurgard raises the balance needed through credit facilities collateralized by the properties of the ventures.

The following table summarizes certain information regarding Shurgard s liquidity and capital resources:

Shurgard s contractual cash obligations and construction cost commitments are summarized as follows at March 31, 2006:

	2006	2007	2008	2009 (in thousands)	2010	Thereafter	Total
Debt:							
Scheduled principal payments	$ 4,603	$ 10,361	$ 5,433	$ 3,039	$ 3,170	$ 8,170	$ 34,776
Balloon Payments	3,828	54,435	848,618	71,860	7,444	916,324	1,902,509
Interest (1)	111,419	114,207	62,791	52,893	52,514	19,008	412,832
Capital lease obligations	412	638	650	663	615	34,627	37,605
Operating leases	9,328	10,682	8,657	7,931	7,290	151,408	195,296
Construction commitments							
Domestic	25,023						25,023
Shurgard Europe	185						185
First Shurgard	174	48	56	65			343
Second Shurgard	4,927	24	29				4,980
Commitments to lend	44	18					62
Commitment to purchase minority partners interests and property	5,200						5,200
Proposed merger advisory fees	12,900						12,900
Total	$ 178,043	$ 190,413	$ 926,234	$ 136,451	$ 71,033	$ 1,129,537	$ 2,631,711

(1) Projected interest is based on annual debt maturities and weighted-average interest rates on outstanding debt at the end of each year as well as a LIBOR and EURIBOR at March 31, 2006, of 4.80% and 2.65%, respectively, along with a forward yield curve for following years and the applicable margin to each debt.

Shurgard has a three-year unsecured domestic credit agreement with a group of banks, which includes a revolving credit facility to borrow up to $350 million and a $350 million term loan facility that mature in February 2008. The revolving credit facility can be extended for one year at Shurgard s option for a fee. As of March 31, 2006, the interest rate for Shurgard s credit facility was LIBOR plus 0.90% and the interest rate for its term loan facility was LIBOR plus 1.10%. These rates can range from LIBOR plus 0.60% to LIBOR plus 1.15%

Table of Contents

for the credit facility and from LIBOR plus 0.75% to LIBOR plus 1.50% for the term loan facility based on the ratings assigned to its senior unsecured long-term debt securities. As of March 31, 2006, Shurgard has borrowed the entire $350 million and no additional funds remained available for future borrowings under the term loan facility; under the revolving credit facility Shurgard had $270.7 million of borrowings outstanding and $79.3 million remained available for future borrowings. Shurgard can use borrowings under the revolving credit facility for various purposes, including project acquisition and development costs, repayment of debt and other corporate needs.

First Shurgard and Second Shurgard have senior credit agreements denominated in euros to borrow, in aggregate, up to 272.5 million ($329.1 million as of March 31, 2006). As of March 31, 2006, the available amount under those credit facilities was in aggregate 85.5 million ($103.3 million). Shurgard s draws under the First Shurgard and Second Shurgard credit facilities are determined on a development project basis and can be limited if the completion of projects is not timely or if Shurgard has certain cost overruns. Borrowings under both the First Shurgard and Second Shurgard credit facilities were such that they could only be used to fund property development costs of First Shurgard and Second Shurgard. In January 2006, Shurgard amended Second Shurgard s credit agreement such as to allow for borrowings for up to 21.9 million ($26.4 million as of March 31, 2006) to be used for an acquisition of existing self-storage properties including properties under capital leases. Shurgard expects that internally generated cash flows within Shurgard Europe will be sufficient to fund Shurgard Europe s on-going equity commitments to both First Shurgard and Second Shurgard.

Shurgard is continually evaluating sources of capital and believe they are available to meet its liquidity needs without necessitating sales of properties. In addition to Shurgard s cash and cash equivalents and availability under its credit facility, it has other sources of capital. It may sell operating properties if market conditions warrant in 2006. It may also contribute properties to joint ventures in exchange for interests in and cash distributions from those ventures. It may furthermore sell peripheral and other land parcels. In addition, most of Shurgard s domestic operating properties are unencumbered by mortgage debt. However, under the merger agreement Shurgard is required to obtain the consent of Public Storage before it enters into certain financing or investing agreement.

The following table summarizes Shurgard s cash flows activity:

	For the three months ended March 31, 2006	2005
	(in thousands)	
Net cash provided by operating activities	$ 6,010	$ 17,069
Net cash used in investing activities	(73,600)	(14,903)
Net cash provided by financing activities	64,056	1,296
Effect of exchange rate changes on cash and cash equivalents	372	(1,591)
(Decrease) increase in cash and cash equivalents	(3,162)	1,871
Cash and cash equivalents at beginning of period	39,778	50,277
Cash and cash equivalents at end of period	$ 36,616	$ 52,148

The decrease in cash provided by operating activities in 2006 was attributable primarily to the payments of $12.1 million of financial and legal advisory fees in connection with the proposed merger, of which $10.8 million was accrued during 2005.

Table of Contents

Investing

Cash used in investing activities in the first quarter of 2006 included:

- $49.4 million expended for acquisitions of European storage centers;
- $15.8 million invested in domestic new development, redevelopments and enhancements of existing storage centers; and
- $11.5 million invested for development and improvement of new European storage centers.

These expenditures were partially offset by $2.5 million of proceeds from the sale of parcels of excess land.

Cash used in investing activities in 2005 included:

- $24.5 million invested in new development and expansions of existing storage centers; and
- $3.0 million expended for acquisition of domestic storage centers.

These expenditures were partially offset by $13.2 million of proceeds from the sales of interests in operating storage centers.

Shurgard s acquisitions and developments in 2005 and 2006 in Europe were conducted through First Shurgard and Second Shurgard, which were financed primarily by borrowings on their credit facilities and by capital contributions by Shurgard and its joint venture partners.

Financing

Cash provided by financing activities in the first quarter of 2006 included:

- $23.6 million from capital contributions received primarily from partners in First Shurgard and Second Shurgard;
- $37.2 million of proceeds from net borrowings on Shurgard s domestic credit facilities; and
- $35.8 million of proceeds from borrowings on notes payable.

These cash proceeds were partially offset by distributions of $32.3 million on common and preferred stock.

Cash provided by financing activities in 2005 included:

- $4.3 million from capital contributions received primarily from partners in First Shurgard and Second Shurgard;
- $20.8 million of proceeds from net borrowings on Shurgard s domestic credit facilities; and

$20.2 million of proceeds from borrowings on First Shurgard and Second Shurgard credit facilities.

These cash proceeds were partially offset by distributions of $28.6 million on common and preferred stock.

Critical Accounting Policies and Estimates as of March 31, 2006

Shurgard s discussion and analysis of financial condition and operating results is based on its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). The preparation of these financial statements requires Shurgard to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as of the date of the financial statements and the amounts of revenues and expenses recognized during the reporting periods. Shurgard evaluates its assumptions and estimates on an on-going basis. Shurgard bases its estimates on experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Significant estimates include the evaluation of impairment of long-lived assets and goodwill, estimated lives of depreciable assets, valuation allowances for deferred tax assets and the allocation of purchase prices of acquired properties. Actual results may differ from these and other estimates under different assumptions or conditions. The interim financial statements assume that Shurgard continues as a separate public company and therefore do not reflect the effects of transactions or decisions that are contingent on the completion of the proposed merger.

Consolidated and unconsolidated subsidiaries. Shurgard consolidates all wholly-owned subsidiaries. Shurgard assesses whether its subsidiaries are Variable Interest Entities (VIEs) as defined by the Financial Accounting Standards Board s (FASB) Interpretation No. (FIN) 46R, Consolidation of Variable Interest Entities. Upon implementation of FIN 46R in January 1, 2005, Shurgard consolidated all VIEs of which it is the primary beneficiary. It evaluates partially-owned subsidiaries and joint ventures held in partnership form to determine whether rights held by other investors constitute substantive participating rights in accordance with Emerging Issues Task Force (EITF) Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights. For partially-owned subsidiaries or joint ventures held in corporate form (including limited liability companies with governance provisions that are the functional equivalent of regular corporations), Shurgard considers the guidance of Statement of Financial Accounting Standard (SFAS) No. 94, Consolidation of All Majority-Owned Subsidiaries an EITF Issue No. 96-16, Investor s Accounting for an Investee When the Investor has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights and, in particular, whether rights held by other investors would be viewed as participating rights as defined therein. To the extent that any minority investor has substantive participating rights, has the ability to dissolve a partnership or to remove the general partner without cause or has participating rights in a corporation, including substantive veto rights, the related entity will generally not be consolidated.

Revenue recognition. Shurgard recognizes rental revenue from the majority of its customers, who are under month-to-month lease agreements, at the contracted rate for each month occupied. Revenue related to customers who sign longer period leases is recognized ratably over the term of the lease. Revenues are presented net of provisions for doubtful accounts.

Storage centers. Shurgard records storage centers at cost unless circumstances indicate that it cannot recover the cost, in which case, the carrying value of the property is reduced to estimated fair value. Shurgard capitalizes acquisition, development and construction costs of properties in development that include, where applicable, salaries and related costs, real estate taxes, interest, lease expense and preconstruction costs directly related to the project. The preconstruction stage of development of a storage center (or redevelopment of an existing storage center) includes efforts to secure land control and zoning, to evaluate feasibility and to complete other initial tasks that are essential to development. Costs of preconstruction efforts incurred prior to projects being considered probable to be completed are charged as real estate development expenses as incurred. Shurgard records abandonment losses for previously capitalized costs of development projects when it assesses that the completion of the project is no longer probable. In a business combination, Shurgard also assesses the value of in-place lease intangibles, which are amortized to expense over the expected life of the leases. Using its best estimates based on reasonable and supportable assumptions and projections, Shurgard reviews storage centers for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of Shurgard s assets might not be recoverable. Fair values are determined based on estimated future cash flows using appropriate discount and capitalization rates. The estimation of expected future net cash flows is inherently uncertain and relies on assumptions regarding current and future market conditions. If impairment analysis assumptions change, then an adjustment to the carrying amount of Shurgard s long-lived assets could occur in the future period in which the assumptions change.

Goodwill. Shurgard tests goodwill for impairment annually and whenever events or circumstances make it more likely than not that impairment may have occurred, such as a significant adverse change in the business climate. To determine if there is impairment, Shurgard compares the carrying value of goodwill and its storage centers assets to the estimated fair market value of its Same Store portfolio storage centers. Shurgard uses common industry methods to assess the value of its portfolio and it estimates future cash flows based on the storage centers NOI and current market capitalization rates.

Derivatives. Gains or losses resulting from changes in the fair value of derivatives are recognized in earnings or recorded in other comprehensive income (loss), and subsequently recognized in the statement of earnings when the hedged item affects earnings, depending on the purpose of the derivatives and whether they qualify for hedge accounting treatment. Changes in the fair value of derivative instruments not designated as hedging instruments are recognized in earnings. Shurgard evaluates the effectiveness of designated hedges at inception and on a quarterly basis. Its main objective in using derivatives is to add stability to interest expense, to man age its exposure to interest rate movements and to reduce its various foreign currency risks. To accomplish these objectives, Shurgard uses interest rate swaps and caps as part of its cash flow hedging strategy and it uses the sale of forward contracts and the purchase of call options to reduce its foreign currency risks. Shurgard assesses the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction. The changes in the fair value of derivative instruments may materially affect net income.

Dispositions and financing arrangements. Shurgard accounts for sales of certain storage centers in which it has continuing involvement as financing arrangements. It uses the effective interest method based on estimated future cash flows in determining the amortization of participation rights. This estimate is evaluated each period and is sensitive to both amount and timing of cash flows, and projected purchase price. Estimated amount and timing of distributions is based on projected property operating cash flows. Estimated amount and timing of purchase price is based on projected stabilized NOI and Shurgard s estimate of when each property will reach stabilization. Shurgard periodically re-evaluates its estimate of the option price, the projected timing of its joint venture partner s exercise of its put option and the related expected cash flows. Changes are accounted for as a change in estimate, affecting gross participation rights and subsequent amortization of participation rights.

Real estate investment trust. As a REIT, Shurgard generally will not be subject to corporate level federal income taxes if minimum distribution, income, asset and shareholder tests are met. However, not all of its underlying entities are qualified REIT subsidiaries and may be subject to federal and state taxes, when applicable. In addition, foreign entities may also be subject to taxes of the host country. Shurgard is required to estimate an income tax provision on taxable income arising from its taxable REIT subsidiaries and foreign entities. A deferred tax component has arisen based on the differences in GAAP versus tax income for items such as depreciation and gain recognition.

Deferred tax assets. Shurgard has deferred tax assets resulting primarily from cumulative net operating losses arising in certain domestic taxable subsidiaries and in its European subsidiaries. It regularly evaluates both the positive and negative evidence that it believes is relevant in assessing whether the deferred tax assets will be realized. When Shurgard determines that it is more likely than not that it will not realize the tax asset either in part or in whole, a valuation allowance is provided. One significant factor representing negative evidence in the evaluation of whether deferred tax assets arising from cumulative net operating losses will be realized is historical taxable income or loss of the entity. In cases where a taxable entity has not demonstrated a history of achieving taxable income, this represents significant negative evidence in assessing whether Shurgard will realize the amounts and generally requires that it provide a valuation allowance.

Foreign currency translation. Shurgard s results of operations and financial position are affected by the fluctuations in the value of the euro, and to a lesser extent, other European currencies, against the U.S. dollar. Shurgard recognizes the foreign currency translation effects of exchange rate fluctuations on its European assets, liabilities and equity as a currency translation adjustment in other comprehensive income (loss). Shurgard includes gains and losses from for eign currency transactions, such as those resulting from the settlement of foreign receivables or payables on intercompany transactions, in net income. Also, Shurgard is exposed to

Table of Contents

foreign currency exchange risk related to intercompany debt with or between its European subsidiaries that are not denominated in the functional currency of the subsidiary or the investee. It recognizes the effects of foreign currency on such debt in net income when it expects to settle the debt, and in other comprehensive income when the debt is considered to be of a long-term investment nature.

Costs related to proposed merger with Public Storage. As of December 31, 2005, Shurgard had an accrued liability of $11.4 million for fees that were contingently due to its financial advisors in connection with the proposed merger with Public Storage and its review of strategic alternatives to such proposed merger. During the three months ended March 31, 2006, Shurgard paid $10.5 million of these fees plus out of pocket expenses, which became due upon entering into the merger agreement on March 6, 2006. Merger related expenses of $1.5 million recognized as incurred during the three months ended March 31, 2006, consisted of legal fees and reimbursements of expenses. As of March 31, 2006, Shurgard had commitments to pay its financial advisors additional success fees totaling $12.9 million, which it will recognize when incurred contingent on the consummation of the transaction.

Recent Accounting Pronouncements as of March 31, 2006

Effective January 1, 2006, Shurgard adopted the fair value recognition provisions of SFAS No. 123(R), Share-Based Payment, (SFAS 123R), to account for its stock-based compensation plan using the modified-prospective-transition method. Under that transition method, compensation costs recognized in the first quarter of 2006 include: (a) compensation cost for all share-based awards granted prior to, but not yet vested as of January 1, 2006, which is estimated in accordance with the original provisions of SFAS 123 for (i) equity awards (as defined in SFAS 123R) based on the grant-date fair value, and for (ii) liability awards based on the balance sheet date fair value, and (b) compensation cost for all share-based awards granted subsequent to January 1, 2006, based on the grant-date or balance sheet date fair value, as applicable, estimated in accordance with the provisions of SFAS 123R. Stock-based compensation expense recognized during the period is based on the value of the portion of stock-based payment awards that is ultimately expected to vest. Expense recognized in the first quarter of 2006, therefore, was reduced for estimated forfeitures. Estimated forfeitures are adjusted at least annually if actual forfeitures differ from those estimates. Results for prior periods have not been restated. Total stock-based compensation expense for the three months ended March 31, 2006 was $2.0 million, of which $0.9 million related to stock options, $0.6 million related to restricted stock and restricted stock units, and $0.5 million related to stock appreciation rights.

Prior to January 1, 2006, Shurgard accounted for its stock-based plans under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), and related Interpretations, as permitted by SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123). Stock-based compensation recognized in Shurgard s statement of income, prior to January 1, 2006, was based on the grant date fair value of restricted shares of Shurgard common stock, and the intrinsic value of stock options and stock appreciation rights granted to employees of its European subsidiary. Under APB 25, Shurgard did not recognize stock-based compensation cost related to stock options that had an exercise price equal to the market value of Shurgard common stock on the date of grant. Prior to adoption of SFAS 123R, the value of stock options was estimated for purposes of this pro forma disclosure using the Black-Scholes option-pricing formula and amortized to pro forma expense ratably over the options vesting periods. Pre-vesting forfeitures were recognized as incurred through cumulative reversal of previously reported compensation expense.

Subsequent Events

On May 5, 2006, our board of directors declared a first quarter dividend of $0.56 per common share payable, on June 15, 2006, to common shareholders of record as of June 2, 2006.

198

Table of Contents

Shurgard Management s Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2005

Shurgard Management s Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2005 has been revised to reflect the reclassification of two properties from held for sale to properties held for use during the three-month period ended March 31, 2006. There is no effect on Shurgard s previously reported net income, financial condition or cash flows.

Overview

Shurgard s Business

Shurgard owns, operates and develops self-storage properties in principal cities in the United States and Western Europe. As of December 31, 2005, Shurgard owned or leased, directly and through its subsidiaries and joint ventures, 633 properties containing approximately 39.8 million net rentable square feet. Shurgard is one of the largest self-storage property owners in the United States with a network of 484 storage centers, as of December 31, 2005, that generate 74% of its revenues. Shurgard is the largest self-storage owner in Europe with 149 storage centers located in seven countries that generate 26% of its revenues. Shurgard directly owns most of these properties and holds indirect interest in the others through its subsidiaries and joint ventures. Over the past few years, Shurgard has sought growth by increasing its investment in the European market and by improving the performance of its portfolio in the United States through redevelopment of its existing properties, and acquisition of new self-storage facilities. In 2005, Shurgard invested $92.5 million through its European joint ventures in new storage center developments; opened 14 new stores, adding 710,000 net rentable square feet to the European portfolio; and acquired its partner s remaining 12.77% interest in Shurgard Europe. Shurgard also completed major redevelopments of five properties in the United States, opened three new storage centers and acquired ten properties, adding approximately one million net rentable square feet to its domestic portfolio.

Shurgard s Operating Performance

Income from operations on a consolidated basis increased by $21.9 million, or 26%, to $106.5 million in 2005. This increase was due to strong growth in Shurgard s U.S. as well as its European Same Store and New Store segments. In 2005, consolidated NOI after indirect and leasehold expenses for Shurgard s U.S. Same Store segment improved by $9.3 million, or 5%, to $195.9 million, and for Shurgard s European Same Store segment by $9.1 million, or 27% (at constant exchange rates), to $45.0 million in 2005. In 2005, consolidated NOI after indirect and leasehold expenses improved for Shurgard s U.S. New Store segment by $9.5 million to $10.1 million, and its European New Store segment consolidated net operating losses after indirect and leasehold expenses improved by $5.5 million to $2.9 million in 2005.

Domestic operations. In the United States, Shurgard s operations in 2005 benefited from a strong economy and stable demand that have allowed Shurgard to increase prices while marginally improving occupancies. Compared with 2004, approximately one-third of Shurgard s $59.8 million storage center revenues growth in 2005 came from its Same Store portfolio in the United States; U.S. Same Store revenues increased $19.8 million, or 6%, to $329.0 million primarily driven by a 5% increase in Shurgard s average rental rates. Additionally, Shurgard s new storage centers opened in 2005 and 2004 are taking a shorter period of time compared to the past three years to reach rental stabilization, which Shurgard typically considers to be 85% occupancy. Shurgard attributes this to improvements in its selection of development sites, stronger focus on local marketing, heightened attention to operations and a favorable economy.

International operations. In Europe, Shurgard s Same Store average occupancy improved to 78% in 2005 compared to 71% in 2004 as a result of improving economic conditions as well as to changes in Shurgard s pricing strategy. For the fourth quarter of 2005, Shurgard s European Same Store portfolio achieved an average occupancy of 83% due primarily to strong performance in France, Sweden and Denmark. Rent-up of Shurgard s self-storage centers has taken longer than initially anticipated due to the lack of awareness of the product, slower than expected economic recovery and significant new supply in certain countries. In 2005, Shurgard reduced rates to attract new customers and as a result, European Same Store revenues increased $10.9 million, or 12%, and its consolidated Same Store NOI after indirect and leasehold expenses improved by $9.1 million. Upon completing the acquisition of the remaining minority interest in Shurgard Europe in June 2005, Shurgard realized existing opportunities for further integration of international and domestic operations. Shurgard strategically refocused its European development activities in core markets with proven product acceptance, while deferring further development of opportunity markets, where Shurgard still sees short-term demand lagging behind long-term potential. Strong Same Store and New Store NOI growth in 2005 in certain countries such as France, Sweden and the Netherlands allows Shurgard to rely on those markets to further develop the European portfolio.

Key Economic Factors Affecting Shurgard s Business

Self-Storage Operations. Shurgard s operating performance is affected primarily by the supply of and demand for self-storage space. Shurgard is operating in different competitive and economic environments in the United States and Europe. Whereas, self-storage is a commoditized product and a highly competitive industry in the United States, consumer awareness of self-storage is still emergent in Europe. Supply in the United States is estimated at over 41,000 self-storage facilities, which equate to more than 1.6 billion rentable square feet. The U.S. market is highly fragmented with the top ten operators managing less than a quarter of total net rentable square feet. By comparison, European self-storage is still in its infancy with less than 1,000 self-storage facilities across 13 Western European countries. While local competition has been increasing, Shurgard remains the single largest provider of self-storage services in Europe as of December 31, 2005.

In the United States, average self-storage industry rental rates going into 2005 declined gradually for the majority of unit sizes compared to 2004, while nation-wide self-storage occupancy levels remained firm in 2005. High demand in certain markets lifted occupancies as much as 6% in the Southeast and provided for modest rate increases. Accordingly, while market rates in early 2005 decreased, Shurgard realized a 5% increase in rental rates in its domestic Same Store segment, due largely to rate increases in its southeastern U.S. properties. Although Shurgard has not seen erosion of the rental rate gains it achieved in 2005, and pricing and occupancy levels in fact have remained unseasonably strong through the end of the fourth quarter of 2005, Shurgard does not expect such rate growth to be sustained at present occupancy levels in 2006 based on projections of changes in consumer spending.

In Europe, self-storage business conditions improved in France, the Netherlands, Sweden and Denmark. Advances were due primarily to increasing product demand and product awareness, accompanied in Sweden and Denmark by growing strength in the national economies. Economic stagnation in Belgium and Germany slowed self-storage business expansion plans in those countries. Market conditions in the United Kingdom were negatively impacted by a weakening economy combined with increasing self-storage supply and competition. European self-storage rental rates reversed trend during 2005: a decline in the first half of 2005 was driven by conscious rate moderation in an effort to increase occupancy. In the second half of the year, rental rates increased in stronger markets and for certain unit categories.

Real Estate Development. Supply of and demand for properties suitable for real estate development into self-storage facilities is affected by fluctuations in the overall and regional strength of the economy as well as by availability of capital for investment in real estate, which is largely influenced by fluctuations in long-term interest rates and returns from alternative investments.

In the United States, low interest rates and lower capitalization rates have contributed to a rise in the price that private and public investors are paying for acquiring existing self-storage facilities. In this environment, Shurgard has focused on acquisitions that it considers unique or strategic in nature. As Shurgard s development of new storage centers in the United States has slowed in recent years, during which quality opportunities have become more limited and construction prices have risen, Shurgard has placed renewed emphasis on realization of opportunities for improvement within its existing portfolio, particularly through redevelopment of older storage centers. Redevelopments allow Shurgard to capture demand for higher quality self-storage services and to compete better against the newer supply that Shurgard faces in certain markets. Shurgard expects redeveloped stores to generate higher returns on the capital invested and create new growth opportunities for its Same Stores. Increases in construction costs may affect Shurgard s ability to continue to develop or improve the existing properties cost effectively.

In Europe, Shurgard continues to develop new storage centers based on the availability of quality real estate at attractive prices. Shurgard currently conducts its developments through joint ventures in which it has 20% interests. From time to time, Shurgard considers expanding into additional European markets when it feels conditions are appropriate. Over the past two years, however, Shurgard has slowed its development to approximately 15 storage centers per year, compared to initially anticipated 25, in order to be more selective about expansion markets and the location of sites. Shurgard has repositioned its developments towards markets where penetration has proven to be successful. Shurgard has also encountered and expects it will continue to encounter difficulties in certain markets, such as in the United Kingdom, finding real estate that meets its investment criteria. Therefore, Shurgard has started to consider growth through acquisitions in Europe and completed a nine storage center acquisition in France in January 2006.

Based on its experience in the business, Shurgard has determined that most customers place a high value on convenience, such as the location of the storage center and ease of renting, access and moving. Consequently, Shurgard has elected to focus its investment activities in densely populated, high quality neighborhoods and offer high quality products and services. Shurgard believes a growing segment of prospective customers are willing to pay higher rates for these benefits. As a result, Shurgard has reconsidered its presence in certain markets that no longer meet its long-term strategic goals and Shurgard sold its investments in those markets when conditions were favorable.

Shurgard s Operational Initiatives

Shurgard believes that the supply and demand characteristics of the self-storage industry are defined by neighborhood trade areas that can range in size from one to five miles in radius. To manage the business effectively at any given location, Shurgard must be aware of the local dynamics of demand, pricing and competition within the applicable neighborhood trade area. To that end, Shurgard approaches the management of its business and portfolio on a decentralized basis by maintaining local management and marketing expertise in all its key markets. In the past two years, Shurgard has significantly increased management positions in its regional operations group. This has allowed Shurgard to improve the quality of service offered to customers, increase closing rates, improve rental rate management, and increase sales of retail services.

Shurgard takes a similar approach to the business in Europe where Shurgard has integrated a centralized European investment team and decentralized management teams made up almost entirely of local personnel in each of the countries where Shurgard invests. However, in an effort to reduce costs in 2005, Shurgard has started a restructuring of its European operations. Shurgard has increased synergies between countries and reduced the number of regional management positions.

Shurgard s Opportunities and Challenges

While the growth in Shurgard s operating expenses has been consistent with growth in revenues, increases in real estate development and administrative costs in 2005 negatively affected operating results. However, Shurgard expects real estate taxes in 2006 to increase faster than it has experienced in past years and energy expenses to increase significantly over 2005. In the United States, personnel costs have increased as Shurgard has increased wages and incentive bonuses paid to its store level employees in order to retain and attract more highly qualified personnel and motivate store managers through participation in targeted improvements in store level NOI. Other personnel costs have risen due to increased workmen s compensation claims and employee benefits.

In the past two years, Shurgard has incurred significant costs related to financial reporting compliance and improving its financial reporting processes. Those costs have started declining in the fourth quarter of 2005 and Shurgard expects them to further decline in 2006. In Europe, Shurgard has started undertaking cost reduction initiatives by consolidating certain departments, reducing the number of positions in certain countries.

On March 6, 2006, Shurgard entered into a merger agreement with Public Storage, that contemplates a merger whereby Shurgard will be merged with and into an indirect subsidiary of Public Storage. Each outstanding share of Shurgard s common stock will be converted into the right to receive 0.82 of a fully paid and non-assessable share of Public Storage common stock, and Shurgard expects to redeem its outstanding preferred stock in accordance with its respective terms. Public Storage will assume approximately $1.8 billion of Shurgard s debt. Holders of Shurgard s stock options, restricted stock units and shares of restricted stock will receive, subject to adjustments, options exercisable for shares of Public Storage common stock, restricted stock units and restricted shares of Public Storage common stock, respectively.

Shurgard s board of directors and the board of directors of Public Storage have approved the merger agreement. The proposed merger is subject to the approval of Shurgard s shareholders, the approval of Public Storage s shareholders regarding the issuance of shares of Public Storage stock to be used as merger consideration and other customary closing conditions.

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

This description of certain terms of the merger agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the merger agreement, a copy of which is attached hereto as Annex A. For a summary of selected material provisions of the merger agreement, see *The Merger Agreement.*

Shurgard s Critical Accounting Policies and Estimates as of December 31, 2005

Shurgard s discussion and analysis of financial condition and operating results is based on its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). The preparation of these financial statements requires Shurgard to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as of the date of the financial statements and the amounts of revenues and expenses recognized during the reporting periods. Shurgard evaluates its assumptions and estimates on an on-going basis. Shurgard bases its estimates on experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Significant estimates include the evaluation of impairment of long-lived assets and goodwill, estimated lives of depreciable assets, valuation allowances for deferred tax assets and the allocation of purchase prices of acquired properties. Actual results may differ from these and other estimates under different assumptions or conditions.

Consolidated and unconsolidated subsidiaries. Shurgard consolidates all wholly-owned subsidiaries. As of January 1, 2004, Shurgard adopted Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 46R, Consolidation of Variable Interest Entities, a revision to FIN 46. Under FIN 46R, a variable interest entity (VIE) must be consolidated by a company if that company is subject to a majority of the risk of loss from the VIEs activities or entitled to receive a majority of the entity s residual returns. Shurgard assesses whether its subsidiaries are VIEs and consolidates all VIEs of which it is the primary beneficiary. Partially-owned subsidiaries and joint ventures that are not VIEs are consolidated when Shurgard controls the entity, which could result from (i) the ability to elect a majority of the management committee, board of partners or similar authority, (ii) Shurgard being named as the managing investor of the entity, or (iii) Shurgard providing substantially all of the equity. In assessing the consolidation treatment of partially-owned entities, Shurgard also considers the nature of veto rights, if any, held by minority investors. To the extent that a minority investor has substantive veto rights over major decisions, the entity will generally not be consolidated. Entities not consolidated are generally accounted for under the equity method, as Shurgard typically has significant influence over unconsolidated subsidiaries and joint ventures. Under the equity method, Shurgard recognizes its proportionate share of earnings or losses based on its ownership interest and the profit allocation provisions of the entity.

Revenue recognition. Shurgard recognizes rental revenue from the majority of its customers, who are under month-to-month lease agreements, at the contracted rate for each month occupied. Revenue related to customers who sign longer period leases is recognized ratably over the term of the lease. Revenues are presented net of provisions for doubtful accounts.

Storage centers. Storage centers are recorded at cost unless circumstances indicate that cost cannot be recovered, in which case, the carrying value of the property is reduced to estimated fair value. Shurgard capitalizes acquisition, development and construction costs of properties in development that include, where applicable, salaries and related costs, real estate taxes, interest, lease expense and preconstruction costs directly related to the project. The preconstruction stage of development of a storage center (or redevelopment of an existing storage center) includes efforts to secure land control and zoning, to evaluate feasibility and to complete other initial tasks that are essential to development. Costs of preconstruction efforts incurred prior to projects being considered probable to be completed are charged as real estate development expenses as incurred. Shurgard records abandonment losses for previously capitalized costs of development projects when it assesses that the completion of the project is no longer probable. In a business combination, Shurgard also assesses the value of in-place lease intangibles, which are amortized to expense over the expected life of the leases. Using Shurgard s best estimates based on reasonable and supportable assumptions and projections, Shurgard reviews storage centers for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of assets might not be recoverable. Fair values are determined based on estimated future cash flows using appropriate discount and capitalization rates. The estimation of expected future net cash flows is inherently uncertain and relies on assumptions regarding current and future market conditions. If impairment analysis assumptions change, then an adjustment to the carrying amount of Shurgard s long-lived assets could occur in the future period in which the assumptions change.

Goodwill. Shurgard tests goodwill for impairment annually and whenever events or circumstances make it more likely than not that impairment may have occurred, such as a significant adverse change in the business climate. To determine if there is impairment, Shurgard compares the carrying value of goodwill and its storage centers assets to the estimated fair market value of its Same Store portfolio storage centers. Shurgard uses common industry methods to assess the value of its portfolio and it estimates future cash flows based on the storage centers NOI and current market capitalization rates.

Derivatives. Gains or losses resulting from changes in the fair value of derivatives are recognized in earnings or recorded in other comprehensive income (loss), and subsequently recognized in the statement of earnings when the hedged item affects earnings, depending on the purpose of the derivatives and whether they qualify for hedge accounting treatment. Changes in the fair value of derivative instruments not designated as hedging instruments are recognized in earnings. Shurgard evaluates the effectiveness of designated hedges at inception and on a quarterly basis. Shurgard s main objective in using derivatives is to add stability to interest expense, to manage its exposure to interest rate movements and to reduce its various foreign currency risks. To accomplish these objectives, Shurgard uses interest rate swaps and caps as part of its cash flow hedging strategy and uses the sale of forward contracts and the purchase of call options to reduce its foreign currency risks. Shurgard assesses the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction. The changes in the fair value of derivative instruments may materially affect net income.

Dispositions and financing arrangements. Shurgard accounts for sales of certain storage centers in which it has continuing involvement as financing arrangements. Shurgard uses the effective interest method based on estimated future cash flows in determining the amortization of participation rights. This estimate is evaluated each period and is sensitive to both amount and timing of cash flows, and projected purchase price. Estimated amount and timing of distributions is based on projected property operating cash flows. Estimated amount and timing of purchase price is based on projected stabilized NOI and Shurgard s estimate of when each property will reach stabilization. Shurgard periodically re-evaluates its estimate of the option price, the projected timing of its joint venture partner s exercise of their put option and the related expected cash flows. Changes are accounted for as a change in estimate, affecting gross participation rights and subsequent amortization of participation rights.

Real estate investment trust. As a REIT, Shurgard generally will not be subject to corporate level federal income taxes if minimum distribution, income, asset and shareholder tests are met. However, not all of Shurgard s underlying entities are qualified REIT subsidiaries and may be subject to federal and state taxes, when applicable. In addition, foreign entities may also be subject to taxes of the host country. An income tax provision is required to be estimated on Shurgard s taxable income arising from its taxable REIT subsidiaries and foreign entities. A deferred tax component has arisen based upon the differences in GAAP versus tax income for items such as depreciation and gain recognition.

Deferred tax assets. Shurgard has deferred tax assets resulting primarily from cumulative net operating losses arising in certain domestic taxable subsidiaries and in its European subsidiaries. Shurgard regularly evaluates both the positive and negative evidence that it believes is relevant in assessing whether the deferred tax assets will be realized. When Shurgard determines that it is more likely than not that it will not realize the tax asset either in part or in whole, a valuation allowance is provided. One significant factor representing negative evidence in the evaluation of whether deferred tax assets arising from cumulative net operating losses will be realized is historical taxable income or loss of the entity. In cases where a taxable entity has not demonstrated a history of achieving taxable income, this represents significant negative evidence in assessing whether the amounts will be realized and generally requires that Shurgard provide a valuation allowance.

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

In connection with Shurgard s exploration of strategic alternatives and its proposed merger with Public Storage, Shurgard entered into engagement letters with its financial advisors. Shurgard accrued combined minimum fee obligations under these agreements totaling $12 million in 2005 and expects to incur an additional $12 million of such fees in 2006, plus expense reimbursement. In addition, related to its exploration of strategic alternatives, Shurgard incurred $1.8 million in legal fees and expense reimbursements in 2005 and expects to incur an additional $5.0 million of such fees and expenses in connection with the proposed merger with Public Storage in 2006.

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

204

Table of Contents

Recent Accounting Pronouncements as of December 31, 2005

In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment, a revision of SFAS No. 123. This statement disallows APB Opinion No. 25 s intrinsic value method of accounting for share based compensation awards and generally requires entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the fair value of those awards as of their grant date. Shurgard will adopt the provisions of SFAS 123R as of January 1, 2006 using the modified prospective method. Under the modified prospective method, compensation cost is recognized beginning with the effective date for all share- based payments granted after the effective date and for the unamortized portion of all awards granted to employees prior to the effective date of SFAS No. 123R. Under SFAS No. 123R, Shurgard will recognize stock-based compensation expenses related to its stock option plans and its Employee Stock Purchase Plan that were previously only subject to disclosure. Under the terms of its proposed merger with Public Storage, all outstanding unvested stock options for common stock of Shurgard will become fully vested and exercisable immediately prior to consummation of the proposed merger and all shares of restricted stock will become fully vested immediately after consummation of the proposed merger.

In October 2005, the FASB issued FASB Staff Position (FSP) FAS 13-1, Accounting for Rental Costs Incurred during a Construction Period, which clarifies that rental costs incurred during the period of construction of an asset on leased property should not be capitalized; rather they should be recognized as rental expense in the same manner as rental costs incurred after the construction period. However, to the extent a lessee accounts for rental of real estate projects under SFAS No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, it should continue capitalizing rental costs. Shurgard leases under operating leases certain parcels of land and buildings on which Shurgard develops storage centers or performs certain construction improvements. Shurgard has historically capitalized rental costs during the construction period on such properties. Shurgard accounts for real estate projects involving its development and construction of self-storage facilities under SFAS No. 67; therefore, Shurgard does not believe that the adoption of this FSP will have an impact on Shurgard s financial position, operating results or cash flows.

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

Shurgard s Results of Operations for 2005, 2004 and 2003

Shurgard s financial statements include its European subsidiaries whose functional currency is the Euro. Accordingly, Shurgard s results of operations, financial position and cash flows are affected by fluctuations in the value of the Euro against the U.S. dollar. Shurgard translates assets and liabilities into U.S. dollars at the exchange rate in effect at the end of each period and statement of income accounts at the average exchange rate for each period. These exchange rates were as follows (in U.S. dollars per Euro):

	2005	2004
Closing rate as of December 31st	1.18	1.36
Average rate for the year	1.25	1.24

205

Table of Contents

Shurgard s Consolidated Statements of Operations for 2005 and 2004

Net income. Shurgard had net income of $11.7 million in 2005, compared to net income of $45.3 million in 2004. The decrease in net income is primarily due to higher interest expense and to fluctuations in foreign exchange rates. Additionally, increases in Shurgard s store operations results were more than offset by higher general, administrative and other expenses, costs related to Shurgard s exploration of strategic alternatives and real estate development expenses.

Total revenue. Total revenue increased by $59.6 million, or 14%, to $483.9 million, due primarily to higher rental rates for Shurgard s domestic storage centers, the growth in the number of stores and higher occupancy in Shurgard s European and domestic storage centers. See further discussion of storage center operations revenue in *Segment Analysis*.

Operating Expenses.

	2005	2004 (in thousands)	% Change
Direct store operating expenses	$ 186,880	$ 164,962	13.3%
Indirect operating and leasehold expense	44,026	39,237	12.2%
Other operating	2,100	7,181	(70.8)%
Operating expense	$ 233,006	$ 211,380	10.2%

Direct and indirect store operating expenses increased by $26.7 million, or 13% in 2005, compared to the prior year, primarily as a result of an increase in the number of storage centers and increases in personnel expenses, real estate taxes and utility expenses. See discussion of these expenses under *Segment Analysis*.

Real estate development expenses. Real estate development expenses of $10.0 million for 2005 increased $5.1 million compared to 2004. This increase resulted from less capitalization of costs, which was due primarily to a significant decrease in development activity relative to prior years and due to increasing efforts pursuing acquisitions, for which internal costs are not capitalized.

Depreciation and amortization. Depreciation and amortization of $95.7 million in 2005 increased $8.2 million, or 9%, compared to 2004. The increase is due primarily to storage center acquisitions and developments completed in late 2004 and in 2005.

Impairment and abandoned project expense. Abandoned project expense relates to previously capitalized costs of development projects that have been assessed as unlikely to be completed. Such losses totaled $2.9 million in 2005 and $2.8 million in 2004. Most of these losses were related to reassessments of projects in certain new markets in Europe; in particular Germany and France in 2005 and in Sweden in 2004. As Shurgard continues to try to penetrate new markets in Europe, it may continue to incur such losses. Shurgard also recorded impairment losses of approximately $420,000 in 2005 and $80,000 in 2004 related to changes in its estimates of the fair value of parcels of land it was holding for sale.

General, administrative and other expenses. General and administrative expenses of $35.3 million in 2005 increased $2.4 million, or 7%, compared to the same period in 2004. The major components of these expenses are as follows:

	2005	2004	% Change
	(in thousands)		
Personnel expenses	$ 13,855	$ 12,527	10.6%
Professional fees audit and consulting	11,172	9,975	12.0%
Restructuring and exit costs	2,465	2,264	8.9%
Other general and administrative	7,826	8,195	(4.5)%
General, administrative and other	$ 35,318	$ 32,961	7.2%

206

Table of Contents

Personnel expenses in 2005 increased primarily as a result of additional positions in Shurgard s financial reporting and accounting function and its information technology function. Professional fees audit and consulting consist of costs of consultants assisting Shurgard with its efforts to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and external audit fees. Such professional fees have increased significantly due to Shurgard s additional efforts during 2005 to comply with the requirements for both 2004 and 2005. Shurgard incurred $2.4 million in 2005 in connection with plans to restructure the management of Shurgard Europe. Shurgard continues to evaluate its management structure in Europe and may develop additional cost reduction plans for which it may incur additional restructuring expenses. In 2004, Shurgard recorded exit costs of $2.3 million in connection with the closing of its containerized storage business.

Costs related to takeover proposal and exploration of strategic alternatives. In 2005, Shurgard recorded $13.8 million in advisory and legal fees related to the takeover proposal that Shurgard s board of directors rejected in July 2005. In October 2005, Shurgard s board of directors authorized the exploration of strategic alternatives and Shurgard entered into a merger agreement with Public Storage on March 6, 2006.

Interest expense and amortization of participation rights discount. Interest expense of $105.6 million in 2005, increased $22.7 million, or 27%, compared to 2004. Interest expense in Europe increased $7.2 million for the year ended December 31, 2005, because Shurgard refinanced a variable rate credit facility with bonds that are swapped to a fixed rate and because its development joint ventures increased their borrowings by $69.2 million to finance on-going development projects. The remaining increase was due primarily to increased borrowings on Shurgard s line of credit and higher interest rates. At December 31, 2005, interest rates on Shurgard s line of credit and term loan were 2.1 percentage points higher than at December 31, 2004. In 2005, Shurgard borrowed an additional $186.2 million under its revolving credit and term loan facilities to finance its acquisition of the remaining interest in Shurgard Europe, property acquisitions, development and redevelopment projects. In 2004, Shurgard recognized a $1.1 million expense relating to the amortization of an estimated participation rights liability. Shurgard retired the remaining participation rights in December 2004, and therefore recorded no related amortization in 2005.

Loss on derivatives, net. This represents loss as recognized for the changes in the fair market values of those derivative financial instruments that do not qualify for hedge accounting treatment under SFAS No. 133 and changes in the ineffective portions of those derivatives classified as cash flow hedges. The loss of $2.1 million in the year ended December 31, 2005, was primarily the net effect of the change in the value of Euro currency call options that do not qualify for hedge accounting and the effect of hedge ineffectiveness of certain interest rate swaps.

Foreign exchange (loss) gain. The foreign exchange loss of $9.7 million in 2005 and a gain of $6.2 million in 2004 relate primarily to intercompany loans with Shurgard s European subsidiaries that were marked to the period-end exchange rate. In connection with its acquisition of the remaining interest in Shurgard Europe, Shurgard reevaluated its intercompany debt with its European subsidiaries as of July 1, 2005, and determined that such debt is of a long-term investment nature and therefore ceased to recognize exchange gains or losses through earnings on such intercompany debt. Rather, beginning July 1, 2005, Shurgard reported these translation adjustments as a component of other comprehensive income (loss).

Minority interest. Most of Shurgard s minority interest benefit results from its 80% partner s interests in its European joint ventures, First Shurgard and Second Shurgard. The minority interest benefit for Shurgard Europe relates to its 12.77% minority partner s interest which Shurgard acquired on June 30, 2005. The components of minority interest were as follows:

	2005	2004
	(in thousands)	
European development joint ventures	$ 19,832	$ 13,334
Shurgard Europe	4,134	5,091
Domestic joint ventures	(3,030)	(1,817)
Total minority interest	$ 20,936	$ 16,608

207

Income tax expense. Shurgard Europe is subject to income taxation in the various jurisdictions in which it operates and, as a result of losses it has incurred since its inception, has generated deferred tax assets. Shurgard s domestic non-REIT activities (principally its insurance referral program) have generated taxable income in 2005. However these activities have a history of losses which have generated deferred tax assets. Because Shurgard has been unable to demonstrate recoverability of such deferred tax assets, Shurgard has recorded a valuation allowance offsetting them for each reporting period. As a result, no significant income tax expense or benefit is recorded in Shurgard s consolidated statements of operations in relation to the REIT. In 2005, Shurgard incurred approximately $410,000 of federal and state income tax expense related to the transfer of ownership interests in certain properties from a taxable subsidiary to the REIT. The remaining tax expense relates to taxes on taxable income generated by certain European subsidiaries.

Discontinued operations. In 2005, Shurgard recognized $11.8 million in gain on the sale of five operating storage centers and recognized $16.2 million on the sale of six properties in 2004. Such sales result from opportunities to sell assets in Shurgard s portfolio that no longer meet its long-term strategic goals. Shurgard reclassified the operating income of these eleven storage centers as income from discontinued operations.

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

Shurgard Consolidated Statements of Operations for 2004 and 2003

For periods prior to 2004, Shurgard did not consolidate Shurgard Europe or First Shurgard in its financial statements. Instead, Shurgard accounted for its investments in these entities under the equity method of accounting due to the substantive and important approval rights over significant operating decisions retained by its partners in these entities. Beginning in 2004, Shurgard consolidated these entities in accordance with FIN 46R. Because consolidation results in the inclusion of Shurgard Europe s and First Shurgard s revenues and expenses in Shurgard s consolidated financial statements and the equity method did not, the financial statements for 2003 are not directly comparable to the financial statements in 2004.

Net income. Net income was $45.3 million in 2004, compared to net income of $37.6 million in 2003. The increase in net income from 2003 to 2004 is due primarily to a gain on the sale of properties, lower impairment losses and an increase in Shurgard s domestic storage centers operating results, which were partially offset by higher losses and higher financing costs related to its increased ownership in Shurgard Europe, and higher general, administrative and other expense as further discussed below.

Total revenue. Total revenue of $424.3 million in 2004 increased $126.3 million, or 42%, compared to 2003 due substantially to the consolidation of Shurgard Europe, which contributed $101.5 million of revenue. Domestic storage centers operations revenue increased $26.0 million, or 9%, compared to 2003 as a result of an increase in the number of storage centers, higher occupancy and increases in rates. This increase was partially offset by a loss of revenue from Shurgard s containerized storage business, which had revenue of $3.2 million in 2003 but ceased operations in the first quarter of 2004 and therefore had nominal revenue in 2004.

Operating expenses. Operating expenses of $211.4 million increased $85.5 million, or 68%, compared to 2003, of which $74.5 million relate to Shurgard s consolidation of Shurgard Europe in 2004. Domestic operating expenses increased $11.0 million, or 9%, compared to 2003 as a result of an increase in the number of storage centers and an increase in personnel expenses. See discussion of these expenses under *Segment Analysis*. Expenses associated with Shurgard s containerized storage business, which ceased active operations in the first quarter of 2004 were $4.0 million in 2003 and nominal in 2004. In addition to the expenses identified under

208

Table of Contents

Segment Analysis, in 2004 Shurgard incurred approximately $3.9 million of costs on two operating-related litigation matters, including $2.75 million in settlement costs that Shurgard recognized in December 2004 when it reached a proposed settlement.

Real estate development expense. Shurgard had real estate development expenses of $5.0 million in 2004 and nominal activity in 2003. The majority of the real estate development activity in 2004 related to development projects in Europe which was not consolidated in 2003.

Depreciation and amortization. Depreciation and amortization of $87.5 million in 2004 increased $32.0 million, or 58%, compared to 2003. Consolidation of Shurgard Europe and the growth of Shurgard s European operations accounted for $27.5 million of the increase, including an increase of $6.3 million related to the excess of the purchase price Shurgard paid for its additional ownership interests in Shurgard Europe over its book value in 2003, an amount that Shurgard allocated to buildings in which Shurgard Europe had ownership interests. Depreciation and amortization of domestic facilities increased $4.5 million or 8% to the prior year due to the increase in the number of storage centers and in particular due to the fact that Shurgard had a full year of depreciation on stores acquired mid-year in 2003.

Impairment and abandoned project expenses. Abandoned project expense relates to previously capitalized costs of development projects that have been assessed as unlikely to be completed. Such losses were $2.8 million in 2004 and related to projects in Europe where Shurgard scaled down on its developments in certain countries and where Shurgard abandoned an acquisition project in 2004. In 2003, Shurgard recognized losses of $1.2 million on abandoned projects in the United States. Shurgard also recorded impairment losses of $80,000 in 2004 and $12.7 million in 2003. In 2003, the $12.7 million of impairment losses included $9.9 million of impairment losses related to certain real estate assets, of which $7.5 million related to four properties associated with a joint venture in which Shurgard had participation rights. Also in 2003, Shurgard recognized a $1.1 million impairment expense related to its decision to exit the containerized storage business and a $1.6 million write down of a note receivable.

General, administrative and other expenses. General and administrative expenses of $33.0 million in 2004 increased $14.9 million, or 83%, compared to 2003. Shurgard s consolidation of Shurgard Europe accounted for $6.5 million of the increase. Of the remaining $8.4 million, $2.3 million is due to exit costs incurred in connection with the closing of Shurgard s containerized storage business, and the remainder consists primarily of increased professional fees incurred in connection with accounting, and financial reporting, as well as compensation expenses resulting from newly-created management positions. Consultant fees associated with efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 were approximately $3.8 million, and compensation expenses increased by approximately $2.7 million. The increase in compensation expenses was attributable primarily to higher stock-based compensation resulting from Shurgard s increased use of restricted stock instead of stock options to compensate executives. These increases were partially offset by a decrease of approximately $900,000 in audit fees. Shurgard s 2003 audit fees were higher because after Shurgard s former auditors resigned in November 2003, its new independent registered public accountants were required to re-audit 2001 and 2002 in addition to auditing 2003.

Interest expense and amortization of participation rights discount. Interest expense and amortization of participation rights discount of $81.8 million in 2004 increased $36.1 million, or 79% compared to 2003. The consolidation of Shurgard Europe and the debt financing of new developments in Europe in 2004 account for $28.1 million of the increase. The interest expense incurred in the United States increased by $3.1 million in 2004 due to the higher aggregate indebtedness incurred during 2003 to finance the purchase of additional ownership interest in Shurgard Europe and to finance the acquisition and development of additional properties in 2004 and 2003. The interest expense increase was also due to the decrease in amortization of participation rights discounts. The adjustments to amortization are based on re-evaluations of Shurgard s estimated participation rights liability each period based on the performance of the related properties and estimates of rights retirement dates. In December 2004 Shurgard retired the remaining participation rights.

Table of Contents

Loss on derivatives, net. The gain or loss on financial derivatives is the gain or loss recognized for the changes in the fair market value of those financial instruments that do not qualify for hedge accounting treatment under SFAS No. 133. Shurgard had an unrealized loss of $610,000 and $2.2 million in 2004 and 2003 respectively. The loss in 2004 represented primarily the net effect of the change in value of certain domestic interest rate swaps and certain currency call options on the Euro that do not qualify for hedge accounting. The losses in 2003 related to the changes in values of domestic interest rate swaps Shurgard entered into in 2001 to mitigate the risk of interest rate fluctuations related to its various options on the financing of a development transaction. These swaps matured and were paid off in February 2005.

Foreign exchange gain (loss). The foreign exchange gain of $6.2 million in 2004 relates primarily to intercompany bonds with Shurgard Europe and a wholly-owned European subsidiary that are marked to the period end exchange rate. Shurgard had limited consolidated foreign operations in 2003.

Minority interest. As a result of Shurgard s consolidation of Shurgard Europe and its subsidiaries beginning January 1, 2004, Shurgard recorded a minority interest benefit of $18.4 million in 2004. Approximately $13.3 million of this minority interest benefit in 2004 relates to First Shurgard and Second Shurgard, respectively, in which Shurgard Europe holds a 20% ownership interest and $5.1 million relates to Shurgard s partner s interest in Shurgard Europe. Additionally, Shurgard had minority interest expenses related to its domestic joint ventures of $1.8 million and $1.2 million in 2004 and 2003, respectively.

Equity in earnings (losses) of other real estate investments. In 2004, Shurgard had an interest in one entity that it accounted for under the equity method. In 2003, Shurgard accounted for its interest in Shurgard Europe under the equity method of accounting and recorded losses of $3.1 million for this investment. In 2004, Shurgard consolidated Shurgard Europe and therefore had no related comparable charge.

Income tax expense. Shurgard Europe is subject to income taxation in the various jurisdictions in which it operates and, as a result of losses it has incurred since its inception, has generated deferred tax assets. Shurgard s domestic non-REIT activities (principally its containerized storage business) also incurred losses and generated tax deferred assets. Because Shurgard has been unable to demonstrate recoverability of such assets, Shurgard has recorded a valuation allowance offsetting these deferred tax assets for each reporting period. As a result, no material income tax expense or benefit was recorded in Shurgard s consolidated statements of operations.

Discontinued operations. In 2004, Shurgard recognized an aggregate gain of $16.2 million on the sale of six properties in 2004. Such sales result from opportunities to sell assets in Shurgard s portfolio that no longer meet its long-term strategic goals and there were no comparable transactions in 2003. Shurgard reclassified the operating income of these eleven storage centers that it considered discontinued operations in 2005 but that still had operations in 2004 and 2003.

Cumulative effect of change in accounting principle. Upon adoption of FIN 46R, Shurgard recorded a cumulative effect of change in accounting principle in the amount of $2.3 million in 2004 due to the consolidation of First Shurgard. This is the result of eliminating all intercompany profits from inception of First Shurgard in 2003 as required under FIN 46R. Before 2004, prior to adoption of FIN 46R, Shurgard eliminated its 20% ownership share of intercompany profits.

Segment Analysis as of December 31, 2005

Shurgard currently has four reportable segments: Domestic Same Store and New Store and European Same Store and New Store. Same Store includes those stores acquired prior to January 1 of the prior year and developed properties operating for two full years as of January 1 of the current year. New Store represents those storage centers recently acquired or developed for which performance is measured primarily based on original investment expectations. Shurgard evaluates all storage centers on the same basis regardless of its ownership interest in the property. Although Net Operating Income (NOI) is a non-GAAP measure, Shurgard believes it is a

Table of Contents

meaningful measure of operating performance as a supplement to net income because Shurgard relies on NOI for purposes of making decisions with respect to resource allocations, current property values, segment performance, and comparing period-to-period and market-to-market property operating results. NOI is defined as storage center operations revenues less direct operating and real estate tax expense for each of Shurgard s properties. For a reconciliation of Same Store and New Store NOI to income (loss) from continuing operations, see Shurgard s consolidated financial statements and the notes thereto. The following sections discuss the performance of these segments.

The following tables summarize key operational data for Shurgard s storage center portfolio as of December 31, 2005 and 2004. This data is further discussed below in this section by segment:

	2005					
	Domestic (1)		Europe		Total	
	Amount	% of total	Amount	% of total	Amount	% of total
	(dollars in thousands except average rent)					
Same Store (2)						
Number of Storage Centers	441	91%	96	64%	537	85%
Segment Revenues	$ 329,002	93%	$ 101,819	80%	$ 430,821	90%
NOI after indirect and leasehold expense	$ 195,854	95%	$ 45,021	107%	$ 240,875	97%
Avg. annual rent per sq. ft. (4)	$ 12.13		$ 22.19			
Avg. sq. ft. occupancy	86%		78%			
Total Storage Center Costs (5)	$ 1,785,614	89%	$ 810,231	68%	$ 2,595,845	81%
New Store (3)						
Number of Storage Centers	43	9%	53	36%	96	15%
Segment Revenues	$ 23,432	7%	$ 24,698	20%	$ 48,130	10%
NOI after indirect and leasehold expense	$ 10,055	5%	$ (2,853)	(7)%	$ 7,202	3%
Avg. sq. ft. occupancy	76%		40%			
Total Storage Center Costs (5)	$ 231,290	11%	$ 372,777	32%	$ 604,067	19%
Combined New and Same Stores						
Number of Storage Centers	484	100%	149	100%	633	100%
Segment Revenues	$ 352,434	100%	$ 126,517	100%	$ 478,951	100%
NOI after indirect and leasehold expense	$ 205,909	100%	$ 42,168	100%	$ 248,077	100%
Total Storage Center Costs (5)	$ 2,016,904	100%	$ 1,183,008	100%	$ 3,199,912	100%

	2004					
	Domestic (1)		Europe (6)		Total	
	Amount	% of total	Amount	% of total	Amount	% of total
	(dollars in thousands except average rent)					
Same Store (2)						
Number of Storage Centers	441	94%	96	71%	537	89%
Segment Revenues	$ 309,228	98%	$ 90,485	89%	$ 399,713	96%
NOI after indirect and leasehold expense	$ 186,556	100%	$ 35,573	131%	$ 222,129	104%
Avg. annual rent per sq. ft. (4)	$ 11.59		$ 22.24			
Avg. sq. ft. occupancy	84%		71%			
New Store (3)						
Number of Storage Centers	30	6%	39	29%	69	11%
Segment Revenues	$ 7,010	2%	$ 10,915	11%	$ 17,925	4%
NOI after indirect and leasehold expense	$ 534	0%	$ (8,389)	(31)%	$ (7,855)	(4)%
Avg. sq. ft. occupancy	55%		24%			
Combined New and Same Stores						
Number of Storage Centers	471	100%	135	100%	606	100%
Segment Revenues	$ 316,238	100%	$ 101,400	100%	$ 417,638	100%
NOI after indirect and leasehold expense	$ 187,090	100%	$ 27,184	100%	$ 214,274	100%

Table of Contents

(1) Table includes the total operating results of each storage center regardless of Shurgard s percentage ownership interest in that storage center.
(2) Shurgard s definition of Same Store includes existing storage centers acquired prior to January 1 of the previous year as well as developed properties that have been operating for a full two years as of January 1 of the current year. Shurgard s definition of Same Store results in the addition of storage centers each year as new acquisitions and developments meet the criteria for inclusion, so Shurgard then includes these storage centers in the previous year s comparable data. Other storage companies may define Same Store differently, which will affect the comparability of the data.
(3) Shurgard s definition of New Store, as shown in the table above, includes existing domestic facilities that had not been acquired or leased as of January 1 of the previous year as well as developed properties that have not been operating a full two years as of January 1 of the current year.
(4) Average annual rent per square foot is calculated by dividing actual rent collected by the average number of square feet occupied during the period.
(5) Total costs capitalized to storage centers.
(6) Amounts have been translated from local currencies to U.S. dollars at a constant exchange rate using the average exchange rate for 2005.

Domestic Same Store

The following table summarizes key operating data for Domestic Same Store at December 31, 2005.

	Number of Properties	(in millions) Total Storage Center Cost (1)	Total Net Rentable sq. ft. when all phases are complete	Average Occupancy 2005	2004	2003	Average Annual Rent (per sq. ft.) (2) 2005	2004	2003
Same Store since 2005	34	$ 180.3	2,321,000	83%	79%	65%	$ 12.62	$ 11.98	$ 11.13
Same Store since 2004 (3)	59	221.6	4,424,000	81%	78%	74%	8.69	8.10	7.81
Same Store since 2003 or prior	348	1,383.7	22,339,000	87%	86%	85%	12.71	12.17	11.92
Same Store total	441	$ 1,785.6	29,084,000	86%	84%	82%	$ 12.13	$ 11.59	$ 11.33

	(in thousands) Revenue 2005	2004	2003	(in thousands) NOI (after leaseholds expenses) 2005	2004	2003
Same Store since 2005	$ 26,232	$ 23,582	$ 12,052	$ 14,735	$ 12,845	$ 4,866
Same Store since 2004 (3)	34,017	30,267	26,993	20,965	18,408	15,530
Same Store since 2003 or prior	268,753	255,379	246,591	177,143	170,278	164,121
Same Store total	$ 329,002	$ 309,228	$ 285,636	$ 212,843	$ 201,531	$ 184,517

(1) Total capitalized costs to storage centers since the storage center was acquired or developed.
(2) Average annual rent per square foot is calculated by dividing actual rent collected by the average number of square feet occupied during the period.
(3) Same Store since 2004 include Morningstar Storage Centers, LLC stores acquired in 2002.

212

Table of Contents

The following table summarizes domestic Same Store operating performance:

Same Store Results (1)

	As defined in 2005			As defined in 2004		
	2005	2004	% Change	2004	2003	% Change
	(dollars in thousands except average rent)					
Segment revenue	$ 329,002	$ 309,228	6.4%(a)	$ 288,167	$ 275,397	4.6%(a)
Operating expense:						
Personnel expenses	36,949	34,014	8.6%(b)	31,495	28,436	10.8%(b)
Real estate taxes	29,195	26,954	8.3%(c)	23,830	24,218	(1.6)%
Repairs and maintenance	9,432	9,295	1.5%	8,334	7,967	4.6%
Marketing expense	9,153	8,503	7.6%(d)	7,550	8,506	(11.2)%(d)
Utilities and phone expenses	11,646	10,793	7.9%(e)	9,921	9,827	1.0%
Cost of goods sold	4,058	3,661	10.8%	3,411	2,970	14.8%
Store admin and other expenses	11,569	10,363	11.6%(f)	9,377	9,477	(1.1)%
Direct operating and real estate tax expense	112,002	103,583	8.1%	93,918	91,401	2.8%
NOI	217,000	205,645	5.5%	194,249	183,996	5.6%
Leasehold expense	4,157	4,114	1.0%	3,736	3,241	15.3%
NOI after leasehold expense	212,843	201,531	5.6%	190,513	180,755	5.4%
Indirect operating expense (2)	16,989	14,975	13.4%(g)	14,103	12,767	10.5%(g)
NOI after indirect operating and leasehold expense	$ 195,854	$ 186,556	5.0%	$ 176,410	$ 167,988	5.0%
Avg. annual rent per sq.ft.	$ 12.13	$ 11.59	4.7%	$ 11.53	$ 11.30	2.0%
Avg. sq.ft. occupancy	86%	84%		85%	83%	
Total net rentable sq.ft.	29,084,000	29,084,000		27,044,000	27,044,000	
Number of properties as of December 31	441	441		411	411	

(1) Table includes the total operating results of each storage center regardless of Shurgard s percentage ownership interest in that storage center.

(2) Indirect operating expense includes certain shared property costs such as district and corporate management, purchasing, national contracts personnel and marketing, as well as certain overhead costs allocated to property operations such as business information technology, legal services, human resources and accounting. Indirect operating expense does not include internal real estate acquisition cost or abandoned development expense. Indirect operating expense is allocated to storage centers based on number of months in operation during the period.

(a) The increase in revenue in 2005 over 2004 resulted primarily from higher rental rates and to a lesser extent to increases in occupancy. Increases in rental rates resulted from a sustained demand continuing through the fourth quarter of 2005 and increased focus on price management. Storage centers in Florida account for $4.5 million of the increase as this area has experienced exceptional demand since the fourth quarter of 2004. Also, over the past two years Shurgard has consistently provided additional training to its direct sales team and made changes in the management of its field teams that have resulted in improved closing ratios on inquiries made by customers. These initiatives contributed to increases in Shurgard s Same Store revenue from 2003 to 2004 and from 2004 to 2005. The increase in revenue from 2003 to 2004

213

resulted from improved general economic conditions since the fourth quarter of 2003 as well as the above mentioned changes in Shurgard s management of operations. Retail sales and truck rentals contributed approximately $820,000 and $1.2 million to Shurgard s revenue increase from 2004 to 2005 and 2003 to 2004, respectively. In 2005, Shurgard also started seeing increases in Same Store revenue as a result of the redevelopments that Shurgard has completed in 2004 and 2005; see further discussion below.

(b) Personnel expenses have increased as a result of Shurgard s initiatives to improve the quality of service and reduce employee turnover. These initiatives included higher salaries and incentive compensation for more experienced store managers and other employees. New bonus programs that reward for retail sales and occupancy growth performance and the achievement of performance targets have contributed to higher expenses both for 2004 and 2005. Additionally, health insurance and workers compensation costs increased by $0.9 million from 2004 to 2005. Increases in personnel expenses from 2003 to 2004 also reflect increased employee coverage for extended hours and Sunday openings and other programs designed to enhance the service and the appearance of Shurgard s storage centers.

(c) The increase in real estate tax expense in 2005 was driven by higher property tax and assessments in certain regions of the country. Also, in 2004 Shurgard benefited from tax refunds as a result of successful tax appeals.

(d) Marketing expense increased in 2005 primarily due to the timing of phone book advertising expense. The marketing expense decrease in 2004 compared to 2003 is attributable to higher levels of productivity from the consolidation of activities at Shurgard s sales center along with a reduction of employees in its field sales and marketing functions.

(e) Utility expense increased as a result of rising electricity costs across the nation.

(f) Store administrative and other direct expenses increased primarily due to 19% rise in bank charges as a result of an increase in customers using credit cards, auto-debit and online payments. Shurgard s bank credit card fees continue to escalate due to its efforts to increase customer retention and accelerate collection of revenues through broader customer enrollment in the Shurgard auto credit program, which automatically charges monthly rent to the customer s credit card.

(g) Indirect operating expenses have been consistently higher in 2005 compared to 2004 as throughout 2004 Shurgard created new management positions in certain regions and new regional field sales and marketing positions that were in place for the full year in 2005. Shurgard believes that these expenses have leveled off with the stabilization of the regional infrastructure. The new marketing positions allow Shurgard to conduct local marketing actions and to provide the flexibility to focus its efforts in the areas where they are most needed. In 2004 compared to 2003, the increase in marketing expenses was partially offset by decreases in direct marketing expenses at the store level.

In 2004 and 2005, Shurgard invested $10.9 million and completed redevelopment of certain of its Same Stores. Additionally, as of December 31, 2005, Shurgard had two major on-going redevelopments under construction. During the construction period those stores were partially closed. After the redevelopment is completed, the storage centers generally have a faster revenue growth than non-redeveloped stores thereby affecting the comparability of Shurgard s Same Store results. From 2004 to 2005, those redevelopments accounted for $260,000 of the Same Store revenue increase and a $90,000 decrease in NOI after indirect and leasehold expense and Shurgard expects that in 2006 these storage centers will have further impact on operating results.

Domestic New Store

The following table summarizes domestic New Store operating performance as defined at December 31, 2005:

New Store Results (1)

	Acquisitions		Developments		Total New Stores	
	2005	2004	2005	2004	2005	2004
			(dollars in thousands)			
Segment revenue	$ 11,306	$ 986	$ 12,126	$ 6,024	$ 23,432	$ 7,010
Direct operating and real estate tax expense	4,255	280	7,290	5,479	11,545	5,759
NOI	7,051	706	4,836	545	11,887	1,251
Leasehold expense			379	53	379	53
NOI after leasehold expense	7,051	706	4,457	492	11,508	1,198
Indirect operating expense (2)	527	52	926	612	1,453	664
NOI after indirect operating and leasehold expense	$ 6,524	$ 654	$ 3,531	$ (120)	$ 10,055	$ 534
Avg. sq. ft. occupancy	86%	91%	68%	51%	76%	55%
No. of properties	17	7	26	23	43	30

The following table summarizes domestic New Store operating performance as defined at December 31, 2004:

New Store Results (1)

	Acquisitions		Developments		Total New Stores	
	2004	2003	2004	2003	2004	2003
			(dollars in thousands)			
Segment revenue	$ 16,093	$ 6,731	$ 14,498	$ 6,706	$ 30,591	$ 13,437
Direct operating and real estate tax expense	6,631	2,806	9,652	6,150	16,283	8,956
NOI	9,462	3,925	4,846	556	14,308	4,481
Leasehold expense			431	445	431	445
NOI after leasehold expense	9,462	3,925	4,415	111	13,877	4,036
Indirect operating expense (2)	632	262	1,052	603	1,684	865
NOI after indirect operating and leasehold expense	$ 8,830	$ 3,663	$ 3,363	$ (492)	$ 12,193	$ 3,171
Avg. sq. ft. occupancy	82%	79%	62%	46%	71%	58%
No. of properties	27	20	37	28	64	48

(1) Table includes the total operating results of each storage center regardless of Shurgard s percentage ownership interest in that storage center.

(2) Indirect operating expense includes certain shared property costs such as district and corporate management, purchasing, national contracts, personnel and marketing, as well as certain overhead costs allocated to property operations such as business information technology, legal services, human resources and accounting. It does not include internal real estate acquisition cost or abandoned development expense. Indirect operating expense is allocated to storage centers based on number of months in operation during the period.

Increases from year to year in NOI for the New Store portfolio reflect the greater number of properties and, correspondingly, property months for the periods presented. Although this increase gives some indication of how

215

Table of Contents

much of Shurgard s overall NOI growth results from the New Store segment, Shurgard does not regard it as a good method of evaluating the performance of assets within this segment. Rather, Shurgard uses other methods, including primarily comparisons of actual results to targeted NOI for the appropriate period from opening or at maturity. The performance of Shurgard s domestic acquisitions and developments are discussed in the sections that follow.

Domestic Acquisitions

Shurgard continues to seek acquisition opportunities for high quality storage centers that meet its investment standards. Shurgard has limited its efforts to pursue only those storage centers that enhance its existing network of storage centers or allow it to establish significant market presence in new markets (i.e. establish greater market presence or expand an established market to create greater economies of scale). The operating results of Shurgard s acquisitions are discussed below.

The following table summarizes Shurgard s acquisition activity from 2003 to 2005:

	Number of Properties	(in millions) Total Storage Center Cost (1)	Total Net Rentable sq. ft. when all phases are complete	Average Occupancy			Average Annual Rent (per sq. ft) (2)		
				2005	2004	2003	2005	2004	2003
Acquisitions in 2005	10	$ 44.5	751,000	83%			$ 8.77	$	$
Acquisitions in 2004	7	52.8	504,000	88%	91%		15.07	9.89	
Acquisitions in 2003	20	103.1	1,449,000	83%	81%	79%	12.24	12.05	11.60

(1) Total capitalized costs to storage centers since the storage center was acquired or developed.

(2) Average annual rent per square foot is calculated by dividing actual rent collected by the average number of square feet occupied during the period.

In the first quarter of 2005, Shurgard acquired one property in North Carolina through Shurgard/Morningstar Storage Centers, LLC, one of Shurgard s consolidated subsidiaries, in which it owns 74%, for $3.0 million (including $121,000 paid for a non-compete agreement). In the second quarter of 2005, Shurgard completed the purchase of six storage centers in North Carolina for an aggregate purchase price of $26 million. These storage centers are managed by affiliates of certain members of Shurgard/ Morningstar Storage Centers, LLC that are unrelated to Shurgard.

In the second quarter of 2005, Shurgard also acquired Central Parkway Storage, Inc. (CPI), which owns two storage properties in Florida. Shurgard had a pre-existing relationship with the shareholders of CPI and as part of the transaction Shurgard settled approximately $1.2 million of liabilities due to them. Shurgard also settled an option it had to acquire an interest in a property owned by them and recorded a gain on that option of approximately $555,000. The net consideration issued in these transactions was approximately $10.4 million and consisted of 127,684 shares of common stock ($5.5 million) and cash ($4.9 million). The amount of the consideration allocated to storage centers and related assets was $9.8 million.

Also in the second quarter of 2005, Shurgard contributed three storage centers in California to a consolidated joint venture. The development manager of these storage centers contributed an additional storage center in California (subject to a mortgage due to Shurgard) to the venture. Shurgard cancelled the mortgage on that storage center and received an approximate 85% interest in the venture; Shurgard s partner received an approximate 15% interest in the venture.

In 2004, Shurgard purchased seven storage centers: one in North Carolina for $6.3 million (including $376,000 paid to secure a non-competition agreement), and another two in California for $5.2 million and $8.8

216

Table of Contents

million in two separate transactions. Shurgard also acquired one storage center in each of Indiana and New Jersey and two in New York for $10.8 million plus $17.4 million of assumed debt.

During 2003, Shurgard purchased 20 storage centers. On June 30, 2003, Shurgard purchased 19 storage centers from the owners of Minnesota Mini Storage for 3,050,000 shares of Shurgard s common stock (see the notes to Shurgard s consolidated financial statements), or the equivalent of $89.5 million. These 19 storage centers had occupancy of 83% at December 31, 2005.

Shurgard purchased one storage center from a California developer on December 31, 2003 for $6.3 million. Its occupancy was 94% at December 31, 2005.

Domestic Developments

Shurgard s investment strategy includes development of new storage centers in markets in which it currently operates where it has identified underserved markets with high barriers to entry.

The following table summarizes Shurgard s domestic development activity from 2003 to 2005:

	Number of Properties	(in millions) Total Storage Center Cost (1)	Total Net Rentable sq. ft. when all phases are complete	Average Occupancy 2005	2004	2003	Average Annual Rent (per sq. ft) (2) 2005	2004	2003
Developments in 2005	3	$ 10.8	156,000	43%			$ 10.38	$	$
Developments in 2004	9	47.2	506,000	66%	40%		12.71	9.22	
Developments in 2003	14	76.1	842,000	71%	54%	28%	12.36	10.51	7.55
Development total	26	$ 134.1	1,504,000	68%	51%	28%	$ 12.42	$ 10.28	$ 7.55

	(in thousands) Revenue 2005	2004	2003	(in thousands) NOI (after leasehold expenses) 2005	2004	2003
Developments in 2005	$ 300	$	$	$ (320)	$	$
Developments in 2004	3,969	1,000		1,368	(381)	
Developments in 2003	7,857	5,024	961	3,409	873	(862)
Development total	$ 12,126	$ 6,024	$ 961	$ 4,457	$ 492	$ (862)

(1) Total capitalized costs to storage centers since the storage center was acquired or developed.
(2) Average annual rent per square foot is calculated by dividing actual rent collected by the average number of square feet occupied during the period. On the year of opening the average annual rent is lower as the storage center has not been opened a full year.

Shurgard normally projects new storage properties to rent-up at occupancy rates of between 3% and 4% per month. On average Shurgard s developments have been renting at 3.2% per month. Shurgard can give no assurance that the projections noted above regarding the development projects will occur. Actual occupancy levels and rates could be lower if Shurgard experiences competition from other self-storage properties and other storage alternatives in close proximity to its developments.

In 2005, Shurgard opened one new storage center in California and one in Oregon in the third quarter and one storage center in Florida in the fourth quarter. The Oregon storage center is a redevelopment at a site where

217

Shurgard had torn down an older facility in October 2004. The California storage center is under an operating lease. Those storage centers had an average occupancy of 54% at December 31, 2005, after being opened an average of four months.

In 2004, Shurgard opened nine new storage centers: four properties located one each in California, South Carolina, Michigan and New Jersey in the first quarter; one property in Washington in the second quarter; one each in Pennsylvania and California in the third quarter; and one each in Texas and Colorado in the fourth quarter. The 2004 developments were open an average of 19 months and had an average occupancy of 72% at December 31, 2005. Most stores are renting up as anticipated except one in Michigan and one in North Carolina that are renting up more slowly than expected. The slow rent up in Michigan is primarily due to the economic slowdown in that state.

The 2003 developments were open an average of 29 months and had an average occupancy rate of 76% at December 31, 2005. Eight of the 2003 developments are renting up at a slower pace than average including four in the Chicago and Michigan areas due to higher competition in both states and the slowdown in the Michigan economy. In response to the slow rent up Shurgard has adjusted rental rates in these states to sustain occupancy growth.

Domestic developments and redevelopments under construction

In addition to the operating properties discussed in domestic developments, Shurgard has properties under construction or pending construction and various redevelopment projects on existing properties. The following table summarizes the properties under construction as of December 31, 2005:

	Number of Projects	Estimated Completed Cost of Projects (1)	Total Cost to Date as of December 31, 2005
		(dollars in millions)	
Developments:			
Construction in progress	6	$ 53.7	$ 27.1
Land purchased pending construction	4	22.8	6.9
Total Developments	10	76.5	34.0
Redevelopment projects:			
Construction in progress	2	6.0	1.1
Total	12	$ 82.5	$ 35.1

(1) The actual completed cost of these projects could vary due to delays during construction caused by weather, unforeseen site conditions, labor shortages, personnel turnover, scheduling problems with contractors, subcontractors or suppliers, or resource constraints.

Included in construction in progress at December 31, 2005, is $9.7 million in costs related to ongoing capital improvements. The remainder of domestic development costs was incurred on projects prior to commencement of construction. Shurgard selects stores for redevelopment when it identifies opportunities to increase return on investment by upgrading the property. As of December 31, 2005, Shurgard had two major storage centers that were undergoing expansion or redevelopment projects.

Table of Contents

European Same Store

The following table summarizes by market the performance of European Same Stores for the years ended December 31, 2005 and 2004. European Same Store includes properties located in all of the European markets in which Shurgard operates, with the exception of Germany as the first store in that market opened in 2003.

Year ended December 31, 2005 annual comparison for European Same Store

	Number of Properties	2005 Average Occupancy	Occupancy at December 31, 2005	Percent change compared to prior year Segment Revenue	NOI (after leasehold expenses)	Occupancy	Rate
Belgium	17	76%	78%	4.4%	3.9%	3.1%	(0.9)%(a)
Netherlands	22	72%	78%	18.0%	26.2%	14.3%	(1.8)%(a)
France	23	83%	84%	12.4%	21.3%	10.5%	1.1%
Sweden	20	81%	87%	14.3%	26.8%	13.2%	1.8%
Denmark	4	85%	87%	28.8%	52.2%	26.9%	(0.1)%(a)
United Kingdom	10	77%	81%	8.0%	12.5%	10.6%	(4.2)%(a)
Europe Totals	96	78%	82%	12.5%	19.7%	9.9%	(0.2)%

(a) Shurgard s rates decreased in those countries where competition is highest because Shurgard adjusted its rates in order to improve occupancy.

The following table summarized European Same Store operating performance:

Same Store Results (1)

	As defined in 2005 (1) 2005	2004	% Change	As defined in 2004 (1) 2004	2003 (4)	% Change
	(dollars in thousands except average rent)					
Segment revenue	$ 101,819	$ 90,485	12.5%(a)	$ 73,241	$ 66,867	9.5%(a)
Operating expense:						
Personnel expenses	13,863	13,267	4.5%(b)	10,035	9,040	11.0%(b)
Real estate taxes	4,532	4,300	5.4%	3,150	2,888	9.1%
Repairs and maintenance	3,230	3,711	(13.0)%(c)	2,786	2,386	16.8%(c)
Marketing expense	7,037	7,118	(1.1)%(d)	4,972	4,297	15.7%(d)
Utilities and phone expenses	2,766	2,456	12.6%	1,846	1,920	(3.9)%
Cost of goods sold	3,673	3,230	13.7%	2,515	2,337	7.6%
Store admin and other expenses	7,491	6,949	7.8%	5,235	4,849	8.0%
Direct operating and real estate tax expense	42,592	41,031	3.8%	30,539	27,717	10.2%
NOI	59,227	49,454	19.8%	42,702	39,150	9.1%
Leasehold expense	2,299	1,883	22.1%	1,620	1,563	3.6%
NOI after leasehold expense	56,928	47,571	19.7%	41,082	37,587	9.3%
Indirect operating expense (2)	11,907	11,998	(0.8)%(e)	8,781	9,610	(8.6)%(e)

NOI after indirect operating and leasehold expense	$	45,021	$	35,573	26.6%	$	32,301	$	27,977	15.5%
Avg. annual rent per sq. ft. (3)	$	22.19	$	22.24	(0.2)%	$	21.52	$	21.17	1.7%
Avg. sq. ft. occupancy		78%		71%	9.9%		75%		70%	7.1%
Total net rentable sq. ft.		5,288,000		5,288,000			4,022,000		4,022,000	
Number of properties		96		96			72		72	

219

Table of Contents

(1) Amounts have been translated from local currencies at a constant exchange rate using the average exchange rate for 2005 for the 2005 to 2004 comparison and at 2004 average exchange rates for the 2004 to 2003 comparison.
(2) Indirect operating expense includes certain shared property costs such as regional management, national contracts personnel and marketing, as well as certain overhead costs allocated to property operations such as business information technology, human resources and accounting. It does not include internal real estate acquisition cost or abandoned development expense. Indirect operating expense is allocated to storage centers based on number of months in operation during the period.
(3) Average annual rent per square foot is calculated by dividing actual rent collected by the average number of square feet occupied during the period.
(4) The 2003 results were not included in Shurgard s consolidated financial statements because Shurgard did not consolidate Shurgard Europe until 2004.

(a) The growth in revenue at constant exchange rate in 2005 over 2004 results primarily from increases in occupancy that were achieved through heightened marketing, better pricing management and improved retention of existing customers. Shurgard has seen most of the improvement in Sweden and France, where it has been able to maintain rates. In 2004, most of the revenue growth compared to 2003 was due to increases in occupancy as many of the stores were still in rent up phase. Revenue growth in U.S. dollars, when translated at the applicable average period rates, increased by 12% in 2005 compared to 2004 and 20.6% in 2004 compared to 2003.

(b) Personnel expenses increased from 2004 to 2005 as a result of hiring more experienced store managers with higher salaries and more incentive compensation, in particular in Sweden and the Netherlands. This more experienced workforce has contributed to the revenue increases in those countries discussed above. Personnel increases from 2003 to 2004 resulted from the creation in 2004 of sales representative positions in the field targeted at commercial customers, in particular in France where they have had a positive effect on occupancy.

(c) In 2004 Shurgard incurred significant repair and maintenance expenses on its security systems in Belgium and the Netherlands that explain both the decrease of repair and maintenance costs compared to 2005 and the increase compared to 2003.

(d) On an annual basis, marketing expenses have slightly decreased over the prior year as a result of decreasing marketing initiatives in the second half of the year in France, the United Kingdom and Sweden. The increases in marketing expenses in 2004 compared 2003 were due to new programs launched in the third quarter 2004 and to higher phone directories expenses. Targeted marketing initiatives and sales training that were launched during the third quarter 2004 accelerated during the fourth quarter, yielding positive results in terms of inquiries and improved Shurgard s ability to close sales in several markets. Certain marketing actions also resulted in better retention of Shurgard s existing customers and its ability to market ancillary services.

(e) As a result of reorganization decisions and efforts to create synergies in between countries initiated since the second quarter of 2005, Shurgard has started to see a decline in indirect expenses. Shurgard expects to continue realizing further efficiencies in 2006. Indirect operating expense allocated to Same Store decreased in 2004 compared to 2003 primarily as a result of spreading certain indirect costs over more stores as the European market expands.

The following tables present reconciliations of the European Same Store results translated to U.S. dollars at a constant exchange rate to Same Store results translated at an average exchange rate. Each of the categories presented is reconciled in the notes to Shurgard s consolidated financial statements.

	Same Store (1)	2004 Exchange Difference	Total (2)
		(in thousands)	
Segment revenue	$ 90,485	$ 463	$ 90,948
Direct operating and real estate tax expense	41,031	110	41,141
Consolidated NOI	49,454	353	49,807
Leasehold expense	1,883	9	1,892
NOI after leasehold expense	47,571	344	47,915
Indirect operating expense	11,998	27	12,025

Consolidated NOI after indirect and leasehold expense	$ 35,573	$ 317	$ 35,890

220

	Same Store (2)	2003 Exchange Difference (in thousands)	Total (3)
Segment revenue	$ 66,867	$ (6,160)	$ 60,707
Direct operating and real estate tax expense	27,717	(2,581)	25,136
Consolidated NOI	39,150	(3,579)	35,571
Leasehold expense	1,563	(130)	1,433
NOI after leasehold expense	37,587	(3,449)	34,138
Indirect operating expense	9,610	(876)	8,734
Consolidated NOI after indirect and leasehold expense	$ 27,977	$ (2,573)	$ 25,404

(1) Amounts are translated from local currencies to U.S. dollars using the average exchange rate for 2005 for the purpose of comparison with the 2005 results.
(2) Amounts are translated from local currencies to U.S. dollars using the average exchange rate for 2004.
(3) Amounts are translated from local currencies to U.S. dollars using the average exchange rate for 2003 for purpose of reconciliation with the 2003 consolidated financial statements.

European New Store

All but one of Shurgard s European New Stores were developed at December 31, 2005. Shurgard acquired one self-storage facility in the United Kingdom in 2004. The following table summarizes New Store operating performance as defined at December 31, 2005:

European New Store Results (1)

	Developments		Acquisitions		New Store	
	2005	2004	2005	2004	2005	2004
			(dollars in thousands)			
Segment revenue	$ 23,109	$ 10,367	$ 1,589	$ 548	$ 24,698	$ 10,915
Direct operating and real estate tax expense	20,177	13,559	537	274	20,714	13,833
NOI	2,932	(3,192)	1,052	274	3,984	(2,918)
Leasehold expense	325	215			325	215
NOI after leasehold expense	2,607	(3,407)	1,052	274	3,659	(3,133)
Indirect operating expense (2)	6,423	5,214	89	42	6,512	5,256
NOI after indirect operating and leasehold expense	$ (3,816)	$ (8,621)	$ 963	$ 232	$ (2,853)	$ (8,389)
Avg. sq. ft. occupancy	39%	22%	78%	88%(a)	40%	24%
No. of properties	52	38	1	1	53	39

(a) The occupancy of this storage center has decreased since it was acquired due to partial closure for redevelopment.

The following table summarizes New Store operating performance as defined at December 31, 2004:

European New Store Results (1)

	Developments		Acquisitions		New Store	
	2004	2003 (3)	2004	2003 (3)	2004	2003 (3)
			(dollars in thousands)			
Segment revenue	$ 28,291	$ 11,028	$ 577	$	$ 28,868	$ 11,028
Direct operating and real estate tax expense	24,286	13,890	289		24,575	13,890
NOI	4,005	(2,862)	288		4,293	(2,862)
Leasehold expense	487	276			487	276
NOI after leasehold expense	3,518	(3,138)	288		3,806	(3,138)
Indirect operating expense (2)	8,490	6,039	45		8,535	6,039
NOI after indirect operating and leasehold expense	$ (4,972)	$ (9,177)	$ 243	$	$ (4,729)	$ (9,177)
Avg. sq. ft. occupancy	36%	14%	88%		36%	14%
No. of properties	62	50	1		63	50

221

Table of Contents

(1) Amounts for both years have been translated from local currencies at a constant exchange rate using the average exchange rates of 2005 for the 2005 to 2004 comparison and the 2004 exchange rates for the 2004 to 2003 comparison.
(2) Indirect operating expense includes certain shared property costs such as regional management, national contracts personnel and marketing, as well as certain overhead costs allocated to property operations such as business information technology, human resources and accounting. It does not include internal real estate acquisition cost or abandoned development expense. Indirect operating expense is allocated to stores based on number of months in operation during the period.
(3) The 2003 results were not included in Shurgard s consolidated financial statements because Shurgard did not consolidate Shurgard Europe until 2004.

In August 2004, Shurgard acquired a single storage facility in central London (United Kingdom). This 38,000 net rentable square foot property represents a total investment of $14.6 million, translated at the historical purchase cost.

The following tables present reconciliations of the European New Store results translated to U.S. dollars at a constant exchange rate to New Store results translated at an average exchange rate. Each of the categories presented is reconciled in the notes to Shurgard s consolidated financial statements.

	New Store (1)	2004 Exchange Difference (in thousands)	Total (2)
Segment revenue	$ 10,915	$ 246	$ 11,161
Direct operating and real estate tax expense	13,833	140	13,973
Consolidated NOI	(2,918)	106	(2,812)
Leasehold expense	215		215
NOI after leasehold expense	(3,133)	106	(3,027)
Indirect operating expense	5,256	35	5,291
Consolidated NOI after indirect and leasehold expense	$ (8,389)	$ 71	$ (8,318)

	New Store (2)	2003 Exchange Difference (in thousands)	Total (3)
Segment revenue	$ 11,028	$ (963)	$ 10,065
Direct operating and real estate tax expense	13,890	(1,229)	12,661
Consolidated NOI	(2,862)	266	(2,596)
Leasehold expense	276	(29)	247
NOI after leasehold expense	(3,138)	295	(2,843)
Indirect operating expense	6,039	(510)	5,529
Consolidated NOI after indirect and leasehold expense	$ (9,177)	$ 805	$ (8,372)

(1) Amounts are translated from local currencies to U.S. dollars using the average exchange rate for 2005 for the purpose of comparison with the 2005 results.
(2) Amounts are translated from local currencies to U.S. dollars using the average exchange rate for 2004.
(3) Amounts are translated from local currencies to U.S. dollars using the average exchange rate for 2003 for purpose of reconciliation with the 2003 consolidated financial statements.

222

Table of Contents

European Developments

The following table summarizes performance of European developments and acquisition opened through 2005 by country during 2005, 2004 and 2003:

	Number of Properties	(in millions) Storage Center Cost Development Cost (1)	Total Cost (2)	Total Net Rentable sq. ft.	Average Occupancy For the year ended December 31, 2005	2004	2003	Average Annual Rent (per sq. ft) (3) (4) For the year ended December 31, 2005	2004	2003
New store:										
Opened in 2005										
Belgium	1	$ 5.8	$ 5.8	55,000	2.6%			N/A	$	$
Netherlands	3	10.9	10.9	138,000	1.6%			N/A		
Germany	2	11.7	11.8	93,000	7.0%			$ 7.73		
France	5	36.8	37.0	292,000	7.4%			5.01		
Denmark	1	7.2	7.2	50,000	20.8%			13.70		
United Kingdom	2	20.1	20.3	80,000	15.8%			17.50		
Total opened in 2005	14	$ 92.5	$ 93.0	708,000	7.8%			$ 9.53	$	$
Opened in 2004										
Germany	4	$ 25.3	$ 25.5	202,000	34.2%	5.0%		$ 17.43	$ 8.35	$
France	4	22.9	23.2	217,000	26.0%	1.9%		19.65	6.40	
Denmark	2	13.9	14.0	101,000	49.9%	10.2%		20.43	10.36	
United Kingdom	3	29.9	30.3	87,000	46.7%	28.9%		49.14	18.34	
Total opened in 2004	13	$ 92.0	$ 93.0	607,000	35.7%	9.3%		$ 24.67	$ 12.67	$
Opened in 2003										
Belgium	1	$ 3.3	$ 4.6	45,000	75.0%	51.8%	4.9%	$ 15.01	$ 15.31	$ 2.66
Netherlands	7	37.6	40.1	351,000	59.0%	30.3%	2.1%	19.40	21.59	5.01
Germany	5	33.2	33.6	268,000	49.7%	25.8%	2.6%	14.84	15.80	3.80
France	7	41.4	44.9	372,000	56.1%	25.1%	3.1%	20.33	21.58	9.01
Sweden	2	10.8	13.7	94,000	67.6%	36.2%	7.8%	18.02	17.63	7.86
Denmark	1	7.4	10.0	49,000	93.4%	53.1%	9.5%	23.13	22.97	11.70
United Kingdom	3	30.8	39.9	152,000	59.9%	34.4%	4.2%	38.42	41.38	22.23
Total opened in 2003	26	$ 164.5	$ 186.8	1,331,000	58.8%	30.4%	3.5%	$ 21.00	$ 22.58	$ 8.43
New Store Total	53	$ 349.0	$ 372.8	2,646,000	39.8%	23.5%	3.5%	$ 21.16	$ 20.75	$ 8.43
Same store:										
Opened in 2002										
Belgium	2	$ 7.0	$ 10.0	101,000	53.8%	46.8%	33.7%	$ 12.52	$ 13.04	$ 13.17
Netherlands	7	38.4	54.6	368,000	62.7%	49.1%	29.7%	19.80	20.49	20.24
France	7	40.9	58.8	378,000	74.3%	59.5%	35.0%	20.04	20.02	20.63
Sweden	3	17.0	24.7	151,000	81.1%	66.5%	40.8%	21.64	20.38	18.64
Denmark	2	13.8	19.9	102,000	85.8%	60.6%	25.1%	22.08	22.25	20.94
United Kingdom	3	32.1	48.6	166,000	75.4%	61.2%	27.2%	37.10	41.46	43.62
Total opened in 2002	24	$ 149.2	$ 216.6	1,266,000	71.2%	56.6%	32.2%	$ 22.32	$ 22.94	$ 22.18
Opened in 2001 and before										

Belgium	15	$ 67.5	$ 100.5	894,000	78.9%	77.1%	76.0%	$ 16.30	$ 16.38	$ 16.26
Netherlands	15	73.4	110.5	821,000	76.7%	69.5%	63.0%	20.90	21.14	21.05
France	16	87.1	131.7	855,000	87.4%	82.3%	74.2%	25.67	25.08	25.12
Sweden	17	86.8	135.6	974,000	80.8%	72.2%	66.1%	20.44	20.22	20.08
Denmark	2	12.7	18.5	107,000	85.1%	73.7%	63.1%	21.88	21.78	21.83
United Kingdom	7	64.3	96.8	371,000	77.3%	72.9%	69.6%	34.92	35.58	34.55
Total opened before 2002	72	$ 391.8	$ 593.6	4,022,000	80.7%	75.0%	69.6%	$ 22.15	$ 22.07	$ 21.88
Same Store Total	96	$ 541.0	$ 810.2	5,288,000	78.4%	70.7%	60.8%	$ 22.19	$ 22.24	$ 21.92

223

Table of Contents

	(in thousands) Segment Revenue (3) For the year ended December 31,			(in thousands) NOI (3) (after leasehold expense) For the year ended December 31,		
	2005	2004	2003	2005	2004	2003
New store:						
Opened in 2005						
Belgium	$ 1	$	$	$ (68)	$	$
Netherlands	1			(205)		
Germany	61			(626)		
France	147			(833)		
Denmark	183			(240)		
United Kingdom	268			(454)		
Total opened in 2005	$ 661	$	$	$ (2,426)	$	$
Opened in 2004						
Germany	$ 1,279	$ 181	$	$ (380)	$ (867)	$
France	1,310	99		(394)	(608)	
Denmark	1,212	240		187	(257)	
United Kingdom	2,152	719		693	74	
Total opened in 2004	$ 5,953	$ 1,239	$	$ 106	$ (1,658)	$
Opened in 2003						
Belgium	$ 552	$ 366	$ 22	$ 264	$ 106	$ (90)
Netherlands	4,233	2,234	116	1,189	(385)	(775)
Germany	2,107	1,055	56	6	(929)	(900)
France	4,857	2,392	270	1,568	(814)	(752)
Sweden	1,324	694	109	517	(106)	(302)
Denmark	1,167	659	112	591	225	(218)
United Kingdom	3,844	2,276	268	1,844	428	(206)
Total opened in 2003	$ 18,084	$ 9,676	$ 953	$ 5,979	$ (1,475)	$ (3,243)
New Store Total	$ 24,698	$ 10,915	$ 953	$ 3,659	$ (3,133)	$ (3,243)
Same store:						
Opened in 2002						
Belgium	$ 740	$ 624	$ 451	$ 206	$ 83	$ (150)
Netherlands	4,856	3,605	2,236	2,289	1,253	14
France	6,543	5,166	3,105	2,863	1,624	(28)
Sweden	2,944	2,231	1,278	1,745	983	155
Denmark	2,117	1,492	591	1,076	552	(208)
United Kingdom	5,099	4,462	2,182	2,754	2,237	329
Total opened in 2002	$ 22,299	$ 17,580	$ 9,843	$ 10,933	$ 6,732	$ 112
Opened in 2001 and before						
Belgium	$ 12,718	$ 12,272	$ 11,772	$ 8,059	$ 7,871	$ 7,439
Netherlands	13,904	12,287	11,111	7,536	6,532	5,995
France	21,550	19,823	17,747	12,477	11,025	9,581
Sweden	18,081	16,166	14,576	10,202	8,436	7,597
Denmark	2,226	1,881	1,536	1,081	865	625
United Kingdom	11,041	10,476	9,780	6,640	6,110	6,139

Total opened before 2002	$ 79,520	$ 72,905	$ 66,522	$ 45,995	$ 40,839	$ 37,376
Same Store Total	$ 101,819	$ 90,485	$ 76,365	$ 56,928	$ 47,571	$ 37,488

(1) Development cost of these projects is reported in U.S. dollars translated at the December 31, 2005 exchange rate of $1.18 to the Euro. Operating results (see note (3) below) are reported at the average exchange rate for the year 2005, which was $1.19 to the Euro. To the extent these exchange rates differ, Shurgard believes this data does not allow for an accurate measure of property investment yield. Shurgard believes the application of a constant exchange rate to both the property cost and operating results may provide a more meaningful measure of investment yield. The cost of the storage centers exclude the excess cost of approximately $293 million over carrying cost Shurgard paid for ownership interests acquired in Shurgard Europe in 2003 and 2005.

Table of Contents

(2) Total storage center cost includes all cost capitalized to storage centers since the store was acquired or developed. The costs are reported in U.S. dollars translated at the December 31, 2005 exchange rate of $1.18 to the Euro. Operating results (see note (3) below) are reported at the average exchange rate for 2005 which was $1.19 to the Euro. To the extent these exchange rates differ, Shurgard believes it does not allow for an accurate measure of property investment yield. Shurgard believes the application of a constant exchange rate to both the property cost and operating results may provide a more meaningful measure of investment yield.

(3) The amounts have been translated from local currencies at a constant exchange rate using the average exchange rate for 2005.

(4) Average annual rent per square foot is calculated by dividing actual rent collected by the average number of square feet occupied during the period. The average annual rent is lower in the first year of operations as the store has not been opened a full year.

European Developments Under Construction

The following table summarizes European development projects in progress at December 31, 2005.

	First Shurgard and Second Shurgard		
	Number of Projects	Estimated Completed Cost of Projects (1)	Total Cost to Date as of December 31, 2005
		(dollars in millions)	
Construction in Progress			
France	1	$ 4.5	$ 2.5
Sweden	1	3.7	2.5
United Kingdom	1	5.9	5.3
	3	14.1	10.3
Land purchased pending construction			
France	1	$ 10.2	$ 6.1
United Kingdom	1	7.1	3.0
	2	17.3	9.1
Total	5	$ 31.4	$ 19.4

(1) The actual completed cost of projects could vary due to delays during construction caused by weather, unforeseen site conditions, labor shortages, personnel turnover, scheduling problems with contractors, subcontractors or suppliers, or resource constraints.

Shurgard s Funds from Operations as of December 31, 2005

Shurgard uses Funds from Operations (FFO) in addition to net earnings to report its operating results. Shurgard uses the definition of FFO adopted by the National Association of Real Estate Investment Trusts (NAREIT) as interpreted by the SEC. Accordingly, FFO is defined as net income (computed in accordance with GAAP), excluding gains (losses) on dispositions of interests in depreciated operating properties and real estate depreciation and amortization expenses. FFO includes Shurgard s share of FFO of unconsolidated real estate ventures and discontinued operations and excludes minority interests in real estate depreciation and amortization expenses. Shurgard believes FFO is a meaningful disclosure as a supplement to net earnings because net earnings assumes that the values of real estate assets diminish predictably over time as reflected through depreciation and amortization expenses. Shurgard believes that the values of real estate assets fluctuate due to market conditions. Shurgard s calculation of FFO may not be comparable to similarly titled measures reported by other companies because not all companies calculate FFO in the same manner. FFO is not a liquidity measure and should not be considered as an alternative to cash flows or indicative of cash available for distribution. It also should not be considered an alternative to net earnings, as determined in accordance with U.S. GAAP, as an indication of Shurgard s financial performance.

Table of Contents

The following table sets forth the calculation of FFO in accordance with the NAREIT definition:

	2005	2004 (in thousands)	2003
Net income	$ 11,659	$ 45,295	$ 37,638
Depreciation and amortization (1)	81,174	77,131	52,715
Depreciation and amortization from unconsolidated joint ventures and subsidiaries			12,150
Gain on sale of operating properties (2)	(12,299)	(16,226)	(2,238)
Cumulative effect of change in accounting principle		2,339	
FFO	80,534	108,539	100,265
Preferred distribution and other (3)	(12,066)	(12,193)	(12,082)
FFO attributable to common shareholders	$ 68,468	$ 96,346	$ 88,183

(1) Excludes depreciation related to non-real estate assets and minority interests in depreciation and amortization and includes depreciation and amortization of discontinued operations.

(2) Shurgard has included in FFO gains and losses of land and non-real estate operating assets of approximately $550,000, $130,000 and $250,000 in 2005, 2004 and 2003, respectively. Additionally, Shurgard has included in FFO income from discontinued operations of $517,000, $2.6 million and $3.2 million for years ended December 31, 2005, 2004 and 2003, respectively.

(3) Net of impact of anti-dilutive securities.

FFO attributable to common shareholders for 2005 decreased $27.9 million compared to FFO for 2004, which had increased $8.2 million over 2003. FFO in 2005 benefited from a 26% increase in income from operations over 2004. However, this increase was more than offset by costs incurred in 2005 associated with Shurgard s previously announced exploration of strategic alternatives totaling $13.8 million; fluctuations in foreign currency exchange rates between 2005 and 2004 resulting in a net negative change of almost $16 million and increases in interest expense of $22.7 million due to higher borrowings and interest rates.

Shurgard s Financial Condition, Liquidity and Capital Resources as of December 31, 2005

Shurgard s primary cash requirements are for payments of operating expenses, debt service, dividends on common and preferred stock, expansions and improvements to existing properties and acquisitions and developments of new properties. These requirements have been funded by operating cash flows and from Shurgard s lines of credit. Shurgard believes that its liquidity and capital resources are adequate for its near-term and longer-term requirements. Shurgard had cash and cash equivalents of $39.8 million at December 31, 2005, and $50.3 million at December 31, 2004. As of December 31, 2005, Shurgard had $116.5 million available under its domestic revolving line of credit.

As a REIT, Shurgard s ability to retain cash flow for reinvestment is restricted. In order for Shurgard to qualify as a REIT for federal income tax purposes, Shurgard is required, among other things, to make distributions to its shareholders of at least 90% of its REIT taxable income. For the years ended December 31, 2005, 2004 and 2003, the company distributed $113.3 million, $112.8 million, and $99.3 million, respectively, to its shareholders. Shurgard expects to use its cash flow from operating activities for distributions to shareholders and intends to invest amounts accumulated for these distributions in short-term investments.

Up until 2004, Shurgard relied primarily on the public debt and equity markets for its long-term financing. Because Shurgard did not file a fully compliant Annual Report on Form 10-K for the year ended December 31, 2004 until October 14, 2005, Shurgard is not eligible to access the public capital markets to raise equity or debt using a short-form registration statement on Form S-3 until November 2006. Shurgard has traditionally used proceeds from borrowings under its credit facilities to fund its property development and acquisition requirements. Although Shurgard has subsequently repaid these borrowings with proceeds from public debt and equity offerings, Shurgard currently anticipates utilizing its credit facilities, which mature in February of 2008. Shurgard has also used these proceeds to repay maturing corporate or mortgage debt and for other corporate purposes.

Shurgard believes that the development joint venture structure provides several advantages to Shurgard Europe at this stage in its growth. It allows Shurgard Europe to expand the Shurgard brand with less capital and, therefore, represents a more efficient use of its capital. Even if Shurgard Europe does not ultimately acquire the properties developed by the joint venture, the development and management fees provide it with a stable source of income. Currently, Shurgard employs a joint venture development strategy that is funded approximately 42% through equity and the remainder through debt financing. Shurgard has a 20% ownership interest in the related joint ventures. Shurgard raises the balance needed through credit facilities collateralized by the properties of the ventures.

The following table summarizes certain information regarding Shurgard s liquidity and capital resources:

Short-term and long-term liquidity

	As of December 31,		
	2005	**2004**	**2003**
	(dollars in millions)		
Total market capitalization (1)	$ 4,664	$ 3,880	$ 2,881
Debt to total market capitalization (1) (2)	40%	43%	35%
Weighted average interest rate (3)	5.77%	5.25%	5.93%

(1) Total market capitalization is based on the closing market price, at each period end, of the Class A Common Stock, Series C Preferred Stock and the Series D Preferred Stock multiplied by their respective total number of outstanding shares plus total debt.

(2) Debt includes notes payable, lines of credit and participation rights. The 2005 and 2004 debt includes Shurgard s European subsidiaries debt which results in a higher debt to total market capitalization ratio. In 2003, Shurgard s unconsolidated European subsidiaries had third party debt totaling $443.2 million.

(3) Represents weighted average interest rate on Shurgard s outstanding lines of credit and notes payable.

In 2005, Shurgard entered into a three-year unsecured domestic credit agreement, which includes a revolving credit facility with a group of banks to borrow up to $350 million and a $350 million term loan facility that matures in February 2008. These new facilities replaced previously existing facilities that matured in February 2005. Shurgard borrowed the entire available $350 million on the term loan facility. The revolving credit facility can be extended for one year at Shurgard s option for a fee. The credit facility and the term loan require interest payments at LIBOR plus a margin based on the ratings assigned to Shurgard s senior unsecured long-term debt securities. As of December 31, 2005, Shurgard s margin was 0.90% on the revolving credit facility and 1.10% on the term loan, which reflects a 0.20% increase in Shurgard s margins effective since July 2005 following downgrades on credit ratings by Moody s Investor Service, Inc. (Moody s), Standard & Poor s Rating Services (S&P) and Fitch, Inc. (Fitch). Subsequent to the closing of the new facility, Moody s announced a downgrade of Shurgard s senior unsecured long-term debt to Baa3 and in July 2005, S&P and Fitch announced downgrades to BBB-. As of December 31, 2005, the term loan had no additional funds available, and availability under the revolving credit facility was $116.5 million. Shurgard can use borrowings under the revolving credit facility for various purposes, including project acquisition and development costs, repayment of debt and other corporate needs.

First Shurgard and Second Shurgard have senior credit agreements denominated in euros to borrow, in aggregate, up to 272.5 million ($322.7 million as of December 31, 2005). As of December 31, 2005, the available amount under those credit facilities was in aggregate 115.5 million ($136.8 million). Shurgard s draws under the First Shurgard and Second Shurgard credit facilities are determined on a development project basis and can be limited if the completion of projects is not timely or if Shurgard has certain cost overruns. Borrowings

Table of Contents

under both the First Shurgard and Second Shurgard credit facilities were such that they could only be used to fund property development costs of First Shurgard and Second Shurgard. In January 2006, Shurgard amended Second Shurgard s credit agreement such as to allow for borrowings for up to 21.9 million ($25.9 million as of December 31, 2005) to be used for acquisition of existing self-storage properties including properties under capital leases. Shurgard expects that internally generated cash flows within Shurgard Europe will be sufficient to fund Shurgard Europe s on-going equity commitments to both First Shurgard and Second Shurgard.

Shurgard is continually evaluating sources of capital and believe they are available to meet its liquidity needs without necessitating sales of properties. In addition to its cash and cash equivalents and availability under its credit facility, Shurgard has other sources of capital. Subject to certain restrictions contained in Shurgard s merger agreement with Public Storage, Shurgard may sell operating properties if market conditions warrant in 2006. Subject to certain restrictions in the merger agreement, Shurgard may also contribute properties to joint ventures in exchange for interests in and cash distributions from those ventures, and/or sell peripheral and other land parcels. For a description of the limitations imposed on Shurgard s conduct by the merger agreement, see *The Merger Agreement Covenants and Agreements*. In addition, most of Shurgard s domestic operating properties are unencumbered by mortgage debt.

Shurgard s contractual cash obligations and construction cost commitments are summarized as follows at December 31, 2005:

	2006	2007	2008	2009 (in thousands)	2010	Thereafter	Total
Debt:							
Scheduled principal payments	$ 5,359	$ 10,224	$ 5,392	$ 3,040	$ 3,170	$ 8,170	$ 35,355
Balloon Payments	3,867	54,086	808,650	34,936	7,461	908,706	1,817,706
Interest (1)	102,786	105,070	58,993	50,348	49,972	19,008	386,177
Capital lease obligations	618	630	642	654	604	33,784	36,932
Operating leases	9,509	8,512	7,265	6,584	5,200	143,852	180,922
Construction commitments							
Domestic	29,055						29,055
Shurgard Europe	576	231	231	203	274		1,515
First Shurgard	6,604	47	55	64			6,770
Second Shurgard	14,540	(241)	24	29	5		14,357
Commitments to lend	4,129	58					4,187
Commitment to purchase minority partners interests	2,000						2,000
Advisory contract commitments	11,350						11,350
Total	$ 190,393	$ 178,617	$ 881,252	$ 95,858	$ 66,686	$ 1,113,520	$ 2,526,326

(1) Projected interest is based on annual debt maturities and weighted-average interest rates on outstanding debt at the end of each year as well as a LIBOR and EURIBOR at December 31, 2005, of 4.39% and 2.40%, respectively, along with a forward yield curve for following years and the applicable margin to each debt.

On March 6, 2006, Shurgard entered into the merger agreement with Public Storage. On consummation of the proposed merger, each outstanding share of Shurgard s common stock will be converted into the right to receive 0.82 of a fully paid and non-assessable share of Public Storage common stock. Shurgard also expects to redeem each series of its outstanding preferred stock in accordance with its terms for a combined aggregate amount of approximately $136.3 million, payable by Public Storage. Public Storage will assume approximately $1.8 billion of Shurgard s debt.

228

In connection with the exploration of strategic alternatives and its proposed merger with Public Storage, Shurgard entered into engagement letters with its financial advisors. Under these agreements Shurgard expensed $12 million in combined minimum fee obligations of which $11.4 million remained unpaid and included in other liabilities. As a result of entering into the merger agreement with Public Storage, Shurgard will incur $12 million of additional financial advisory fees plus out of pocket expenses in 2006. Of the total $23.4 million in financial advisory fees payable in 2006, approximately $10.5 million are due during the first quarter of 2006; the balance of $12.9 million will become payable upon consummation of the proposed merger. In addition, related to the exploration of strategic alternatives, Shurgard incurred $1.8 million in legal fees and expense reimbursements in 2005 and expects to incur an additional $5.0 million of such fees and expenses in 2006 in connection with the proposed merger with Public Storage.

The following table summarizes Shurgard s cash flows activity:

	2005	2004	2003
		(in thousands)	
Net cash provided by operating activities	$ 116,152	$ 122,741	$ 123,698
Net cash used in investing activities	(282,186)	(187,186)	(408,119)
Net cash provided by financing activities	159,740	99,367	283,123
Effect of exchange rate changes on cash and cash equivalents	(4,205)	3,685	
(Decrease) increase in cash and cash equivalents	(10,499)	38,607	(1,298)
Cash and cash equivalents at beginning of period	50,277	11,670	12,968
Cash and cash equivalents at end of period	$ 39,778	$ 50,277	$ 11,670

The decrease in cash provided by operating activities in 2005 was attributable primarily to the timing of certain payments. Net cash used by operating activities in Europe amounted to approximately $6.0 million.

Investing

Cash used in investing activities in 2005 included:

- $66.9 million invested in domestic new development, redevelopments and enhancements of existing storage centers;
- $100.0 million for development and improvements of new European storage centers;
- $35.5 million expended for acquisition of domestic storage centers; and
- $97.8 million for the acquisition of additional interests in Shurgard Europe.

These expenditures were partially offset by $26.3 million of proceeds from the sales of interests in operating storage centers and sale of other real estate assets.

Shurgard s developments in Europe were conducted through First Shurgard and Second Shurgard which were financed primarily by borrowings on their credit facilities and by capital contributions by Shurgard and its joint venture partners. In June 2005, Shurgard acquired the remaining 12.77% ownership interests in Shurgard Europe, which became a wholly-owned subsidiary.

Cash used in investing activities in 2004 included:

$62.8 million invested in domestic new development, redevelopments and enhancements of existing storage centers;

$31.1 million expended for acquisition of domestic storage centers;

$121.4 million for development and improvements of new European storage centers;

229

Table of Contents

- $14.6 million for acquisitions of European operating storage centers; and
- $5.3 million for the acquisition of additional interests in Shurgard Europe.

In July 2004, Shurgard purchased the remaining shares of Recom, through which it holds part of Shurgard s ownership interest in Shurgard Europe for approximately $5.3 million cash and the forgiveness of a note of approximately $2.3 million. As a result of this transaction, Shurgard increased its ownership interest in Shurgard Europe from 85.47% to 87.23%. In August 2004, Shurgard acquired a single property storage facility in the United Kingdom, through a wholly-owned consolidated European subsidiary. Shurgard financed this $14.6 million acquisition with proceeds from its domestic line of credit.

Cash used in investing activities in 2003 included:

- $309.1 million for Shurgard s acquisition of the majority interest in Shurgard Europe;
- $84.1 million for domestic new development, redevelopments and enhancements of existing storage centers; and
- $13.4 million for improvements to Shurgard s existing domestic storage centers.

Financing

Cash provided by financing activities in 2005 included:

- $32.0 million from capital contributions received primarily from Shurgard s partner in First Shurgard and Second Shurgard;
- $250.0 million proceeds from the new three-year term loan facility;
- $69.2 million proceeds from First Shurgard and Second Shurgard s credit facilities; and
- $9.5 million proceeds from new domestic mortgage notes.

These cash proceeds were partially offset by the following payments:

- $113.3 million distributions paid on common and preferred stock;
- $63.8 million of net repayments on Shurgard s domestic revolving line of credit;
- $15.0 million of payment on interest swaps that matured in February 2005; and
- $5.5 million repayment on domestic mortgage notes payable.

Cash provided by financing activities in 2004 included:

$29.4 million from capital contributions received primarily from partners in First Shurgard and Second Shurgard;

$384.0 million proceeds from Euro denominated bonds issued in October 2004;

$100.0 million proceeds from new one-year term loan facility obtained in April 2004;

$34.1 million of net additional draws on Shurgard s domestic revolving line of credit;

$72.0 million proceeds from new domestic mortgage notes; and

$101.5 million proceeds from First Shurgard and Second Shurgard s credit facilities.

Cash provided by financing activities in 2003 included:

$178.9 million of net proceeds from the sale of 5.75 million shares of common stock;

$197.9 million of proceeds from Shurgard s issuance of senior unsecured notes; and

$39.1 million proceeds from new domestic mortgage notes.

230

Table of Contents

In October 2004, Shurgard Europe completed a 325 million secured bond offering, the proceeds of which it used to repay its credit facility. The bonds are collateralized by 101 storage centers wholly-owned by Shurgard Europe that had a net book value of $579 million as of December 31, 2004 and contain various financial covenants. The notes are due on October 1, 2011. The notes are structured in three tranches, with a weighted average interest rate of 0.51% over EURIBOR. Shurgard Europe has entered into interest rate and currency swap agreements in order to hedge its interest rate exposure and to fix the interest rate through maturity at 4.23%. Additionally, on October 15, 2004, Shurgard Europe obtained a 30 million senior credit facility available in the event of a liquidity shortfall through the legal maturity of the bonds.

Using borrowing under its line of credit, Shurgard repaid its 7.5% senior unsecured notes upon their maturity in April 2004 and retired the remaining participation rights liability in December 2004.

These cash proceeds were partially offset by the following payments:

- $99.3 million distributions paid on Shurgard s common and preferred stock; and
- $35.8 million repayment of mortgage notes payable.

On March 19, 2003, Shurgard issued $200 million (net proceeds of $197.9 million) in 5.875% senior unsecured notes due in 2013. The notes require semi-annual interest payments due March 15 and September 15. Shurgard used the proceeds from the notes to repay credit facility borrowings that were used to fund the acquisition of additional interests in Shurgard Europe.

On July 11, 2003, Shurgard raised approximately $178.9 million of net proceeds through the sale of 5.75 million shares of its common stock. Shurgard used approximately $101.6 million of the proceeds to fund the acquisition of an additional 19.7% ownership interest in Shurgard Europe. Shurgard used additional proceeds to repay a portion of the indebtedness under its line of credit.

Shurgard s Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Shurgard s Quantitative and Qualitative Disclosures about Market Risk

Shurgard is exposed to changes in interest rates primarily from its floating rate debt arrangements. Shurgard has implemented a policy to protect against interest rate and foreign currency exchange risk. Shurgard s interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows. To achieve these objectives Shurgard issues long-term notes payable, primarily at fixed interest rates, and may selectively enter into derivative financial instruments, such as interest rate lock agreements, interest rate swaps and caps in order to mitigate the interest rate risk on existing or future borrowings. Shurgard s investment policy prohibits it from entering into any such contract solely to secure profit by speculating on the direction of currency exchange or interest rates if unrelated to capital borrowed lent or invested by Shurgard.

Shurgard has foreign currency exposures related to its investment in the construction, acquisition, and operation of storage centers in countries outside the United States to the extent such activities are financed with financial instruments or equity denominated in non-functional currencies. Since all foreign debt is denominated in the corresponding functional currency, Shurgard s currency exposure is limited to its equity investment in those countries. Countries in which Shurgard has exposure to foreign currency fluctuations include Belgium, France, the Netherlands, Sweden, Denmark, Germany and the United Kingdom. Shurgard s net investment in these foreign operations at December 31, 2005, was in excess of $425 million, most of which Shurgard considered long-term and its 2005 net loss from foreign operations was approximately $30.0 million.

Table of Contents

The tables below summarize annual debt maturities and weighted-average interest rates on outstanding debt at the end of each year and fair values required to evaluate Shurgard s expected cash-flows under debt agreements and Shurgard s sensitivity to interest rates.

Expected maturity date	2006	2007	2008	2009	2010	Thereafter	Total	Fair Value
Fixed rate debt (1)	$ 3,940	$ 53,173	$ 21,475	$ 2,900	$ 3,084	$ 531,981	$ 616,553	$ 636,171
Average interest rate	6.71%	6.61%	6.60%	6.60%	6.61%	5.88%		
Variable rate LIBOR debt (2)	$ 2,317	$ 4,558	$ 687,830	$ 139	$ 7,530	$	$ 702,374	$ 702,374
Average interest rate	6.09%	6.24%	7.29%	7.34%	7.47%			
Variable rate EURIBOR debt (3)	$ 2,174	$ 7,065	$ 144,746	$ 71,860	$	$ 392,513	$ 618,358	$ 618,358
Average interest rate	4.03%	4.78%	4.83%	4.33%	4.38%	4.45%		
Interest rate swaps								
Swap on EURIBOR	$	$	$ (1,385)	$ (812)	$	$ (2,329)	$ (4,526)	$ (4,526)

(1) The fair value of Shurgard s fixed rate debt decreased by $13 million, from $649 million at December 31, 2005, due primarily to an increase in market interest rates.

(2) Variable rate LIBOR debt increased by $37 million, from $665 million at December 31, 2005. In February 2005, Shurgard entered into a three-year unsecured revolving credit facility with a group of banks to borrow up to $350 million and a six-month $150 million term loan facility.

(3) Variable rate EURIBOR debt increased by $48 million, from $571 million at December 31, 2005, as a result of the depreciation of the U.S. dollar against the euro, and incremental borrowings of 30.1 million. First Shurgard and Second Shurgard have senior credit agreements denominated in euros to borrow, in aggregate, up to 272.5 million ($329.1 million as of March 31, 2006). As of March 31, 2006, the available amount under those credit facilities was in aggregate 85.5 million ($103.3 million). Draws under the First Shurgard and Second Shurgard credit facilities are determined on a development project basis.

At March 31, 2006, Shurgard was party to pay-fixed, receive-variable interest rate swaps designated as cash flow hedges that effectively fix the EURIBOR rate on portions of its expected variable rate debt through 2011. The notional amounts, the weighted average pay rates and the terms of these agreements are summarized as follows (in millions):

	2006	2007	2008	2009	2010	Thereafter
Notional amounts	$ 664.8	$ 684.9	$ 598.1	$ 476.2	$ 392.5	$ 392.5
Weighted average interest rate	4.96%	4.99%	4.83%	4.54%	4.23%	4.23%

232

Table of Contents

The weighted average interest rate was determined based on a LIBOR of 4.39% and 2.42% at December 31, 2005 and 2004, respectively, a EURIBOR of 2.40% and 2.13% at December 31, 2005 and 2004, respectively, a forward yield curve for following years and the applicable margin to each debt:

As of December 31, 2005 (in thousands):

Expected maturity date	2006	2007	2008	2009	2010	Thereafter	Total	Fair Value
Fixed rate debt (1)	$ 4,710	$ 53,173	$ 21,476	$ 2,900	$ 3,084	$ 531,987	$ 617,330	$ 648,848
Average interest rate	6.71%	6.61%	6.60%	6.60%	6.61%	5.88%		
Variable rate LIBOR debt (2)	$ 2,384	$ 4,209	$ 650,631	$ 140	$ 7,547	$	$ 664,911	$ 664,911
Average interest rate	5.67%	5.83%	6.94%	6.98%	7.05%			
Variable rate EURIBOR debt (3)	$ 2,132	$ 6,928	$ 141,935	$ 34,936	$	$ 384,889	$ 570,820	$ 570,820
Average interest rate	3.58%	4.28%	4.23%	3.76%	3.85%	3.94%		
Interest rate swaps								
Swap on EURIBOR	$ (101)	$	$ (3,075)	$ (3,541)	$	$ (14,913)	$ (21,630)	$ (21,630)

As of December 31, 2004 (in thousands):

Expected maturity date	2005	2006	2007	2008	2009	Thereafter	Total	Fair Value
Fixed rate debt	$ 2,964	$ 7,180	$ 53,257	$ 21,570	$ 2,990	$ 531,549	$ 619,510	$ 667,678
Average interest rate	6.74%	6.72%	6.64%	6.63%	6.63%	6.63%		
Variable rate LIBOR debt	$ 471,946	$	$ 585	$	$	$	$ 472,531	$ 472,531
Average interest rate	4.25%	6.40%	6.72%					
Variable rate EURIBOR debt	$	$	$ 12,977	$ 118,967	$ 5,820	$ 443,299	$ 581,063	$ 581,063
Average interest rate	3.28%	3.74%	4.11%	4.06%	4.29%	0.00%		
Interest rate swaps								
Swaps on LIBOR	$ (14,890)	$	$	$	$	$	$ (14,890)	$ (14,890)
Swap on EURIBOR	$	$ (634)	$	$ (3,436)	$ (2,808)	$ (12,689)	$ (19,567)	$ (19,567)

---

(1) The fair value of Shurgard s fixed rate debt decreased by $19 million, from $668 million at December 31, 2004, due primarily to an increase in market interest rates.

(2) Variable rate LIBOR debt increased by $192 million, from $473 million at December 31, 2004. In 2005, Shurgard entered into a three-year unsecured credit agreement with a group of banks to borrow up to $350 million and a term loan facility of $350 million. Both have a maturity date of February 2008. Shurgard

233

recognized expenses of approximately $500,000 relating to arrangement fees associated with these changes. Downgrades made in 2005 to Shurgard s senior unsecured debt rating have resulted in an increase of 20 basis points in Shurgard s interest rate.

(3) Variable rate EURIBOR debt decreased by $10 million, from $581 million at December 31, 2004, as a result of the appreciation of the U.S. dollar against the Euro, which more than offset incremental borrowings of 37.5 million. First Shurgard and Second Shurgard have senor credit agreements denominated in euros to borrow, in aggregate, up to 272.5 million ($322.7 million as of December 31, 2005). As of December 31, 2005, the available amount under those credit facilities was in aggregate 115.5 million ($136.8 million). Shurgard s draws under the First Shurgard and Second Shurgard credit facilities are determined on a development project basis.

At March 31, 2006, Shurgard was party to pay-fixed, receive-variable interest rate swaps designated as cash flow hedges that effectively fix the EURIBOR rate on portions of its expected variable rate debt through 2011. The notional amounts, the weighted average pay rates and the terms of these agreements are summarized as follows (in millions):

	2006	2007	2008	2009	2010	Thereafter
Notional amounts	$ 664.8	$ 684.9	$ 598.1	$ 476.2	$ 392.5	$ 392.5
Weighted average interest rate	4.91%	4.99%	4.83%	4.54%	4.23%	4.23%

At December 31, 2005, Shurgard had pay-fixed, receive variable-rate swaps with a notional amount of $531.9 million.

Based on Shurgard s outstanding variable-rate LIBOR and EURIBOR debt and interest rate swaps at December 31, 2005, a hypothetical increase in these interest rates of 1% would cause Shurgard s annual interest costs to increase by $6.6 million. All of Shurgard s EURIBOR debt and notional amounts of interest rate swaps are denominated in euros.

Shurgard s Policies with Respect to Certain Activities

The following is a discussion of Shurgard s investment policies. These policies may be amended or revised from time to time at the discretion of Shurgard s board of directors. However, any change to any of these policies would be made by Shurgard s board of directors only after a review and analysis of the proposed change, in light of then existing business and other circumstances, and then only if the board of directors believes, in the exercise of its business judgment, that it is advisable to do so and in Shurgard s and its shareholders best interests. Shurgard cannot assure you that its investment objectives will be attained. This section is qualified in its entirety by reference to the merger agreement, which is incorporated by reference in its entirety and attached to this joint proxy statement/prospectus as Annex A. We urge you to carefully read the merger agreement in its entirety.

Investments in Real Estate or Interests in Real Estate

Shurgard develops, acquires, invests in, operates and manages self-storage centers and related operations. Shurgard s investment objective is to realize shareholder value by improving the performance of its existing portfolio as measured by year-over-year increases in net operating income, acquiring additional self-storage properties, developing new storage centers and redeveloping or expanding selected properties. As of March 31, 2006, Shurgard operated a network of 656 storage centers containing over 40 million net rentable square feet located throughout the United States and Europe.

Shurgard follows certain internal policies and guidelines relating to its investments in real estate and real estate mortgages as reflected in the descriptions of Shurgard s self-storage properties and its development and acquisition strategies related to self-storage properties in *Information about Shurgard Shurgard s Business Business Strategy* and *Information about Shurgard Shurgard s Business Capital Strategy*.

Shurgard s bylaws limit its investments in real estate to self-storage properties, office and business parks and other real estate approved by the board of directors from time to time and require the consideration paid for

Table of Contents

real estate to be based on fair market value. Shurgard s bylaws provide that investments in unimproved real property or loans secured by such property may not exceed 10% of Shurgard s total assets. Investments are also subject to Shurgard s policy not to be treated as an investment company under the Investment Company Act of 1940, as amended.

Shurgard acquires real estate and related assets primarily for income rather than for capital gain. Shurgard s policy is to engage in investment activities in a manner that is consistent with the maintenance of its status as a REIT for U.S. federal income tax purposes. Subject to REIT qualification rules, and avoidance of the 100% prohibited transactions tax, Shurgard will consider disposing of facilities if its management determines that a sale of a facility would be in Shurgard s best interests based on the price being offered for the facility, the operating performance of the facility, the tax consequences of the sale and other factors and circumstances surrounding the proposed sale.

Financing Policies

As of March 31, 2006, Shurgard had approximately $1.943 billion of total indebtedness outstanding. Shurgard s board of directors considers a number of factors when evaluating Shurgard s level of indebtedness and when making decisions regarding the incurrence of additional indebtedness, including the purchase price of facilities to be acquired or developed with debt financing, the estimated market value of Shurgard s facilities upon refinancing and the ability of particular facilities, as well as the company as a whole, to generate cash flow to cover expected debt service.

Shurgard incurs indebtedness from time to time in accordance with its capital strategy as described in *Shurgard s Business Capital Strategy*. Shurgard s bylaws provide that it may not

borrow funds if, after giving effect to the borrowing, Shurgard s indebtedness for borrowed money would exceed 50% of its total assets or 300% of its shareholders equity or

engage in unsecured borrowings that would result in asset coverage (the ratio, expressed as a percentage, that Shurgard s total assets, less liabilities and indebtedness (except unsecured borrowings) bears to the amount of unsecured borrowings) of less than 300%.

Shurgard generally finances growth through a combination of equity, both public and private, unsecured borrowings and secured mortgage debt on an individual facility or a portfolio of facilities. Shurgard s financing policies also allow purchase money obligations to the sellers of facilities, publicly or privately placed debt instruments, and financing from banks, institutional investors, or other lenders, any of which may be unsecured or may be secured by mortgages or other interests in Shurgard s facilities. This indebtedness may be recourse, non recourse or cross-collateralized. In the case of Shurgard s recourse indebtedness, that recourse may include Shurgard s general assets. Its non-recourse indebtedness may be limited to the particular facility to which the indebtedness relates. In addition, Shurgard s policies allow it to invest in facilities subject to existing loans secured by mortgages or similar liens, or may refinance facilities acquired on a leveraged basis. Shurgard may use the proceeds from any borrowings for general working capital, to finance acquisitions, expansion, redevelopment of operating facilities or development of new facilities, to refinance existing indebtedness or to purchase interests in partnerships or joint ventures in which Shurgard participates or may participate in the future. Shurgard may also incur indebtedness for other purposes when its board of directors or management determines it advisable. In addition, Shurgard may need to borrow additional cash to make distributions (including distributions that may be required under the Code) if its does not have sufficient cash available to make those distributions.

Pursuant to the joint venture agreements relating to Shurgard s European joint ventures, each of those entities is required to use its best efforts to ensure that the leverage ratio for the joint venture does not exceed 70:30 at any time.

Table of Contents

Lending Policies

Shurgard, from time to time, makes loans to others, invests in securities of other issuers for the purpose of exercising control and issues securities in exchange for property, provided that such loans, investments and issuances are related to and support properties or businesses in the self storage industry. Such activities involve entering into joint ventures, making or guaranteeing loans of such joint ventures, including Shurgard s European subsidiaries, and acquiring self-storage properties and businesses, or interests in entities owning such assets, in exchange for Shurgard securities. Shurgard s bylaws provide that it may not invest in equity securities of any nongovernmental issuer for more than 18 months, unless the issuer is involved in the self storage industry in certain respects.

Equity Capital Policies

The Shurgard board of directors has the authority, without further shareholder approval, to issue additional authorized common and preferred shares or otherwise raise capital, including through the issuance of senior securities, in any manner and on such terms and for such consideration it deems appropriate, including in exchange for property. Existing shareholders have no preemptive right to common or preferred shares in any offering and any offering might cause a dilution of a shareholder s investment in Shurgard. Shurgard may, under certain circumstances, purchase its common shares in the open market or in private transactions with its shareholders, provided that its board of directors approves those purchases. Shurgard has called each series of its currently outstanding preferred stock for redemption in connection with and contingent on the consummation of the merger.

Conflict of Interest Policy

Shurgard has implemented a Code of Business Conduct that seeks among other things to reduce the risk that outside interests of its directors and employees may conflict with the interests of Shurgard, including those situations where a director or employee or any other person having a close personal relationship with the director or employee:

- obtains a significant financial or other beneficial interest in one of Shurgard s suppliers, customers or competitors without first notifying Shurgard and obtaining written approval from the chief executive officer of Shurgard;

- engages in a significant personal business transaction involving Shurgard for profit or gain, unless such transaction has first been approved by the chief executive officer of Shurgard;

- accepts money, gifts of other than nominal value (nominal value is defined as not more than $100), excessive hospitality, loans or other special treatment from any supplier, customer or competitor of Shurgard (loans from lending institutions at prevailing interest rates are excluded);

- participates in any sale, loan or gift of Shurgard property without obtaining proper approval; or

- learns of a business opportunity through association with Shurgard and discloses it to a third party or invests in the opportunity without first offering it to Shurgard.

It is Shurgard s policy to obtain, in this regard, a certificate of compliance from each director or employee who can direct or influence the use or disposition of any significant amount of funds or other assets of Shurgard or any of its affiliated companies.

In addition, Shurgard s board of directors is subject to certain provisions of the WBCA that are designed to eliminate or minimize conflicts. However, Shurgard cannot assure you that these policies or provisions of law will be successful in eliminating the influence of these conflicts. Under the WBCA, a contract or other transaction between Shurgard and any of its directors and any other entity in which that director is also a director, or has a material financial interest, is not void or voidable solely on the grounds of the common directorship or

236

interest, the fact that the director was present at the meeting at which the contract or transaction is approved or the fact that the director s vote was counted in favor of the contract or transaction, if:

- the fact of the common directorship or interest is disclosed to the board of directors or a committee of the board of directors, and the board of directors, or that committee, authorizes the contract or transaction by the affirmative vote of a majority of the disinterested trustees, even if the disinterested trustees constitute less than a quorum;

- the fact of the common directorship or interest is disclosed to Shurgard s shareholders entitled to vote, and the contract or transaction is approved by a majority of the votes cast by the shareholders entitled to vote, other than votes of shares owned of record or beneficially by the interested director, corporation, firm or other entity; or

- the contract or transaction is fair and reasonable to Shurgard.

Without the approval of a majority of Shurgard s disinterested directors, Shurgard will not enter into a transaction or arrangement (including utilizing the services of any director to provide legal, accounting, financial, consulting or other similar services) in which a director has a material personal or financial interest, whether direct or indirect. Whether a director has a material personal or financial interest in a transaction or arrangement will be determined by the board of directors on a case-by-case basis, but at a minimum a director will be considered to have a material personal or financial interest in a transaction or arrangement if Shurgard will be required to disclose the transaction or arrangement in its annual proxy statement to shareholders or its annual report on Form 10-K. The interested director will not participate in any board discussion regarding the matter in which the director has such an interest. A director will include any entity with which the director is affiliated, any immediate family member of a director and any entity in which a director s immediate family member has a material interest. Shurgard s corporate governance and nominating committee has adopted, and Shurgard has implemented, policies governing all related party transactions.

Shurgard is subject to the full information reporting requirements of the Securities Exchange Act of 1934, as amended. Pursuant to these requirements, Shurgard files periodic reports, proxy statements and other information, including certified financial statements, with the Securities and Exchange Commission.

Investments in Mortgages

Shurgard s bylaws limit Shurgard s investments in real estate mortgages to not more than 25% of its total assets and provide that a mortgage loan generally must not exceed 90% of the appraised value of the underlying property, which property itself must be of a type that Shurgard is authorized to invest in directly. The Shurgard board of directors has authorized Shurgard to make mortgage loans of up to an aggregate of $150 million to its joint venture partners. In addition, Shurgard has made additional mortgage loans as authorized from time to time by the Shurgard board of directors. These mortgage loans are secured by first mortgages on certain of the properties held by the joint venture involved and are not insured by any governmental agencies. The Shurgard board of directors, at its discretion and without a vote of its shareholders, may approve additional mortgage loans or increase the current authorized limit, subject to the investment restrictions applicable to REITs. The mortgage loans in which Shurgard may invest in the future may be secured by either first mortgages or junior mortgages, and may or may not be insured by a governmental agency. Investments in real estate mortgages run the risk that one or more borrowers may default under certain mortgages and that the collateral therefore may not be sufficient to enable Shurgard to recoup its full investment.

Investments in Securities of or Interests in Persons Primarily Engaged in Real Estate Activities

Subject to REIT qualification rules, Shurgard invests in the securities of other issuers in connection with acquisitions of indirect interests in facilities, which normally would include joint venture interests such as general or limited partner interests in special purpose partnerships owning facilities. Shurgard may in the future acquire some, all or substantially all of the securities or assets of other REITs or similar real estate entities where such

Table of Contents

investment would be consistent with its investment policies. Subject to the percentage ownership limitations and asset test requirements for REIT qualification and as set forth in Shurgard s articles of incorporation and by-laws, there are no limitations on the amount or percentage of Shurgard s total assets that may be invested in any one issuer. The primary activities of persons in which Shurgard invests may include, among others, investment in self storage facilities. The decision to purchase such securities will be subject to criteria including, with respect to self-storage facilities owned by such persons, the criteria set forth above under *Information about Shurgard Shurgard s Policies with Respect to Certain Activities Investments in Real Estate or Interests in Real Estate*.

Pursuant to the joint venture agreements relating to Shurgard s European joint ventures, the joint ventures may invest only in the securities of entities whose operations are compliant with Shari ah laws, whether those operations include real estate activities or otherwise.

Investments in Other Securities

Shurgard invests its surplus funds temporarily in interest bearing securities of various types in accordance with standards set forth in its bylaws. Shurgard does not underwrite securities of other issuers and its bylaws prohibit such activity.

Pursuant to the joint venture agreements relating to Shurgard s European joint ventures, the joint ventures may invest their excess funds in Shari ah compliant investments or interest bearing accounts.

In any event, Shurgard does not intend that its investments in securities will require it to register as an investment company under the Investment Company Act of 1940, and Shurgard intends to divest securities before any registration would be required. Shurgard has not in the past acquired, and does not anticipate that it will in the future seek to acquire, loans secured by facilities and Shurgard has not, nor does it intend to, engage in trading, underwriting, agency distribution or sales of securities of other issuers.

Table of Contents

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The unaudited pro forma condensed consolidated financial statements were prepared to reflect the proposed merger. The merger will be accounted for using the purchase method as prescribed by Statement of Financial Accounting Standards No. 141, Business Combinations, with intangible assets, if any, to be recorded in accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. The allocation of the purchase price reflected in the pro forma condensed consolidated balance sheet is preliminary and is subject to change. We can give no assurance that when the audit with respect to such allocation of purchase price is completed the financial information will not change or that any change will not be material.

The unaudited pro forma condensed consolidated balance sheet at March 31, 2006 has been prepared to reflect the merger, as if the merger occurred on March 31, 2006. The unaudited pro forma condensed consolidated statements of income for the year ended December 31, 2005 and the three months ended March 31, 2006 have been prepared assuming the merger occurred on January 1, 2005. The adjustments made to the pro forma condensed consolidated balance sheet have been made to reflect the financing of the merger and the allocation of the purchase price and other costs of the merger to the tangible and intangible assets acquired. The adjustments made to the pro forma condensed consolidated statements of income have been made to reflect the estimated impact on income allocated to minority interest, income allocated to preferred shareholders, and interest expense as a result of financing the merger, the impact of eliminating certain duplicate administrative costs that will be eliminated as a result of the merger, the impact on depreciation and amortization expense of increasing the carrying values of the real estate assets and intangible assets acquired, the impact of reduced interest income reflecting the utilization of cash on hand to fund the merger, as well as to reclassify certain items in Shurgard s historical balances in order to conform to Public Storage s presentation.

The pro forma adjustments are based on available information and on certain assumptions as set forth in the notes to the pro forma consolidated financial statements that we believe are reasonable in the circumstances. The pro forma condensed consolidated financial statements and accompanying notes should be read in conjunction with the historical financial statements of Public Storage, which are incorporated into this document by reference, the historical financial statements of Shurgard, which are included herein under *Index to Consolidated Financial Statement of Shurgard*, and other documents filed by Public Storage and Shurgard with the SEC from time to time. See *Where You Can Find More Information*.

The following pro forma condensed consolidated financial statements do not purport to represent what Public Storage s results of operations would actually have been if the merger had in fact occurred as of January 1, 2005 or to project Public Storage s results of operations for any future date or period.

As a result of the merger, Public Storage believes that there will be certain cost efficiencies due to the economies of scale of having a larger number of facilities in certain markets after the merger is consummated. Public Storage expects such cost efficiencies in telephone directory advertising, property insurance, and payroll cost with respect to supervisory personnel. In addition, some of Shurgard s facilities will be subject to property tax reappraisal resulting in increases to property tax expense. Public Storage is evaluating the potential cost savings and increase in property taxes; however, it is not able to quantify the amount of such savings or costs at this time. Accordingly, no adjustments have been made to the pro forma condensed consolidated statement of income to reflect expected cost savings or increases to property taxes.

Table of Contents

PUBLIC STORAGE, INC.

PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

March 31, 2006

(Unaudited)

	Public Storage (Historical)	Shurgard (Historical)	Pro Forma Adjustments: Issuance of Preferred Securities (Note 1)	Merger: Purchase (Note 3)	Merger: Valuation (Note 4)	Public Storage Post-Merger (Pro Forma)
ASSETS						
Cash and cash equivalents	$ 382,329	$ 36,616	$ 601,601	$ (892,054)	$	$ 128,492
Operating real estate facilities, net of accumulated depreciation	4,483,468	2,739,245			2,282,732	9,505,445
Construction in process	54,915	88,349				143,264
Properties held for sale		3,783				3,783
Restricted cash		2,876				2,876
Investment in real estate entities	305,558					305,558
Goodwill	78,204	27,440			(27,440)	78,204
Intangible assets, net	96,430				384,716	481,146
Other assets	69,700	125,071			(41,743)	153,028
Unallocated Purchase price				3,244,841	(3,244,841)	
Total assets	$ 5,470,604	$ 3,023,380	$ 601,601	$ 2,352,787	$ (646,576)	$ 10,801,796
LIABILITIES AND SHAREHOLDERS EQUITY						
Lines of credit	$	$ 620,700	$	$ (620,700)	$	$
Notes payable	106,200	1,322,780		(67,000)	15,315	1,377,295
Debt to joint venture partner	35,740					35,740
Accrued and other liabilities	153,159	143,136			(360)	295,935
Total liabilities	295,099	2,086,616		(687,700)	14,955	1,708,970
Minority interest preferred	225,000		100,000			325,000
Minority interest other	32,789	138,983				171,772
Shareholders equity:						
Preferred stock	2,603,400	131,183	517,500	(136,250)	5,067	3,120,900
Common stock	12,816	47		3,875	(47)	16,691
Equity stock						
Paid in capital	2,428,424	1,150,041	(15,899)	3,172,862	(1,150,041)	5,585,387
Cumulative net income	3,303,482					3,303,482
Accumulated deficit		(483,856)			483,856	
Accumulated other comprehensive loss		366			(366)	
Cumulative distributions paid	(3,430,406)					(3,430,406)
Total shareholders equity	4,917,716	797,781	501,601	3,040,487	(661,531)	8,596,054
Total liabilities and shareholders equity	$ 5,470,604	$ 3,023,380	$ 601,601	$ 2,352,787	$ (646,576)	$ 10,801,796
Book value per common share (Note 5)	$ 16.39	$ 14.00				$ 31.52

Common shares outstanding (Note 5)	128,163	47,251	166,909

See Accompanying Notes to Pro Forma Condensed Consolidated Balance Sheet.

240

Table of Contents

PUBLIC STORAGE, INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

March 31, 2006

(Unaudited)

1. ***PRO FORMA ADJUSTMENTS FOR THE ISSUANCE OF PREFERRED SECURITIES:***

On May 3, 2006, Public Storage issued shares of its 7.25% Cumulative Preferred Stock, Series I, for gross proceeds of approximately $517.5 million (net proceeds of approximately $501.6 million). In addition, on May 9, 2006, one of Public Storage s consolidated subsidiaries issued partnership units of its 7.25% Cumulative Preferred Units, Series J, for gross proceeds of $100.0 million (net proceeds also $100.0 million). The aggregate net proceeds from these transactions are expected to be used to fund the cash requirements of the merger. The following pro forma adjustments have been made to reflect these transactions as of March 31, 2006:

	Amounts in thousands
Cash and cash equivalents has been increased to reflect the net proceeds from the issuance of the preferred securities	$ 601,601
Minority interest preferred has been increased to reflect the issuance of the 7.25% Series J Cumulative Preferred Units	$ 100,000
Preferred stock has been increased to reflect the issuance of the 7.25% Series I Cumulative Preferred Stock, at liquidation value	$ 517,500
Paid in Capital has been reduced to reflect the cost of issuing the preferred securities	$ (15,899)

2. ***PRO FORMA MERGER ADJUSTMENTS:***

The merger will be accounted for using the purchase method of accounting. The total purchase price will be allocated to the acquired assets and liabilities based upon their respective estimated fair values. Pursuant to the merger, Shurgard would be merged into a subsidiary of Public Storage, and Public Storage would issue to Shurgard shareholders 0.82 of a share of Public Storage common stock in exchange for each Shurgard common share that they own. In connection with the merger, all outstanding Shurgard stock options will become immediately vested as of the close of the merger. Holders of Shurgard s stock options will receive options exercisable for shares of Public Storage common stock on a basis of 0.82 of a Public Storage option for each Shurgard option owned.

In connection with the merger, Shurgard s line of credit will be repaid and all of its preferred stock will be redeemed at liquidation value plus any accrued and unpaid distributions. In addition, Public Storage plans to repay certain outstanding notes payable of Shurgard totaling $67.0 million as of March 31, 2006. Public Storage expects to fund these activities with cash on-hand.

The purchase price of the net assets to be acquired pursuant to the merger will be equal to the fair value of the Public Storage common stock to be issued combined with the direct costs associated with the merger. In determining the fair value of the Public Storage common stock to be issued in the merger a share price of $79.97, less estimated cost of issuing such shares, has been used in these pro forma financial statements. The $79.97 per common share was based on the average closing price of a share of Public Storage common stock on the New York Stock Exchange for the period between the five business days before and the five business days after the announcement of the merger (March 7, 2006) where closing prices varied between a high of $82.98 and a low of $77.17 per common share.

Direct costs related to the merger that are expected to be paid at the merger date or shortly thereafter are estimated at approximately $68.1 million: consisting of (i) estimated financial advisory, legal, accounting, and

241

Table of Contents

PUBLIC STORAGE, INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

March 31, 2006

(Unaudited)

other miscellaneous expenses totaling approximately $47.0 million, and (ii) expected severance payments to Shurgard management based on contractual change of control provisions of approximately $21.1 million; such severance payments relate specifically to management who will be terminated on or immediately following the consummation of the merger.

The following reflects the preliminary determination of purchase price, and the allocation of the purchase price to the net assets acquired.

	Amounts in thousands, except share price and conversion ratio	
PURCHASE PRICE:		
Outstanding Shurgard common shares at March 31, 2006		47,251
Conversion ratio into Public Storage common stock		0.82
Pro forma Public Storage common shares to be issued		38,746
Fair value of Public Storage common stock	$	79.97
Aggregate fair value of Public Storage common stock	$	3,098,518
Less estimated issuance costs		(736)
Adjusted aggregate fair value of Public Storage common stock issued	$	3,097,782
Estimated intrinsic value (which approximates fair value) of Shurgard outstanding stock options at March 31, 2006		78,955
Estimated direct costs of the merger		68,104
Total Purchase Price	$	3,244,841
PRELIMINARY ALLOCATION OF PURCHASE PRICE:		
Cash and cash equivalents	$	36,616
Operating real estate facilities		5,021,977
Construction in process		88,349
Properties held for sale		3,783
Restricted cash		2,876
Intangible assets		384,716
Other assets		83,328
Accrued and other liabilities		(142,776)
Lines of credit		(620,700)
Notes payable		(1,338,095)
Minority interest		(138,983)
Preferred stock		(136,250)
Total allocated Purchase Price to net assets acquired	$	3,244,841

242

Table of Contents

PUBLIC STORAGE, INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

March 31, 2006

(Unaudited)

3. ***PRO FORMA PURCHASE PRICE ADJUSTMENTS:***

The following pro forma adjustments have been made to reflect the above Purchase Price of the merger as of March 31, 2006:

	(Amounts in thousands)
Cash and cash equivalents have been reduced to reflect:	
Repayment of outstanding borrowings under Shurgard s line of credit as of March 31, 2006	$ (620,700)
Repay notes payable as of March 31, 2006	(67,000)
Redemption of Shurgard s preferred stock as of March 31, 2006	(136,250)
Estimated direct costs and expenses of the merger	(68,104)
	$ (892,054)
Line of credit has been decreased to reflect the repayment of outstanding borrowings under Shurgard s line of credit as of March 31, 2006	$ (620,700)
Notes payable has been decreased to reflect the planned repayment of outstanding borrowings of Shurgard as of March 31, 2006	$ (67,000)
Preferred stock has been decreased to reflect the redemption of Shurgard s outstanding preferred stock at liquidation value	$ (136,250)
Common stock has been increased to reflect the issuance of 38.7 million shares of Public Storage common stock with a par value of $0.10 per share	$ 3,875
Paid-in capital has been increased to reflect:	
the issuance of common stock at fair value in excess of par value	$ 3,093,907
the intrinsic value (which approximates fair value) of the Shurgard stock options	78,955
	$ 3,172,862

243

Table of Contents

PUBLIC STORAGE, INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

March 31, 2006

(Unaudited)

4. ***PRO FORMA VALUATION ADJUSTMENTS:***

The following pro forma adjustments have been made to reflect the preliminary allocation of the Purchase Price to the net assets acquired as of March 31, 2006:

	(Amounts in thousands)
Operating real estate facilities has been increased to reflect the fair value of the real estate facilities to be acquired in the merger (purchase price allocation of $5,021,977,000 less Shurgard s historical net book value of $2,739,245,000)	$ 2,282,732
Goodwill has been reduced to eliminate Shurgard s historical balance	$ (27,440)
Intangible assets has been increased to reflect the estimated value of Shurgard s existing customer base	$ 384,716
Other assets has been reduced to reflect no allocation of the Purchase price associated with Shurgard s historical unamortized financing costs and other miscellaneous assets	$ (41,743)
Notes payable has been increased to adjust Shurgard s historical balances to estimated fair value	$ 15,315
Accrued and other liabilities has been reduced to eliminate accrued expenses incurred by Shurgard with respect to the exploration of strategic alternatives	$ (360)
Preferred stock has been increased to reflect Shurgard s historical carrying amounts at liquidation value	$ 5,067
Shurgard s historical equity has been eliminated as follows:	
Common stock	$ (47)
Paid-in-capital	$ (1,150,041)
Accumulated deficit	$ 483,856
Accumulated other comprehensive income	$ (366)

5. ***BOOK VALUE PER SHARE OF COMMON STOCK***

Book value per common share has been determined by dividing total shareholders equity less the liquidation value of the Preferred Stock and the Equity Stock, Series A by the outstanding common shares. The following summarizes the pro forma common shares outstanding:

Public Storage s historical common shares outstanding at March 31, 2006	128,163
Pro forma Public Storage common shares to be issued to shareholders of Shurgard (see Note 2 above)	38,746
Pro forma Public Storage common shares outstanding	166,909

244

Table of Contents

PUBLIC STORAGE, INC.

PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME

For The Year Ended December 31, 2005

(Unaudited)

(Amounts in thousands, except per share data)

	Public Storage, Inc. Historical	Shurgard Storage Centers, Inc. Historical	Pro forma adjustments for issuance of Preferred Securities (Note 1)	Pro forma Reclassifications (Note 2)	Pro forma Merger Adjustments (Note 3)	Public Storage, Inc. Pro Forma
Revenues:						
Rental income:						
Self-storage facilities	$ 952,284	$	$	$ 453,964	$	$ 1,406,248
Commercial and containerized storage	28,057					28,057
Storage centers operations		478,970		(478,970)		
Ancillary operations	64,173			27,336		91,509
Interest and other income	16,447	4,922		1,416	(9,701)	13,084
	1,060,961	483,892		3,746	(9,701)	1,538,898
Expenses:						
Cost of operations:						
Self-storage facilities	320,919			223,343		544,262
Commercial and containerized storage	17,334					17,334
Ancillary operations	40,378			9,663		50,041
Operating		233,006		(233,006)		
Real estate development		10,042				10,042
Depreciation and amortization	196,397	95,722			328,637	620,756
Impairment and abandoned project expense		3,354				3,354
General and administrative	21,115	35,318			(22,742)	33,691
Interest expense	8,216			105,584	(39,057)	74,743
	604,359	377,442		105,584	266,838	1,354,223
Other Income (Expense):						
Costs related to takeover proposal and exploration of strategic alternatives		(13,775)				(13,775)
Interest expense		(105,584)		105,584		
Loss on derivatives, net		(2,122)				(2,122)
Foreign exchange loss		(9,665)				(9,665)
Interest income and other		3,746		(3,746)		
Other expense, net		(127,400)		101,838		(25,562)
Income (loss) from continuing operations before the following items	456,602	(20,950)			(276,539)	159,113
Equity in earnings of real estate entities	24,883	60				24,943
Casualty loss	(1,917)					(1,917)
Gain on disposition of real estate and real estate investments	3,099					3,099

Minority interest in income (loss)	(32,651)	20,936	(7,250)			(18,965)
Income tax expense		(636)				(636)
Income (loss) from continuing operations	$ 450,016	$ (590)	$ (7,250)	$	$ (276,539)	$ 165,637
Earnings (loss) per common share from continuing operations (Note 4):						
Basic	$ 1.93	$ (0.27)				$ (0.44)
Diluted	$ 1.92	$ (0.27)				$ (0.44)
Weighted average shares outstanding (Note 4):						
Basic	128,159	46,660			(8,399)	166,420
Diluted	128,819	46,660			(9,059)	166,420

See Accompanying Notes to Pro Forma Condensed Consolidated Statements of Income.

245

Table of Contents

PUBLIC STORAGE, INC.

PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME

For the Three Months Ended March 31, 2006

(Unaudited)

(Amounts in thousands, except per share data)

	Public Storage, Inc. Historical	Shurgard Storage Centers, Inc. Historical	Pro forma adjustments for issuance of Preferred Securities (Note 1)	Pro forma Reclassifications (Note 2)	Pro forma Merger Adjustments (Note 3)	Public Storage, Inc. Pro Forma
Revenues:						
Rental income:						
Self-storage facilities	$ 251,512	$	$	$ 120,747	$	$ 372,259
Commercial and containerized storage	6,922					6,922
Storage centers operations		126,768		(126,768)		
Ancillary operations	15,174			6,547		21,721
Interest and other income	5,075	842		(121)	(3,268)	2,528
	278,683	127,610		405	(3,268)	403,430
Expenses:						
Cost of operations:						
Self-storage facilities	87,735			58,639		146,374
Commercial and containerized storage	4,658					4,658
Ancillary operations	10,616			2,455		13,071
Operating		61,094		(61,094)		
Real estate development		1,670				1,670
Depreciation and amortization	50,049	25,923			43,749	119,721
Impairment and abandoned project expense		545				545
General and administrative	6,779	7,453			(4,301)	9,931
Interest expense	1,557			29,404	(12,584)	18,377
	161,394	96,685		29,404	26,864	314,347
Other Income (Expense):						
Costs related to takeover proposal and exploration of strategic alternatives		(1,465)				(1,465)
Interest expense		(29,404)		29,404		
Gain on derivatives, net		691				691
Foreign exchange gain		125				125
Interest income and other		405		(405)		
Other expense, net		(29,648)		28,999		(649)
Income (loss) from continuing operations before the following	117,289	1,277			(30,132)	88,434

items						
Equity in earnings of real estate entities	3,466					3,466
Minority interest in (income) loss	(7,159)	3,933	(1,813)			(5,039)
Income tax expense		(19)				(19)
Income (loss) from continuing operations	$ 113,596	$ 5,191	$ (1,813)	$	$ (30,132)	$ 86,842
Earnings (loss) per common share from continuing operations (Note 4):						
Basic	$ 0.49	$ 0.04				$ 0.15
Diluted	$ 0.48	$ 0.04				$ 0.15
Weighted average shares outstanding (Note 4):						
Basic	128,122	46,955			(8,452)	166,625
Diluted	129,009	48,183			(8,673)	168,519

See Accompanying Notes to Pro Forma Condensed Consolidated Statements of Income.

246

Table of Contents

PUBLIC STORAGE, INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the Year Ended December 31, 2005 and Three Months Ended March 31, 2006

(Unaudited)

1. ***PRO FORMA ADJUSTMENTS FOR THE ISSUANCE OF PREFERRED SECURITIES:***

Subsequent to March 31, 2006, Public Storage issued certain preferred securities raising net proceeds from these issuances totaling $601.6 million (see Note 1 to the unaudited pro forma condensed consolidated balance sheet). The net proceeds are expected to be used to finance the cash requirements of the merger.

The following pro forma adjustment has been made to reflect the impact of the issuance of these preferred securities:

	Year ended December 31, 2005	Three months ended March 31, 2006
	(Amounts in thousands)	
Minority interest in income has been increased to reflect the allocation of income with respect to the 7.25% Cumulative Preferred Units, Series J assuming such securities were outstanding as of the beginning of 2005	$ (7,250)	$ (1,813)

2. ***PRO FORMA RECLASSIFICATION ADJUSTMENTS:***

Reclassification adjustments have been made to certain Shurgard s historical amounts to conform to Public Storage s presentation as follows:

	Year ended December 31, 2005	Three months ended March 31, 2006
	(Amounts in thousands)	
Rental income: Self-storage facilities has been increased to reflect rental income reclassified from Storage center operations	$ 453,964	$ 120,747
Storage center operations has been decreased to reflect :		
Rental income reclassified to Rental income: Self-storage facilities	$ (453,964)	$ (120,747)
Income from tenant reinsurance activities has been reclassified to Revenues: Ancillary operations	(8,105)	(2,214)
Retail sales and truck rental income reclassified to Revenues: Ancillary operations	(16,901)	(3,807)
	$ (478,970)	$ (126,768)
Revenues: Ancillary operations has been increased to reflect :		
Retail sales and truck rental income included in Storage center operations	$ 16,901	$ 3,807
Income from tenant reinsurance activities included in Revenues: Storage center operations	8,105	2,214

Income from tenant reinsurance activities included in Interest and other income	2,330	526
	$ 27,336	$ 6,547

247

Table of Contents

PUBLIC STORAGE, INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the Year Ended December 31, 2005 and Three Months Ended March 31, 2006

(Unaudited)

	Year ended December 31, 2005	Three months ended March 31, 2006
	(Amounts in thousands)	
Interest and other income has been increased (decreased) to reflect:		
Income from tenant reinsurance activities reclassified to Ancillary operations	$ (2,330)	$ (526)
Reclassification of Shurgard s interest and other income included under the caption Other Income (Expense) to Interest and other income under the caption Revenues	3,746	405
	$ 1,416	$ (121)
Cost of operations: Self-storage facilities has been increased to reflect cost of operations included in Expenses: Operating	$ 223,343	$ 58,639
Cost of operations: Ancillary operations has been increased to reflect cost of operations with respect to retail sales, rental trucks, and tenant reinsurance included in Expenses: Operating	$ 9,663	$ 2,455
Expenses: Operating has been decreased to reflect :		
Cost of operations reclassified to Cost of operations: Self-storage facilities	$ (223,343)	$ (58,639)
Retail sales, rental trucks, and tenant reinsurance reclassified to Cost of Operations: Ancillary operations	(9,663)	(2,455)
	$ (233,006)	$ (61,094)
Expenses: Interest expense has been increased to reflect the reclassification of Shurgard s historical interest expense included Other Income (Expense): Interest expense	$ 105,584	$ 29,404
Other Income (Expense): Interest expense has been decreased to reflect the reclassification of Shurgard s historical interest expense to Expenses: Interest expense	$ 105,584	$ 29,404
Other Income (Expense): Interest income and other has been decreased to reflect the reclassification of Shurgard s historical amounts to Revenues: Interest and other income	$ (3,746)	$ (405)

248

Table of Contents

PUBLIC STORAGE, INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME

For the Year Ended December 31, 2005 and Three Months Ended March 31, 2006

(Unaudited)

3. ***PRO FORMA MERGER ADJUSTMENTS:***

In connection with the merger, borrowings under Shurgard s line of credit will be repaid ($620.7 million), certain Shurgard borrowings under notes payable will be repaid ($67.0 million), Shurgard s outstanding preferred stock will be redeemed at liquidation value ($136.3 million) plus any accrued and unpaid distributions, and we expect to incur merger related costs of approximately $68.1 million. Public Storage expects to fund these capital requirements with cash on-hand.

The following pro forma adjustments have been recorded to reflect the impact of the above related merger financing:

	Year ended December 31, 2005	Three months ended March 31, 2006
	(Amounts in thousands)	
Interest expense was reduced to reflect:		
Elimination of historical interest expense with respect to Shurgard s line of credit which is assumed to have been repaid at the beginning of 2005	$ (22,832)	$ (8,436)
Elimination of historical interest expense with respect to certain of Shurgard s notes payable which is assumed to have been repaid at the beginning of 2005	(4,064)	(1,021)
Elimination of Shurgard s historical amortization of debt issuance costs	(8,336)	(2,180)
Amortization of the pro forma loan premium resulting from recording Shurgard debt at fair value in connection with the purchase price allocation	(3,825)	(947)
	$ (39,057)	$ (12,584)
A pro forma adjustment was made to reduce historical interest income earned to reflect the pro forma use of cash on hand to finance the merger rather than remaining in interest-bearing accounts	$ (9,701)	$ (3,268)

249

Table of Contents

PUBLIC STORAGE, INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the Year Ended December 31, 2005 and Three Months Ended March 31, 2006

(Unaudited)

	Year ended December 31, 2005	Three months ended March 31, 2006
	(Amounts in thousands)	
Pro forma adjustments have been made to depreciation and amortization expense to:		
Eliminate Shurgard s historical depreciation and amortization expense	$ (95,722)	$ (25,923)
Record depreciation expense based on the purchase price allocated to real estate facilities. Depreciation was calculated based on an expected useful life of 25 years assuming approximately 80% of the fair value allocated to Shurgard s real estate facilities was allocated to buildings and 20% allocated to land. This allocation is based on Shurgard s existing portfolio and is subject to change based on final evaluations and completion of the merger.	160,703	40,176
Record amortization of intangible assets based on the purchase price allocated to existing customer base in place. Amortization was calculated based upon the increased net operating income to be received assuming the current tenant base is in place, as compared to the net operating income that would be achieved were the facilities acquired with no tenant base in place. Future amortization will decline substantially to approximately $77,301 in the second year following the merger $17,728 in the third year following the merger, and an aggregate of $26,031 in ensuing years.	263,656	29,496
	$ 328,637	$ 43,749
Pro forma adjustments have been recorded to reduce general and administrative expenses for expenses that we expect to eliminate as a result of the merger, including $6,186,000 for the year ended December 31, 2005 and $1,940,000 for the quarter ended March 31, 2006 in salaries for those personnel that will be terminated on or immediately following the consummation of the merger; $9,400,000 for the year ended December 31, 2005 and $1,086,000 for the quarter ended March 31, 2006 in duplicative audit fees and SOX compliance costs that will be no longer incurred on a go-forward basis following the merger; and $7,156,000 for the year ended December 31, 2005 and $1,275,000 for the quarter ended March 31, 2006 in other miscellaneous duplicative costs associated with being a public company such as board of director costs and investor services costs.	$ (22,742)	$ (4,301)

250

Table of Contents

PUBLIC STORAGE, INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the Year Ended December 31, 2005 and Three Months Ended March 31, 2006

(Unaudited)

Public Storage believes that there will be certain cost efficiencies due to the economies of scale of having a larger number of facilities in certain markets after the merger is consummated. Public Storage expects such cost efficiencies in telephone directory advertising, property insurance, and payroll cost with respect to supervisory personnel. In addition, some of Shurgard s facilities will be subject to property tax reappraisal resulting in increases to property tax expense. Public Storage is evaluating the potential cost savings and increase in property taxes; however, it is not able to quantify the amount of such savings or costs at this time. Accordingly, no adjustments have been made to the pro forma condensed consolidated statement of income to reflect expected cost savings or increases to property taxes.

4. ***PRO FORMA EARNINGS PER COMMON SHARE:***

For purposes of determining earnings per common share on both basic and diluted basis, income (loss) from continuing operations was allocated to preferred shareholders, Equity Stock, Series A shareholders and common shareholders as follows:

	Public Storage, Inc. Historical	Shurgard Storage Centers, Inc. Historical	Pro forma Issuance of Preferred Securities (Note 1)	Pro forma Reclassifications (Note 2)	Pro forma Merger Adjustments (Note 3)	Public Storage, Inc. Pro Forma
			(Amounts in thousands)			
For the Year Ended December 31, 2005:						
Allocation of income (loss) from continuing operations:						
To preferred shareholders and other	$ 180,555	$ 12,153	$ 37,519	$	$ (12,153)	$ 218,074
To equity stock, Series A shareholders	21,443					21,443
To common shareholders	248,018	(12,743)	(44,769)		(264,386)	(73,880)
Total income from continuing operations	$ 450,016	$ (590)	$ (7,250)	$	$ (276,539)	$ 165,637
For the Three Months Ended March 31, 2006:						
Allocation of income from continuing operations:						
To preferred shareholders and other	$ 46,615	$ 3,037	$ 9,380	$	$ (3,037)	$ 55,995
To equity stock, Series A shareholders	5,356					5,356
To common shareholders	61,625	2,154	(11,193)		(27,095)	25,491
Total income from continuing operations	$ 113,596	$ 5,191	$ (1,813)	$	$ (30,132)	$ 86,842

As indicated in Note 1, Public Storage issued approximately $517.5 million of its 7.25% Cumulative Preferred Stock subsequent to March 31, 2006. The net proceeds from this issuance are expected to be used to finance the cash requirements of the merger. Pro forma merger adjustments totaling $37,519,000 and $9,380,000

251

Table of Contents

PUBLIC STORAGE, INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the Year Ended December 31, 2005 and Three Months Ended March 31, 2006

(Unaudited)

have been made in the above table to allocate income from continuing operations to such securities for the year ended December 31, 2005 and the three months ended March 31, 2006, respectively. In connection with the merger, Shurgard s preferred stock would be redeemed and restricted shares would become fully vested. As a result, pro forma merger adjustments were made to eliminate historical income allocated to such securities totaling $12,153,000 and $3,037,000 for the year ended December 31, 2005 and the three months ended March 31, 2006, respectively.

Historical weighted average shares outstanding were reduced by 8,399,000 and 9,059,000 shares for purposes of determining earnings per common share on a basic and diluted basis, respectively, for the year ended December 31, 2005 and 8,452,000 and 8,673,000, respectively, for the three months ended March 31, 2006. These reductions were determined as follows:

	For the Year Ended December 31, 2005		For the Three Months Ended March 31, 2006	
	Basic	Diluted	Basic	Diluted
	(Amounts in thousands, except conversion ratio)			
Shurgard historical weighted average shares outstanding.	46,660	46,660	46,955	48,183
Conversion ratio	0.82	0.82	0.82	0.82
Pro forma weighted average shares	38,261	38,261	38,503	39,510
Less historical Shurgard weighted average shares	(46,660)	(46,660)	(46,955)	(48,183)
Less adjustment to eliminate outstanding stock options and restricted stock from diluted shares, because there is a pro-forma loss allocable to common shareholders for the year ended December 31, 2005, and inclusion would be anti-dilutive for Public Storage stock options and restricted stock		(660)		
Pro forma adjustment	(8,399)	(9,059)	(8,452)	(8,673)

Table of Contents

DESCRIPTION OF PUBLIC STORAGE CAPITAL STOCK

The following is a summary of the terms and provisions of Public Storage s capital stock. The rights of Public Storage shareholders are governed by California law, Public Storage s articles of incorporation and Public Storage s bylaws. This summary is qualified in its entirety by reference to the governing corporate instruments of Public Storage to which we have referred you and applicable provisions of California Corporations Code. To obtain a copy of Public Storage s articles of incorporation and bylaws, see *Where You Can Find More Information.*

Common Stock

Public Storage is authorized to issue 200,000,000 shares of common stock, par value $0.10 per share. As of May 18, 2006, there were 129,321,250 shares of Public Storage common stock. Public Storage s common stock is listed on the New York Stock Exchange.

Dividends. Dividends may be paid on the common stock and on any class or series of stock entitled to participate with the common stock as to dividends, but only when and as declared by Public Storage s board of directors.

Voting Rights. Each outstanding share of Public Storage common stock entitles the holder to one vote on all matters presented to Public Storage shareholders for a vote, with the exception that Public Storage shareholders have cumulative voting rights with respect to the election of the board of directors, in accordance with California law. Cumulative voting entitles each Public Storage shareholder to cast as many votes as there are directors to be elected multiplied by the number of shares registered in his or her name. A Public Storage shareholder may cumulate the votes for directors by casting all of the votes for one candidate or by distributing the votes among as many candidates as the Public Storage shareholder chooses.

Liquidation. If Public Storage liquidates, holders of the company s common stock are entitled to receive all remaining assets available for distribution to shareholders after satisfaction of the company s liabilities and the preferential rights of any preferred stock that may be outstanding at that time. Public Storage s outstanding shares of common stock are fully paid and nonassessable. The holders of Public Storage common stock do not have any preemptive, conversion or redemption rights. The registrar and transfer agent for Public Storage s common stock is Equiserve.

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

Public Storage s articles of incorporation and bylaws provide that, subject to certain exceptions, no holder may own, or be deemed to own by virtue of the attribution provisions of the Code, more than (A) 2.0% of the outstanding shares of all common stock of Public Storage, or (B) 9.9% of the outstanding shares of each class or series of shares of preferred stock or equity stock of Public Storage. The articles of incorporation and bylaws provide, however, that no person shall be deemed to exceed the ownership limit solely by reason of the beneficial ownership of shares of any class of stock to the extent that such shares of stock were beneficially owned by such person (including the Hughes family) at the time of the series of transactions, culminating in the November 16, 1995 merger of Public Storage Management, Inc. into Storage Equities, Inc., by which Public Storage was created. This ownership limitation was established in order to assist in preserving Public Storage s REIT status in view of the Hughes family s substantial ownership interest in Public Storage.

Public Storage s board of directors, in its sole and absolute discretion, may grant an exception to the ownership limits to any person so requesting, so long as (A) the board of directors has determined that, after giving effect to (x) an acquisition by such person of beneficial ownership (within the meaning of the Code) of the maximum amount of capital stock of Public Storage permitted as a result of the exception to be granted and

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

Public Storage s articles of incorporation and bylaws provide that, if any holder of Public Storage s capital stock purports to transfer shares to a person or there is a change in the capital structure of Public Storage and either the transfer or the change in capital structure would result in Public Storage failing to qualify as a REIT, or such transfer or the change in capital structure would cause the transferee to hold shares in excess of the applicable ownership limit, then the stock being transferred (or in the case of an event other than a transfer, the stock beneficially owned) which would cause one or more of the restrictions on ownership or transfer to be violated shall be automatically transferred to a trust for the benefit of a designated charitable beneficiary. The purported transferee of such shares shall have no right to receive dividends or other distributions with respect to such shares and shall have no right to vote such shares. Any dividends or other distributions paid to such purported transferee prior to the discovery by Public Storage that the shares have been transferred to a trust shall be paid to the trustee of the trust for the benefit of the charitable beneficiary upon demand. The trustee of the trust will have all rights to dividends with respect to shares of stock held in trust, which rights will be exercised for the exclusive benefit of the charitable beneficiary. Any dividends or distributions paid over to the trustee will be held in trust for the charitable beneficiary. The trustee shall designate a transferee of such stock so long as such shares of stock would not violate the restrictions on ownership or transfer in the Public Storage articles of incorporation or bylaws in the hands of such designated transferee. Upon the sale of such shares, the purported transferee shall receive the lesser of (A)(i) the price per share such purported transferee paid for the stock in the purported transfer that resulted in the transfer of the shares to the trust, or (ii) if the transfer or other event that resulted in the transfer of the shares of the trust was not a transaction in which the purported transferee gave full value for such shares, a price per share equal to the market price on the date of the purported transfer or other event that resulted in the transfer of the shares to the trust and (B) the price per share received by the trustee from the sale or other disposition of the shares held in the trust.

Preferred Stock

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

As of May 18, 2006, Public Storage had 18 series of senior preferred stock outstanding. In all respects, each of the series of senior preferred stock ranks on a parity with each other. Each of the series of senior preferred stock: (1) has a stated value of $25 per share, (2) in preference to the holders of shares of the common stock and any other capital stock ranking junior to the senior preferred stock as to payment of dividends, provides for cumulative quarterly dividends calculated as a percentage of the stated value (ranging from 6.125% to 8.000% per year) and (3) is subject to redemption, in whole or in part, at the option of Public Storage at a cash redemption price of $25 per share, plus accrued and unpaid dividends, on or after various dates between September 28, 2006 and May 3, 2011.

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

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

Public Storage s articles of incorporation and bylaws provide certain restrictions on the shares of preferred stock that any Public Storage shareholder may own. See *Description of Public Storage Capital Stock Common Stock Restrictions on Ownership*.

Equity Stock

Public Storage is authorized to issue 200,000,000 shares of equity stock, $.01 par value per share. Public Storage s articles of incorporation provide that the equity stock may be issued from time to time in one or more series and give the board of directors broad authority to fix the dividend and distribution rights, conversion and voting rights, redemption provisions and liquidation rights of each series of equity stock. Holders of equity stock have no preemptive rights. The shares of equity stock will be, when issued, fully paid and nonassessable. Public Storage s articles of incorporation and bylaws provide certain restrictions on the shares of equity stock that any Public Storage shareholder may own. See *Description of Public Storage Capital Stock Common Stock Restrictions on Ownership*.

As of the record date, Public Storage had two series of equity stock outstanding, series A and series AAA. The equity stock, series A (1) provides for cash distributions at the rate of five times the distributions on the common stock per depositary share representing equity stock, series A, but not more than $2.45 per depositary share per year, (2) may be redeemed on or after March 31, 2010 at $24.50 per depositary share, (3) on liquidation each depositary share receives the same amount allocated in respect of a share of common stock, but not to exceed $24.50 per depositary share, (4) is convertible into common stock at the rate of one depositary share into .956 shares of common stock if Public Storage fails to preserve its status as a REIT and (5) votes as a single class with the common stock at the rate of one-tenth of a vote per depositary share. As of the record date, Public Storage had 8,744,193 depositary shares representing equity stock, series A outstanding, each representing 1/1,000 of a share of equity stock, series A.

The equity stock, series AAA ranks on a parity with the common stock and junior to the senior preferred stock 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. Public Storage has no obligation to pay distributions to holders of equity stock, series AAA if no distributions are paid to common shareholders. As of the record date, Public Storage had 4,289,544 shares of equity stock, series AAA outstanding.

ANTI-TAKEOVER PROVISIONS

California law and Public Storage s articles of incorporation and bylaws contain provisions that may have the effect of discouraging transactions that involve an actual or threatened change of control of Public Storage. These provisions of Public Storage s articles of incorporation and bylaws include, among others, the restrictions on ownership described above and the provisions that give Public Storage the flexibility to issue capital stock, including senior securities with special voting rights and priority over Public Storage common stock. See *Comparison of Rights of Shareholders*, *Description of Public Storage Capital Stock Preferred Stock*, and *Description of Public Storage Capital Stock Equity Stock*.

Table of Contents

COMPARATIVE PER SHARE MARKET PRICE AND DIVIDEND INFORMATION

Public Storage common stock is listed on the New York Stock Exchange under the symbol PSA. Shurgard common stock is listed on the New York Stock Exchange under the symbol SHU.

The table below sets forth the high and low sales prices per share reported on the New York Stock Exchange and the dividends declared on Public Storage common stock and on Shurgard common stock during the calendar quarters indicated.

	Public Storage Common Stock			Shurgard Common Stock		
	High	Low	Dividends	High	Low	Dividends
2006						
Third quarter (through July 20, 2006)	$ 79.97	$ 75.19	N/A	$ 65.36	$ 61.51	N/A
June 30, 2006	81.40	70.26	$ 0.50	66.48	56.69	$ 0.56
March 31, 2006	84.62	67.72	0.50	69.03	56.50	0.56
2005						
December 31, 2005	72.02	61.36	0.50	59.63	50.89	0.56
September 30, 2005	70.45	59.70	0.50	57.45	45.02	0.56
June 30, 2005	64.50	55.30	0.45	46.78	39.40	0.56
March 31, 2005	59.49	51.70	0.45	44.37	39.30	0.56
2004						
December 31, 2004	57.64	49.60	0.45	44.98	38.45	0.55
September 30, 2004	52.67	45.24	0.45	40.39	36.30	0.55
June 30, 2004	49.80	39.50	0.45	40.50	32.87	0.55
March 31, 2004	50.00	43.47	0.45	39.91	36.45	0.55

On March 6, 2006, the last full trading day prior to the date when the merger was publicly announced, the high and low sale prices of Public Storage common stock on the New York Stock Exchange were $79.79 and $78.25, respectively, and the high and low sale prices of Shurgard common stock were $64.29 and $63.38, respectively.

As of July 20, 2006, the last full trading day before the date of this joint proxy statement/prospectus for which it was practicable to obtain this information, the high and low sale prices of Public Storage common stock on the New York Stock Exchange were $78.35 and $77.11, respectively, and the high and low sale prices of Shurgard common stock were $64.00 and $62.95, respectively.

As of July 20, 2006, the last date prior to the printing of this joint proxy statement/prospectus for which it was practicable to obtain this information, there were approximately 18,463 registered holders of Public Storage common stock and approximately 8,024 registered holders of Shurgard common stock.

We urge you to obtain current market quotations for Public Storage and Shurgard common stock before making any decision regarding the merger.

Holders of shares of Shurgard common stock are entitled to receive distributions when declared by the Shurgard board of directors out of any assets legally available for payment. In order to maintain its REIT status for federal income tax purposes, Shurgard is required to distribute annually to its shareholders at least 90% of its REIT taxable income, which, as defined by the relevant tax statutes and regulations, is generally equivalent to net taxable ordinary income. Under Shurgard s existing domestic credit agreement, Shurgard s distributions are restricted to a percentage of its quarterly Funds from Operations, as defined in the credit agreement.

Shurgard paid dividends of $2.23 per share of common stock in 2005, representing a 27% increase from the annualized rate in 1994, the year Shurgard became a public company. In addition Shurgard paid dividends of $0.56 per share of common stock on March 13, 2006 and on June 15, 2006 to holders of common stock as of the previously announced record dates. Thereafter, for each calendar quarter ending prior to the closing date of the merger, Shurgard is entitled to pay a dividend to holders of its common stock in an amount per share equal to the regular quarterly dividend per share then paid to holders of Public Storage common stock multiplied by the exchange ratio for the merger (0.82).

256

Table of Contents

COMPARISON OF RIGHTS OF SHAREHOLDERS

Upon completion of the merger, Shurgard shareholders will become Public Storage shareholders, rather than shareholders of Shurgard. Since Public Storage is a California corporation, the rights of its shareholders are governed by the applicable laws of the State of California, including the California Corporations Code, and by the Public Storage articles of incorporation and the Public Storage bylaws. Since Shurgard is a Washington corporation, the rights of the shareholders of Shurgard are governed by the applicable laws of the State of Washington, including the Washington Business Corporation Act, and by the Shurgard articles of incorporation and the Shurgard bylaws.

The following is a summary comparison of:

- the current rights of Shurgard shareholders under the Washington Business Corporation Act, and by the Shurgard articles of incorporation and the Shurgard bylaws; and

- the current rights of Public Storage shareholders under the California Corporations Code and the Public Storage articles of incorporation and Public Storage bylaws.

The statements in this section are qualified in their entirety by reference to, and are subject to, the detailed provisions of the California Corporations Code, the Washington Business Corporation Act, the Public Storage articles of incorporation, the Public Storage bylaws, the Shurgard articles of incorporation, and the Shurgard bylaws. Copies of the Public Storage articles of incorporation and the Public Storage bylaws are incorporated by reference in this joint proxy statement/prospectus. The Public Storage articles of incorporation, the Public Storage bylaws, the Shurgard articles of incorporation and the Shurgard bylaws will be sent to Public Storage and Shurgard shareholders, upon request. See *Where You Can Find More Information.*

	Public Storage	Shurgard
Corporate Governance	The rights of Public Storage s shareholders are governed by California corporate law and the Public Storage articles of incorporation and Public Storage bylaws.	The rights of Shurgard shareholders are governed by Washington corporate law and the Shurgard articles of incorporation and Shurgard bylaws.
Authorized Capital Stock	The authorized capital stock of Public Storage currently consists of 457,000,000 shares of capital stock consisting of (i) 200,000,000 shares of Class A common stock, par value $0.10 per share, (ii) 7,000,000 shares of Class B common stock, par value $0.10, (iii) 50,000,000 shares of preferred stock, par value $0.01 per share and (iv) 200,000,000 shares of Equity Stock, par value $0.01 per share.	The authorized capital stock of Shurgard currently consists of 320,500,000 shares of capital stock consisting of (i) 120,000,000 shares of Class A common stock, par value $0.001 per share, (ii) 500,000 shares of Class B common stock, par value $0.001 per share, (iii) 160,000,000 shares of Excess Stock, par value $0.001 per share, and (iv) 40,000,000 shares of preferred stock, par value $0.001 per share.
Number, Classification and Election Board of Directors	The Public Storage bylaws provide that the number of directors will be fixed by resolution of the board of directors, but will be not less than eight nor more than 15. As of March 31, 2006, the Public Storage board consisted of ten directors. After the merger, the size of the board will increase to 11 directors, to accommodate the addition of an	The Shurgard articles of incorporation provide that the number of directors will be fixed by resolution of the board, but will be not fewer than three nor more than nine. As of March 31, 2006, the board consisted of nine directors. The Shurgard board is not classified.

Table of Contents

	Public Storage	Shurgard
	independent member of the board of directors of Shurgard.	
	The Public Storage board is not classified.	
Cumulative Voting	The Public Storage bylaws permit cumulative voting for the election of directors, subject to certain notice requirements.	The Shurgard articles of incorporation prohibit cumulative voting.
Removal of Directors	The California Corporations Code provides that a director may be removed with or without cause by the affirmative vote of a majority of the outstanding shares, provided that the shares voted against removal would not be sufficient to elect the director by cumulative voting.	Under the Shurgard bylaws, directors may be removed only for cause by a majority of the shares entitled to vote on the election of directors at a special meeting called expressly for that purpose.
Newly Created Directorships and Vacancies	The Public Storage bylaws provide that any vacancies on the board or newly created directorships may be filled by the affirmative vote of a majority of the remaining directors, although less than a quorum. Any vacancies not filled by the board may be filled by the shareholders.	The Shurgard bylaws provide that any vacancies on the board or newly created directorships may be filled by the affirmative vote of a majority of the remaining directors, although less than a quorum, provided that a vacancy created by death, resignation or removal of an independent director, in the absence of a vote of the shareholders, may be filled only by the vote of a majority of the remaining independent directors.
Quorum of Board	The Public Storage bylaws provide for a quorum of a majority of the board.	The Shurgard bylaws provide that a quorum of the board is a majority of the total number of directors serving on the board, provided that, in the case of vacancies, such number is not less than one-third of the total number of directors fixed by the board.
Annual Meetings of Shareholders	The Public Storage bylaws provide that the annual meeting of shareholders will be held within fifteen months after the last annual meeting on such date and time fixed by the board of directors.	The Shurgard bylaws provide that the annual meeting of shareholders will be held on such date as determined by the board, unless such day is a legal holiday, in which case the annual meeting will be held on the next day that is not a legal holiday.
Special Meetings of Shareholders	Under the Public Storage bylaws, special meetings of the shareholders may be called at any time by the board, the chairman of the board, the president, or by the holders of not less than 10% of the shares entitled to vote at the meeting.	The Shurgard bylaws provide that a special meeting of the shareholders may be called at any time by the board, the chairman of the board, the president of Shurgard, a majority of the independent directors of Shurgard or the holders of not less than 10% of the outstanding shares entitled to vote at the meeting.

258

Table of Contents

	Public Storage	Shurgard
Quorum at Shareholders Meetings	The Public Storage bylaws provide that the presence in person or by proxy of the holders of a majority of the shares entitled to vote at a meeting constitutes a quorum for that meeting.	The Shurgard bylaws provide that the presence in person or by proxy of the holders of not less than a majority of the shares entitled to vote at the meeting with respect to a purpose stated in the notice of such meeting constitutes a quorum for that meeting.
Certain Voting Requirements	Under the Public Storage bylaws, except as otherwise provided by the articles of incorporation or by applicable law, action by shareholders generally is taken by the affirmative vote, at a meeting at which a quorum is present, of a majority of the votes cast on that action.	Under the Shurgard bylaws, except as otherwise provided by the articles of incorporation or by applicable law, action by shareholders generally is taken by the affirmative vote, at a meeting at which a quorum is present, of a majority of the votes entitled to be cast on that action, except that directors are elected by a plurality of the votes present, or represented by proxy, at the meeting.
	Each share of Public Storage common stock entitles the holder to one vote on each matter upon which shareholders have the right to vote. On all matters other than in the case of a class vote, holders of common stock vote with the equity stock, series A.	Each share of Shurgard common stock entitles the holder to one vote on each matter upon which shareholders have the right to vote.
Shareholder Action by Written Consent	Under the Public Storage bylaws, any action required or permitted to be taken by the shareholders may be taken without a meeting upon the written consent of the holders of outstanding shares having not less than the minimum number of votes that would be necessary to take that action at a meeting at which all shares entitled to vote were present and voted.	The Shurgard bylaws provide that shareholder action may be taken without a meeting upon the written consent of the holders of all the outstanding shares entitled to vote for such action.
Business Conducted at Shareholders Meetings	Neither the Public Storage articles of incorporation nor the bylaws contain any express provisions governing the presentation of business by shareholders at shareholder meetings.	The Shurgard bylaws provide that with respect to any annual meeting, nominations of persons for election to the board and the proposal of business to be considered by shareholders may be made only (a) by or at the direction of the board or (b) by a shareholder of record who is entitled to vote and who has complied with the advance notice procedures set forth in the bylaws. The bylaws provide that with respect to any special meeting, the proposal of business to be considered may only be made pursuant to Shurgard s notice with respect to that meeting.

259

	Public Storage	Shurgard
Amendment of Articles of Incorporation	Under the California Corporations Code, the affirmative vote of the holders of a majority of the outstanding shares entitled to vote is required to amend the Public Storage articles of incorporation. Certain amendments require a class vote.	The Shurgard articles of incorporation provides that the shareholders may amend or repeal any provision of the articles of incorporation by the affirmative vote of the holders of a majority of the outstanding shares entitled to vote on the proposed change; provided that any amendment regarding the number of directors on the board must be approved by the affirmative vote of the holders of two-thirds of the outstanding shares entitled to vote at an election of directors; provided, further, that the number of directors may be increased above nine by the affirmative vote of two-thirds of the continuing directors then in office.
Amendment of Bylaws	Under the Public Storage bylaws, the bylaws may be adopted, repealed or amended by shareholders, by the affirmative vote of the holders of a majority of the outstanding shares entitled to vote. The board may also adopt, repeal or amend bylaws, provided that the board may only adopt a bylaw relating to the number of directors on the board for the purpose of fixing the number of directors within the limits set by the articles of incorporation. Furthermore, bylaws relating to Public Storage s asset coverage, investment policy and qualification as a REIT may only be amended and repealed by shareholder action.	The Shurgard bylaws allow the board to adopt, amend and repeal bylaws. Shareholders may repeal or amend all bylaws adopted by the board.
Business Combinations	Under the California Corporations Code, the affirmative vote of a majority of the shareholders of each class outstanding is needed to approve a merger or similar business combination. A shareholder vote is not required for reorganizations where the corporation, or the shareholders of the corporation immediately prior to the reorganization, will own equity securities constituting over five-sixths of the voting power of the surviving corporation and the vote of the holders of preferred stock is generally not required where the corporation is the survivor in the merger. The California Corporations Code also imposes conditions on certain business	Under the Washington Business Corporation Act, the affirmative vote of two-thirds of the outstanding shares is needed to approve a plan of merger but permits the articles of incorporation of a Washington corporation to require a greater or lesser percentage, so long as the required vote is not less than a majority of all votes entitled to be cast on the plan merger. The Shurgard articles of incorporation require an affirmative vote of a majority of the outstanding shares to approve a plan of merger.
		The Washington Business Corporation Act prohibits a corporation from

Table of Contents

	Public Storage	Shurgard
	combinations with interested shareholders and requires that shareholders receive nonredeemable common stock in a merger between a California corporation and an acquirer owning more than 50% but less than 90% of the California corporation.	engaging in a business combination with an interested shareholder (a shareholder that beneficially owns, directly or indirectly, 10% of the outstanding voting shares of the corporation) for five years following the time the shareholder became an interested shareholder, unless the directors of the corporation have approved the transaction or the interested shareholder s acquisition of shares of the corporation prior to the date such shareholder became an interested shareholder of the corporation. This prohibition also applies to a person or entity, whether or not an interested shareholder, that is or after the business combination would be, an affiliate or associate of an interested shareholder. The Washington Business Corporation Act further provides that the business combination may still be prohibited after the five-year period unless either (i) certain fair-price provisions are complied with or (ii) the transaction is approved by a majority of the shares not owned by the interested shareholder.
Rights Plan	Public Storage does not have a shareholders rights plan.	Shurgard entered into an Amended and Restated Rights Agreement, dated as of March 12, 2004, between Shurgard and American Stock Transfer & Trust Corporation. In connection with the execution of the merger agreement, Shurgard amended its Amended and Restated Rights Agreement, so that the shareholders rights plan is not triggered by the merger.

261

Table of Contents

	Public Storage	Shurgard
Ownership Limit	The ownership restrictions in Public Storage s articles of incorporation and bylaws generally prohibit the actual or constructive ownership of more than 2% of the outstanding shares of Public Storage common stock (excluding the interest held by the Hughes family) or more than 9.9% of the outstanding shares of each class or series of shares of Public Storage preferred stock or equity stock, unless an exception is established by the board of directors. The restrictions provide that if, at any time, for any reason, those ownership limitations are violated or more than 50% in value of Public Storage s outstanding stock otherwise would be considered owned by five or fewer individuals, then a number of shares of stock necessary to cure the violation will automatically and irrevocably be transferred from the person causing the violation to a designated charitable beneficiary. If a shareholder of Shurgard is expected to own more than 2.0% of the Public Storage common stock after the merger, that shareholder should seek a waiver from Public Storage before the merger.	The Shurgard articles of incorporation provide that Shurgard may prevent the transfer or call for redemption of any of its common or preferred shares if: more than 50% of the outstanding shares would be owned by five or fewer individuals or certain entities; one person would own more than 9.8% of Shurgard s total outstanding shares (or such higher percentage as may be determined by the board of directors); or the board of directors determines in good faith that any of the outstanding shares have or may become concentrated to an extent that may prevent Shurgard from qualifying as a REIT.

262

Table of Contents

LEGAL MATTERS

The legality of Public Storage common stock offered by this joint proxy statement/prospectus will be passed on by Stephanie Heim, Vice President, Corporate Counsel, Corporate Secretary and employee of Public Storage. Public Storage pays Ms. Heim a salary. Ms. Heim is a participant in various employee benefit plans that Public Storage offers generally to employees and owns and has options to purchase shares of Public Storage common stock. Certain federal income tax matters regarding the status of Public Storage as a real estate investment trust, and the material United States federal income tax matters described in The Merger Material United States Federal Income Tax Consequences Relating to Public Storage s Taxation as a REIT and The Merger Material United States Federal Income Tax Consequences Relating to the Ownership and Disposition of Public Storage Common Shares, will be passed on by Hogan & Hartson L.L.P. Certain federal income tax matters regarding the status of Shurgard as a real estate investment trust will be passed on by Perkins Coie LLP. The material United States federal income tax consequences of the merger as described in The Merger Material United States Federal Income Tax Consequences of the Merger will be passed on by Wachtell, Lipton, Rosen & Katz.

EXPERTS

The consolidated financial statements of Public Storage Inc. appearing in Public Storage Inc. s Annual Report (Form 10-K) for the year ended December 31, 2005 (including schedule appearing therein) and Public Storage management s assessment of the effectiveness of internal control over financial reporting as of December 31, 2005 included therein, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon, included therein, and incorporated by reference herein and made part of this registration statement and the related joint proxy statement/prospectus. Such consolidated financial statements and management s assessment are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of Shurgard Storage Centers, Inc. as of December 31, 2005 and December 31, 2004 and for each of the three fiscal years in the period ended December 31, 2005 and Shurgard management s assessment of the effectiveness of internal control over financial reporting as of December 31, 2005 included in this document have been so included in reliance upon the reports of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in accounting and auditing.

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

Table of Contents

SUBMISSION OF FUTURE SHAREHOLDER PROPOSALS

Public Storage. Any proposal that a holder of common stock or depositary shares representing equity stock, series A wishes to submit for inclusion in Public Storage s proxy statement for the 2007 Annual Meeting of Shareholders (2007 Proxy Statement) pursuant to Securities and Exchange Commission Rule 14a-8 must be received by Public Storage no later than December 12, 2006. In addition, notice of any proposal that a holder of common stock or depository shares wishes to propose for consideration at the 2007 annual meeting of shareholders, but does not seek to include in Public Storage s 2007 proxy statement pursuant to Rule 14a-8, must be delivered to Public Storage no later than February 26, 2007 if the proposing holder of common stock or depository shares wishes for Public Storage to describe the nature of the proposal in its 2007 Proxy Statement as a condition to exercising its discretionary authority to vote proxies on the proposal. Any shareholder proposals or notices submitted to Public Storage in connection with the 2007 annual meeting of shareholders should be addressed to: Secretary, Public Storage, Inc., 701 Western Avenue, Glendale, California 91201-2349.

Public Storage retains the discretion to vote proxies on a proposal filed within these deadlines provided (i) it includes in the proxy statement advice on the nature of the proposal and how it intends to exercise its voting discretion, and (ii) the proponent does not issue a proxy statement.

Shurgard. Shurgard will hold an annual meeting of its shareholders in 2006 only if the merger is not completed. If Shurgard s 2006 annual meeting is held, if you wish to submit a proposal to be included in the proxy statement for the meeting, Shurgard must receive it a reasonable time before Shurgard begins to print and mail its annual meeting proxy materials. You should follow the procedures described in Rule 14a-8 of the Exchange Act and send the proposal to Shurgard s principal executive offices: Shurgard Storage Centers, Inc., 1155 Valley Street, Suite 400, Seattle, WA 98109-4426, Attention: Corporate Secretary.

If you wish to bring matters before shareholders at the annual meeting other than pursuant to the procedures in Rule 14a-8, you must satisfy the following requirements under Shurgard s bylaws:

- you must notify Shurgard s corporate secretary in writing no later than the tenth day following the date on which the notice of the date of annual meeting is mailed or publicly disclosed to Shurgard shareholders, and

- your notice must contain the specific information required by the bylaws.

WHERE YOU CAN FIND MORE INFORMATION

Public Storage and Shurgard file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy materials that Public Storage and Shurgard have filed with the SEC at the following SEC public reference room:

100 F. Street, N.E.

Washington, D.C. 20549

Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room.

Public Storage s and Shurgard s SEC filings are also available for free to the public on the SEC s Internet website at www.sec.gov, which contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC. In addition, Public Storage s SEC filings are also available for free to the public on Public Storage s website, www.publicstorage.com, and Shurgard s filings with the SEC are also available for free to the public on Shurgard s website, www.shurgard.com. Information contained on Public Storage s website and Shurgard s website is not incorporated by reference into this joint proxy statement/prospectus, and you should not consider information contained on those websites as part of this joint proxy statement/prospectus.

Public Storage incorporates by reference into this joint proxy statement/prospectus the documents listed below, and any filings Public Storage makes with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this joint proxy statement/prospectus until the date of the annual meetings shall be deemed to be incorporated by reference into this joint proxy statement/prospectus. The information incorporated by reference is an important part of this joint proxy statement/prospectus. Any statement in a document incorporated by reference into this joint proxy statement/prospectus will be deemed to be modified or superseded for purposes of this joint proxy statement/prospectus to the extent a statement contained in this or any other subsequently filed document that is incorporated by reference into this joint proxy statement/prospectus modifies or supersedes such statement. Any statement so modified or superseded will be not deemed, except as so modified or superseded, to constitute a part of this joint proxy statement/prospectus.

Public Storage SEC Filings

Commission file number 1-8389	Period
Annual Report on Form 10-K	Year ended December 31, 2005 (filed on March 16, 2006, amended on March 24, 2006)
Quarterly Report on Form 10-Q	Period Ended March 31, 2006 (filed on May 10, 2006)
Current Reports on Form 8-K	Filed on January 17, 2006; Filed on February 7, 2006; Filed on March 7, 2006; Filed on April 24, 2006; Filed on April 26, 2006; Filed on April 27, 2006; Filed on May 5, 2006 (as amended); Filed on May 8, 2006; Filed on May 11, 2006; Filed on June 19, 2006;
	Filed on July 12, 2006

Public Storage has supplied all information contained or incorporated by reference into this joint proxy statement/prospectus relating to Public Storage and its affiliates.

Table of Contents

You can obtain a copy of any document incorporated by reference into this joint proxy statement/prospectus except for the exhibits to those documents from Public Storage. You may also obtain these documents from the SEC or through the SEC s website described above. Documents incorporated by reference are available from Public Storage without charge, excluding all exhibits unless specifically incorporated by reference as an exhibit into this joint proxy statement/prospectus. You may obtain documents incorporated by reference into this joint proxy statement/prospectus by requesting them in writing or by telephone from Public Storage at the following address and telephone number:

Public Storage, Inc.

701 Western Avenue

Glendale, CA 91201-2349

Attention: Investor Relations

Telephone: (818) 244-8080

If you would like to request documents, please do so by August 15, 2006, to receive them before the Public Storage annual meeting. If you request any of these documents from Public Storage, Public Storage will mail them to you by first-class mail, or similar means.

Shurgard is not incorporating by reference any documents or filings into this joint proxy statement/prospectus; however, for your information, Shurgard has filed the following documents:

Commission file number 1-11455	Period
Annual Report on Form 10-K	Year ended December 31, 2005 (filed on March 20, 2006)
Quarterly Report on Form 10-Q	Period ended March 31, 2006 (filed on May 10, 2006)
Current Reports on Form 8-K	Filed on January 23, 2006; Filed on February 15, 2006; Filed on February 16, 2006; Filed on March 8, 2006; Filed on March 21, 2006; Filed on May 5, 2006; Filed on May 10, 2006; Filed on May 24, 2006; Filed on June 19, 2006; Filed on July 12, 2006

Shurgard has supplied all information contained in this joint proxy statement/prospectus relating to Shurgard and its affiliates.

You should rely only on the information contained or incorporated by reference into this joint proxy statement/prospectus in voting your shares at the Shurgard special meeting or the Public Storage annual meeting. Neither Shurgard nor Public Storage has authorized anyone to provide you with information that is different from what is contained in this joint proxy statement/prospectus. This joint proxy statement/prospectus is dated July 24, 2006. You should not assume that the information contained in this joint proxy statement/prospectus is accurate as of any other date, and neither the mailing of this joint proxy statement/prospectus to Public Storage shareholders or Shurgard shareholders nor the issuance of Public Storage common stock in the merger will create any implication to the contrary.

Table of Contents

SHURGARD S MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

267

Table of Contents

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS OF

SHURGARD STORAGE CENTERS, INC.

SHURGARD SELF STORAGE SCA

Report of Independent Registered Public Accounting Firm

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

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

Consolidated financial statements and financial statement schedule

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

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

Internal control over financial reporting

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

Table of Contents

about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Seattle, Washington

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

Table of Contents

SHURGARD STORAGE CENTERS, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands except share and per share data)

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

The accompanying notes are an integral part of these statements.

SHURGARD STORAGE CENTERS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands except share and per share data)

	For the year ended December 31,		
	2005	**2004**	**2003**
Revenue			
Storage center operations	$ 478,970	$ 419,187	$ 291,085
Other	4,922	5,101	6,877
Total revenue	483,892	424,288	297,962
Expenses			
Operating	233,006	211,380	125,880
Real estate development	10,042	4,991	23
Depreciation and amortization	95,722	87,503	55,537
Impairment and abandoned project expense	3,354	2,856	13,889
General, administrative and other	35,318	32,961	18,012
Total storage center expenses	377,442	339,691	213,341
Income from operations	106,450	84,597	84,621
Other Income (Expense)			
Costs related to takeover proposal and exploration of strategic alternatives (Note 22)	(13,775)		
Interest expense	(105,584)	(82,876)	(51,182)
Amortization of participation rights discount		1,123	5,529
Loss on derivatives, net	(2,122)	(615)	(2,194)
Foreign exchange (loss) gain	(9,665)	6,247	(431)
Interest income and other, net	3,746	4,361	4,887
Other expense, net	(127,400)	(71,760)	(43,391)
(Loss) income before minority interest, equity in earnings of other real estate investments, net and income tax expense	(20,950)	12,837	41,230
Minority interest	20,936	16,608	(1,206)
Equity in earnings (losses) of other real estate investments, net	60	93	(3,099)
Income tax expense	(636)	(72)	(1,611)
(Loss) income from continuing operations	(590)	29,466	35,314
Discontinued operations			
Income from discontinued operations	418	1,942	2,324
Gain on sale of discontinued operations	11,831	16,226	
Total discontinued operations	12,249	18,168	2,324
Cumulative effect of change in accounting principle		(2,339)	
Net Income	**11,659**	**45,295**	**37,638**
Net Income Allocation			
Preferred stock dividends and other	(12,153)	(12,193)	(12,082)

Net (loss) income available to common shareholders	$	(494)	$	33,102	$	25,556
Basic per share amounts:						
(Loss) income from continuing operations available to common shareholders	$	(0.27)	$	0.37	$	0.57
Discontinued operations		0.26		0.40		0.06
Cumulative effect of change in accounting principle				(0.05)		
Net (loss) income available to common shareholders per share	$	(0.01)	$	0.72	$	0.63
Diluted per share amounts:						
(Loss) income from continuing operations available to common shareholders	$	(0.27)	$	0.37	$	0.56
Discontinued operations		0.26		0.39		0.06
Cumulative effect of change in accounting principle				(0.05)		
Net (loss) income available to common shareholders per share	$	(0.01)	$	0.71	$	0.62
Distributions per common share	$	2.23	$	2.19	$	2.15

The accompanying notes are an integral part of these statements.

F-5

Table of Contents

SHURGARD STORAGE CENTERS, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(in thousands)

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

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

The accompanying notes are an integral part of these statements.

Table of Contents

SHURGARD STORAGE CENTERS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

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

F-7

Table of Contents

SHURGARD STORAGE CENTERS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(in thousands)

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

The accompanying notes are an integral part of these statements.

Table of Contents

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Description of the Business

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

Note 2 Summary of Significant Accounting Policies

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

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

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

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

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

If events or circumstances indicate that the carrying value of an operating storage center may be impaired, we conduct a recoverability analysis based on expected undiscounted cash flows to be generated from the property. If the analysis indicates that we cannot recover the carrying value from estimated future cash flows, we

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

write down the property to its estimated fair value and recognize an impairment loss. We determine fair values based on expected future cash flows using appropriate market discount and capitalization rates.

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

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

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

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

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

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

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

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

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

Revenue recognition: The majority of our customers rent under month-to-month lease agreements and we recognize revenue at the contracted rate for each month occupied. We recognize revenue related to customers who sign longer period leases ratably over the term of the lease. We recognize management fee revenue each month for which we render services. These contracts are generally cancelable by either party on specified advanced notice. Revenues are presented net of provisions for doubtful accounts of $6.8 million, $6.0 million and $5.0 million in 2005, 2004 and 2003, respectively.

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

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

We measure derivative financial instruments at fair value and recognize these instruments as assets or liabilities on our balance sheet. We report changes in the values of the effective portions of derivative financial

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

Table of Contents

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

Financial instruments with characteristics of both liabilities and equity: We adopted the requirements of SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, in the third quarter of 2003, and there was no impact on our financial position, operating results or cash flows. However, the minority interests associated with certain of our consolidated joint ventures and our European subsidiaries that have finite lives under the terms of the partnership agreements represent mandatorily redeemable interests as defined in SFAS No. 150. As of December 31, 2005 and 2004, the aggregate book value of these minority interests in finite-lived entities on our consolidated balance sheet was $105.3 million and $158.4 million, respectively and we believe that the estimated aggregate settlement value of these interests was approximately $213.2 million and $210.0 million, respectively. This amount is based on the estimated liquidation values of the assets and liabilities and the resulting proceeds that we would distribute to our joint venture partners assuming dissolution as of December 31, 2005. As required under the terms of the respective partnership agreements, subsequent changes to the estimated fair value of the assets and liabilities of the consolidated joint ventures will affect our estimate of the aggregate settlement value. The partnership agreements do not limit the amount to which the minority partners would be entitled in the event of liquidation of the assets and liabilities and dissolution of the respective partnerships.

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

Table of Contents

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

In October 2005, the FASB issued FASB Staff Position (FSP) FAS 13-1 Accounting for Rental Costs Incurred during a Construction Period, which is effective for lease agreements entered into after January 1, 2006. This FSP clarifies that rental costs incurred during the period of construction of an asset on leased property should not be capitalized; rather they should be recognized as rental expense in the same manner as rental costs incurred after the construction period. However, to the extent a lessee accounts for rental of real estate projects under SFAS No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, it should continue capitalizing rental costs. We lease under operating leases certain parcels of land and buildings on which we develop storage centers or perform certain construction improvements. We have historically capitalized rental costs during the construction period on such properties. We account for real estate projects involving our development and construction of self-storage facilities under SFAS No. 67; therefore, we do not believe that the adoption of this FSP will have a material impact on our financial position, operating results or cash flows.

In June 2005, the FASB issued EITF Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights. In light of guidance provided in FIN 46R regarding kick-out rights in the context of evaluating

Table of Contents

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

variable interests and consolidation of variable interest entities, EITF 04-5 clarifies when a sole general partner should consolidate a limited partnership. EITF 04-5 provides authoritative guidance for purposes of assessing whether a limited partner s rights are important rights that, under SOP 78-9, might preclude a general partner from consolidating a limited partnership. For general partners of all new limited partnerships formed and for existing limited partnerships for which the partnership agreements are modified, EITF 04-5 is effective after June 29, 2005. For general partners in all other limited partnerships, the guidance in this Issue was effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. We do not believe that the adoption of EITF 04-5 will have a material impact on our financial position, operating results or cash flows.

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

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

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

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

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

Prior to June 30, 2005, we had direct and indirect ownership interests in Shurgard Self Storage SCA (Shurgard Europe) of 87.23%. We assessed Shurgard Europe under the provisions of FIN 46R and concluded that

Table of Contents

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

it met the definition of a VIE. We also concluded that we were the primary beneficiary effective as of June 2003. As a result, we began consolidating Shurgard Europe in our financial statements beginning January 1, 2004. On June 30, 2005, we acquired the remaining 12.77% ownership interests in Shurgard Europe at a purchase price of approximately $97.4 million in cash. Accordingly, as of June 30, 2005, Shurgard Europe became a wholly-owned subsidiary and is no longer a VIE.

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

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

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

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

Note 4 Storage Centers

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

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

F-18

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Acquisitions

We completed the following acquisitions in 2005:

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

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

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

We have an agreement with a California developer under which it purchases sites in southern California and constructs storage centers on them according to our specifications. On completion of the rent-up period, we have the option to purchase the storage centers. In 2005, we contributed three storage centers to one of the joint ventures. The development manager of these storage centers contributed an additional storage center in California (subject to a mortgage due to us) to the venture. We cancelled the mortgage on that storage center and received an approximate 85% interest in the venture; our partner received an approximate 15% interest in the venture. We agreed to lend up to $10.0 million to this developer to fund the construction of two properties, secured by the properties developed. As of December 31, 2005, the developer had drawn $9.4 million, which is included in other assets.

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

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

Table of Contents

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Minnesota Mini-Storage

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

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

Other storage center activity

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

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

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

Note 5 Investment in Shurgard Europe

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

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

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

Table of Contents

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Shurgard Europe financial information

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

Shurgard Self Storage S.C.A. (3)

Consolidated Statements of Operations

	2005	2004 (1)	2003 (1)
		(in thousands)	
Revenue			
Storage center operations	$ 124,928	$ 101,532	$ 70,118
Other revenue	101	219	11,376
Total revenue	125,029	101,751	81,494
Expenses			
Operating	83,793	74,250	50,373
Real estate development	7,396	4,592	8,928
Depreciation and amortization	24,831	21,090	19,433
Impairment and abandoned project losses	2,294	2,226	1,422
General, administrative and other	8,151	6,509	6,181
Total expenses	126,465	108,667	86,337
Loss from operations	(1,436)	(6,916)	(4,843)
Other Income (Expense)			
Interest expense	(44,475)	(36,091)	(36,171)
Loss on derivatives	(4,073)	(1,244)	
Foreign exchange (loss) gain	(8,034)	4,930	9,830
Interest income and other	224	605	1,520
Other expense, net	(56,358)	(31,800)	(24,821)
Loss before minority interest and income taxes	(57,794)	(38,716)	(29,664)
Minority interest (2)	19,832	13,334	
Income tax expense	(253)	(46)	(202)
Net loss before cumulative effect of accounting change	(38,215)	(25,428)	(29,866)
Cumulative effect of a change in accounting principle		(2,339)	

Net loss	$ (38,215)	$ (27,767)	$ (29,866)

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

Table of Contents

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6 Goodwill

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

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

Note 7 Other Assets and Accounts Payable and Other Liabilities

The following table summarizes other assets by category:

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

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

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

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

Table of Contents

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

Note 8 Lines of Credit

The following table summarizes our lines of credit:

	December 31, 2005	December 31, 2004	Weighted Average interest rate at December 31, 2005	Weighted Average interest rate at December 31, 2004
	(in thousands)			
Unsecured domestic line of credit	$ 233,500	$ 297,300	5.46%	3.52%
Unsecured domestic term loan credit facility	350,000	100,000	5.76%	3.53%
	$ 583,500	$ 397,300	5.64%	3.52%

In 2005, we entered into a three-year unsecured domestic credit agreement, which includes a revolving credit facility with a group of banks to borrow up to $350 million and a $350 million term loan facility that matures in February 2008. We borrowed the entire available $350 million on the term loan facility and used the proceeds to fund the acquisition of the remaining interest in Shurgard Europe (See Note 5), to finance other acquisitions (See Note 4) and the development of certain of our properties, and to repay borrowings under the revolving credit facility. The revolving credit facility can be extended for one year at our option for a fee. The revolving credit facility and the term loan require monthly interest payments at LIBOR plus 0.90% and LIBOR plus 1.10%, respectively, at December 31, 2005. Downgrades made by bond rating agencies in July 2005 to our senior unsecured debt rating resulted in an increase of 0.2% (included in above rates) in our interest rate on the domestic line of credit and term loan agreements. As of December 31, 2005, availability under the revolving credit facility was $116.5 million. The domestic credit agreement requires us to maintain quarterly maximum total debt and secured debt to gross asset value ratios and minimum adjusted EBITDA to fixed charges and unencumbered net operating income to unsecured interest expense ratios. The financial covenants also require us to maintain a minimum tangible net worth. A breach of these covenants and other various covenants may result in an acceleration of the maturity of amounts outstanding. The domestic credit agreement restricts our distributions to a maximum of 105% of Adjusted Funds from Operations

(Adjusted FFO) for up to four consecutive quarters; after that it must not exceed 95% of Adjusted FFO. Adjusted FFO is defined in the domestic credit agreement as (i) net income (calculated in accordance with GAAP) excluding non-recurring

Table of Contents

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

gains and losses on or from operating properties; plus (ii) depreciation and amortization; and after adjustments for unconsolidated subsidiaries. Adjusted FFO excludes the effects of charges and costs associated with the takeover proposal and exploration of strategic alternatives. Contributions to Adjusted FFO from unconsolidated subsidiaries are reflected in Adjusted FFO in proportion to borrower s share of such unconsolidated subsidiaries. The quarterly distributions did not reach 95% of the Adjusted FFO in 2005. As of December 31, 2005, we were in compliance with these financial covenants.

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

Note 9 Notes Payable

Notes payable consisted of the following:

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

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

First Shurgard and Second Shurgard have senior credit agreements denominated in euros to borrow, in aggregate, up to 272.5 million ($322.7 million as of December 31, 2005). As of December 31, 2005, the

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

Participation Rights

In 2000 and prior, we formed joint ventures in which our partners rights, including rights to redeem their interests at amounts determined in the related agreements, were substantively participating mortgages. We accounted for these joint ventures as financing arrangements, and, as such, recognized all activities related to those properties in our financial statements. On the formation of the ventures, we recognized participation rights liabilities and related discounts on the underlying liabilities for the estimated fair values of the partners shares of the joint ventures based on the best evidence available to us. The discounts were amortized as a component of interest expense based on estimated dates of redemptions. We retired our remaining participation rights in

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 2004, when we acquired our joint venture partner s interest. In 2004 and 2003, we recognized $1.1 million and $5.5 million, respectively, in amortization income. The adjustments to amortization were based on re-evaluations of our estimated participation rights liability each period based on the performance of the related properties and estimates of the rights retirement dates. Also, in 2003 we recognized a $7.5 million impairment loss in relation with four properties associated with these participation rights.

Note 10 Lease Obligations

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

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

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

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

Present value of net minimum capital lease payments	
Capital lease total future payments	$ 36,932
Amount representing interest	(30,922)
Present value of net minimum capital lease payments	$ 6,010

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

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

Note 11 Restructuring and Exit Costs

Upon acquiring the remaining minority interest, we announced a plan to change the management structure of Shurgard Europe, including the consolidation of certain national offices, and recorded charges associated with

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

these activities, including certain termination benefits payable to certain involuntarily terminated employees and lease termination costs relating to certain leased office facilities that we ceased using in 2005. Under this plan, we also announced that we would undertake further cost reduction initiatives through the end of 2007. In 2005, we started implementing cost reductions by consolidating certain departments and we reduced the number of positions in operations management, real estate and finance groups in various countries. We recorded the charges related to these cost reduction initiatives as the various initiatives take effect. We also recognized a liability for lease termination costs based on the remaining rental payments under the lease less estimated market sublease payments we might receive should we sublease the space. The operating leases for facilities we have ceased to use expire in 2009. Under this plan, we recognized expenses of $2.4 million in 2005, including $2.0 million in severance payments and $0.4 million for lease obligations that are included in general administrative and other on our consolidated statement of operations. As of December 31, 2005, we had an outstanding liability of $630,000. We expect to incur additional expenses in 2006 and 2007 as further reorganization decisions are made.

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

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

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

Note 12 Income Taxes

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

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

In 2005, we transferred ownership interests of certain properties from a taxable entity to the REIT and recorded approximately $410,000 of U.S. federal and state income tax expense related to this transaction. Also, certain European subsidiaries have started generating taxable income resulting in income tax expense in 2005. In 2003, we recognized a $1.6 million tax expense for Recom, a Belgian subsidiary that we started consolidating that year. As of December 31, 2005 and 2004, we had tax liabilities of $870,000 and $1.9 million, respectively. Consolidated U.S. income from continuing operations before income tax expense was $27.8 million, $63.6 million and $40.7 million for 2005, 2004 and 2003, respectively. The corresponding amounts from foreign based operations were losses of $27.7 million, $34.1 million and $3.8 million, respectively.

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Our income tax expense consisted of the following components:

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

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

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

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

Table of Contents

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	2005	2004
	(in thousands)	
Deferred tax assets:		
Net operating loss carryforwards	$ 106,580	$ 105,888
Net unrealized loss on derivatives	5,575	
Losses on asset recognition	591	503
Accrual of warehouses exit costs	263	595
Other	791	1,164
Deferred tax liabilities:		
Depreciation	(5,579)	(9,028)
Exchange translation on bonds payable	(3,186)	(6,888)
Other	(346)	(4,623)
Net deferred tax asset before valuation allowance	104,689	87,611
Valuation allowance	(104,689)	(87,611)
Net deferred tax asset	$	$

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

Note 13 Shareholders Equity

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

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

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

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

On July 11, 2003, we raised approximately $178.2 million through the sale to the public of 5.75 million shares of Class A common stock. We used approximately $101.6 million of the proceeds to fund the acquisition

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of an additional 19.7% ownership interest in Shurgard Europe. We used the additional proceeds to repay a portion of the indebtedness under our line of credit, which included amounts we borrowed to purchase the 36 properties that we previously operated under our tax retention operating leases and to fund our additional investment in Recom.

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

Note 14 Derivative Financial Instruments

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

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

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

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

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

Shurgard Europe has entered into an interest rate swap to effectively fix EURIBOR at 3.714% through October 2011 on 325 million of variable rate debt. This swap is designated as a cash flow hedge and was a liability of $12.9 million and $12.7 million at December 31, 2005 and 2004, respectively. Shurgard Europe has also entered into foreign currency exchange derivatives designated as cash flow hedges. These instruments were liabilities of $1.7 million and assets of $940,000 at December 31, 2005 and assets of $2.1 million and liabilities of $1.5 million at December 31, 2004. We had undesignated interest rate caps for interest rate changes between October 2011 and October 2014 that we entered into as part of Shurgard Europe s bond issuance. Shurgard

Table of Contents

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Europe s interest rate cap was an asset of $2.8 million at December 31, 2005, and expires in October 2014. To offset the earnings impact of this cap, we sold two interest rate caps with terms, that combined, reciprocate those of Shurgard Europe s cap. These caps were liabilities of $3.0 million at December 31, 2005.

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

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

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

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

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

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

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

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

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

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

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 15 Foreign operations

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

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

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

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

Note 16 Stock Compensation and Benefit Plans

Summary of Stock Compensation Plans

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

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

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Stock Options

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

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

Weighted average assumptions used for

Black-Scholes option-pricing model

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

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

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

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

Table of Contents

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

Restricted Stock

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

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

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

Other Stock Compensation and Benefit Plans

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

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

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

not be sold by participants while they are in the employ of Shurgard. Our expense for contributions to the ESOP was approximately $800,000, $720,000 and $620,000 for 2005, 2004 and 2003, respectively.

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

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

Note 17 Shareholder Rights Plan

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

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 18 Net Income Per Common Share

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

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

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

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

Unvested common stock awards	113,000	41,000	94,000

Table of Contents

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 19 Discontinued Operations

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

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

The following table summarizes income from discontinued operations:

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

Note 20 Segment Reporting

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

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

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

F-38

Table of Contents

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

accounting. Indirect operating expenses are allocated to storage centers based on number of months in operation during the period and do not include containerized storage operations, internal real estate acquisition costs or abandoned development expenses.

Using the definition of Same Store and New Store described above, the portfolio of assets reported in these segments changes from year to year. Assets transition from New Store to Same Store over time. As of December 31, 2005, the goodwill balance was $27.4 million of which we allocated $24.2 million to our domestic reporting units and $3.2 million to our European reporting units. The following table illustrates the results using the 2005 Same Store and New Store bases for reportable segments as of and for the years ended December 31, 2005 and 2004. Same Store includes all storage centers acquired prior to January 1, 2004, and developments opened prior to January 1, 2003. New Store represents all storage centers acquired after January 1, 2004, and developments opened after January 1, 2003. Other Stores include properties no longer in service, properties closed in the process of being redeveloped, or disposed properties in which we have no remaining ownership interest as of December 31, 2005.

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

	2004						
	Domestic Same Store	Domestic New Store	Europe Same Store	Europe New Store (in thousands)	Other Stores	Discontinued Stores	Total
Storage center operations revenue	$ 309,228	$ 7,010	$ 90,948	$ 11,161	$ 5,195	$ (4,355)	$ 419,187
Direct operating expense	103,583	5,759	41,141	13,973	2,026	(1,520)	164,962
Net operating income	205,645	1,251	49,807	(2,812)	3,169	(2,835)	254,225
Indirect expense	14,975	664	12,025	5,291	276	(268)	32,963
Leasehold expense	4,114	53	1,892	215			6,274

Indirect and leasehold expense	19,089	717	13,917	5,506	276	(268)	39,237
Net operating income (loss) after indirect and leasehold expense	$ 186,556	$ 534	$ 35,890	$ (8,318)	$ 2,893	$ (2,567)	$ 214,988
Segment operating storage center assets, net	$ 1,414,307	$ 164,591	$ 759,374	$ 299,657	$ 9,230	$	$ 2,647,159
Total Storage center additions	$ 205,900	$ 99,248	$ 16,375	$ 100,392	$	$	$ 421,915

Table of Contents

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

F-40

Table of Contents

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

Table of Contents

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	As of December 31, 2005	2004
	(in thousands)	
Segment operating storage centers assets, net	$ 2,677,090	$ 2,647,159
Non storage centers and properties held for sale	9,093	10,628
Corporate assets, net	12,678	14,498
Storage centers, net	2,698,861	2,672,285
Construction in progress	67,073	58,431
Total storage centers	2,765,934	2,730,716
Cash and cash equivalents	39,778	50,277
Restricted cash	4,972	7,181
Goodwill	27,440	24,206
Other assets	119,248	128,204
Total assets	$ 2,957,372	$ 2,940,584

Note 21 Supplemental Quarterly Financial Data (Unaudited)

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

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

Net income (loss) available to common shareholders per share	$ 0.05	$ (0.08)	$ (0.03)	$ 0.05

---

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

Table of Contents

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three months ended			
	March 31, 2004	June 30, 2004	September 30, 2004	December 31, 2004
	(in thousands, except share data)			
Revenue	$ 99,075	$ 104,153	$ 109,701	$ 111,359
Income from operations	18,939	24,008	26,967	14,683
Income from continuing operations	1,429	8,095	13,574	6,368
Income before cumulative effect of change	2,034	20,807	18,153	6,640
Net (loss) income	(305)	20,807	18,153	6,640
Basic per share amounts				
(Loss) income from continuing operations available to common shareholders	$ (0.03)	$ 0.11	$ 0.23	$ 0.07
Discontinued operations	0.01	0.28	0.10	0.01
Cumulative effect of change in accounting principle	(0.05)			
Net income (loss) available to common shareholders per share	$ (0.07)	$ 0.39	$ 0.33	$ 0.08
Diluted per share amounts				
(Loss) income from continuing operations available to common shareholders	$ (0.03)	$ 0.11	$ 0.23	$ 0.07
Discontinued operations	0.01	0.27	0.10	0.01
Cumulative effect of change in accounting principle	(0.05)			
Net income (loss) available to common shareholders per share	$ (0.07)	$ 0.38	$ 0.33	$ 0.08

Note 22 Commitments and contingencies

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

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

Table of Contents

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(1) Includes costs to complete property development and redevelopment projects conducted with contractors. We computed the outstanding commitment based on total estimated project costs less costs incurred to date. This includes $21.1 million of development commitments on our European joint ventures in which we have a 20% ownership interest.

(2) Includes a commitment to purchase the ownership interest of a minority interest.

(3) Includes loan commitments to a California developer to finance the construction of certain storage centers according to our specifications.

(4) Includes primarily an outstanding letter of credit related to our insurance trust for workmen s compensation and of letters of credit related to properties under construction.

Legal Proceedings

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

We are a defendant in litigation filed on September 17, 2002, in the Superior Court of California for Orange County styled as Gary Drake v. Shurgard Storage Centers, Inc. et al (Case No. 02CC00152). The complaint alleges that we misrepresented the size of our storage units, seeks class action status and seeks damages, injunctive relief and declaratory relief against us under California statutory and common law relating to consumer protection, unfair competition, fraud and deceit and negligent misrepresentation. The Court recently ruled that the class of potential members in this lawsuit is limited to our California customers. No class has yet been certified. It is possible that we may incur losses as a result of this litigation, but we currently do not believe that the range of such losses would be material to our financial position, operating results or cash flows. However, we cannot presently determine the potential total damages, if any, or the ultimate outcome of the litigation. We are vigorously defending this action.

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

Table of Contents

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Takeover Proposal and Exploration of Strategic Alternatives

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

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

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

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

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

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

We have entered into engagement letters with our financial advisors for services to be rendered in connection with the takeover proposal and an exploration of strategic alternatives. Combined minimum fee

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Note 23 Related Party Transactions

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

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

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

On June 30, 2003, we issued $20 million of our Class A common stock in exchange for notes receivable from shareholders. The shares were initially recorded as a reduction of shareholders equity that secured $20 million in mortgage debt assumed in the purchase of Minnesota Mini-Storage (see Note 4). The notes from shareholders were collateralized by a pledge of the shareholders Shurgard common stock and were paid in full in October 2003, and we reclassified the $20 million to shareholders equity.

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

Table of Contents

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Note 24 Subsequent Events

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

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

Note 25 Reclassifications (Subsequent Event)

Subsequent to the filing of our annual report on Form 10-K on March 20, 2006, in conjunction with the planned merger with Public Storage, Shurgard terminated its plans to sell two domestic storage centers, which were classified as held for sale and reported as discontinued operations at December 31, 2005. Instead, management has determined it will hold such properties for the foreseeable future. Therefore, in accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the accompanying consolidated statements of operations have been restated and the net results of operations from these properties have been reclassified to continuing operations from discontinued operations for the years ended December 31, 2005, 2004

Table of Contents

SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and 2003. The effect of the reclassification represents a $277,000, or 32%, decrease in our previously reported net loss from continuing operations for the year ended December 31, 2005, and an increase in our previously reported net income from continuing operations of $235,000, or 0.8%, and $166,000, or 0.5%, for the years ended December 31, 2004 and 2003, respectively. As a result of the foregoing, Notes 4, 18, 19, 20 and 21 to the consolidated financial statements for the three years ended December 31, 2005, have been updated. There is no effect on Shurgard s previously reported net income, financial condition or cash flows.

Table of Contents

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

Property Name	Location	State or Country (3)	Encum-brances (2)	INITIAL COST Land	INITIAL COST Building, Equip. & Other	INITIAL COST Gross Storage Centers	Costs Subsequent to Acquisition	Gross Amount as of December 31, 2005 Land and Land Held for Sale	Gross Amount as of December 31, 2005 Building Equip. & Other	Gross Amount as of December 31, 2005 Gross Storage centers	Accum. Depr.	Owned Since	Year Built	Depr. Life in mos.
Ahwatukee	Phoenix	AZ	$	$ 721	$ 2,469	$ 3,190	$ 40	$ 721	$ 2,509	$ 3,230	$ (677)	1998	1998	360
Arrowhead	Glendale	AZ		569	2,600	3,169	58	569	2,658	3,227	(735)	1997	1997	360
Chandler	Chandler	AZ		652	2,608	3,260	600	652	3,208	3,860	(1,282)	1986	1986	360
Collonade Mall	Phoenix	AZ			1,146	1,146	60		1,206	1,206	(407)	1998	1997	275
Cooper Road	Gilbert	AZ		376	2,398	2,774	59	376	2,457	2,833	(424)	2001	2001	360
Desert Sky	Phoenix	AZ		536	2,891	3,427	5	536	2,896	3,432	(452)	2001	2001	360
Dobson Ranch	Mesa	AZ		499	1,996	2,495	229	499	2,225	2,724	(767)	1996	1978	360
Houghton	Tucson	AZ	2,289	607	2,536	3,143	349	607	2,885	3,492	(579)	2000	2000	360
Mesa	Mesa	AZ		352	1,829	2,181	587	355	2,413	2,768	(1,045)	1987	1985	360
Mill Avenue	Tempe	AZ		147	1,799	1,946	105	431	1,620	2,051	(387)	1999	1998	360
Oro Valley	Tucson	AZ		561	2,930	3,491	5	561	2,935	3,496	(319)	2003	2003	360
Phoenix	Phoenix	AZ		670	2,697	3,367	209	656	2,920	3,576	(1,237)	1985	1984	360
Phoenix East	Phoenix	AZ		543	2,189	2,732	429	543	2,618	3,161	(1,097)	1987	1984	360
Scottsdale Air Park	Scottsdale	AZ		880	3,694	4,574	97	880	3,791	4,671	(1,129)	1997	1997	360
Scottsdale North	Scottsdale	AZ		1,093	4,811	5,904	449	1,093	5,260	6,353	(1,810)	1985	1985	360
Scottsdale South	Scottsdale	AZ		410	1,743	2,153	217	410	1,960	2,370	(878)	1985	1976/85	360
Shea	Scottsdale	AZ		786	3,165	3,951	283	807	3,427	4,234	(977)	1997	1996	360
Speedway	Tucson	AZ		744	2,304	3,048	799	773	3,074	3,847	(763)	1998	1998	360
Tanque Verde	Tucson	AZ		578	2,620	3,198	8	578	2,628	3,206	(387)	2002	2002	360
Union Hills	Phoenix	AZ		615	2,475	3,090	175	617	2,648	3,265	(691)	1998	1998	360
Val Vista	Gilbert	AZ		682	2,805	3,487	1,114	778	3,823	4,601	(766)	1999	1999	360
Warner	Tempe	AZ		313	1,352	1,665	280	313	1,632	1,945	(783)	1995	1985	360
Alicia Parkway	Laguna Hills	CA		1,729	7,027	8,756	434	1,729	7,461	9,190	(1,834)	1998	1991	360
Aliso Viejo	Aliso Viejo	CA		2,218	3,628	5,846	845	2,218	4,473	6,691	(1,455)	1996	1996	360
Antioch	Antioch	CA	3,281	638	4,366	5,004	513	678	4,839	5,517	(834)	2000	2000	360
Blossom Valley	San Jose	CA		1,204	4,128	5,332	628	1,212	4,748	5,960	(1,163)	1998	1998	360
Cabot Road	Laguna Niguel	CA	4,180	1,300	6,129	7,429	39	1,300	6,168	7,468	(922)	2001	2000	360
Capitol Expressway	San Jose	CA		973	6,181	7,154	(658)		6,496	6,496	(1,157)	2000	2000	360
Castro Valley	Castro Valley	CA		810	4,010	4,820	318	907	4,231	5,138	(1,422)	1996	1975	360
Castro Valley Business Park	Castro Valley	CA		97	390	487	26	97	416	513	(144)	1996	1975	360
Costa Mesa	Costa Mesa	CA	2,407	1,057	2,956	4,013	287	882	3,418	4,300	(725)	1999	1998	360
Culver City	Culver City	CA		1,039	4,146	5,185	328	1,039	4,474	5,513	(1,831)	1988	1989	360
Daly City	Daly City	CA		1,846	5,438	7,284	901	1,846	6,339	8,185	(2,606)	1995	1989	360
El Cajon	El Cajon	CA		1,013	4,113	5,126	737	1,013	4,850	5,863	(2,066)	1986	1977	360
El Cerito	Richmond	CA		765	3,055	3,820	316	765	3,371	4,136	(1,348)	1986	1987	360
Huntington Beach	Huntington Beach	CA		949	3,794	4,743	522	949	4,316	5,265	(1,715)	1988	1986	360
Kearney Balboa	San Diego	CA		830	3,333	4,163	494	830	3,827	4,657	(1,618)	1986	1984	360
La Habra	La Habra	CA		715	2,886	3,601	404	715	3,290	4,005	(1,397)	1986	1979/91	360

Table of Contents

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

				INITIAL COST			Costs	Gross Amount as of December 31, 2005						Depr.
Property Name	Location	State or Country (3)	Encum-brances (2)	Land	Building, Equip. & Other	Gross Storage Centers	Subsequent to Acquisition	Land and Land Held for Sale	Building Equip. & Other	Gross Storage centers	Accum. Depr.	Owned Since	Year Built	Life in mos.
Livermore	Livermore	CA		1,185	4,622	5,807	(6)	1,185	4,616	5,801	(663)	2002	2002	360
Long Beach	Long Beach	CA		1,190	6,601	7,791	760	1,190	7,361	8,551	(578)	2003	2003	360
Martinez	Martinez	CA		1,012	2,215	3,227	8,334	2,830	8,731	11,561	(1,700)	1995	1987/2004	360
Monterey	Sand City	CA		1,274	6,107	7,381	(4)	1,274	6,103	7,377	(736)	2002	2002	360
Mountain View	Mountain View	CA		439	1,757	2,196	312	439	2,069	2,508	(864)	1987	1986	360
Natomas	Sacramento	CA		1,307	4,604	5,911	22	1,307	4,626	5,933	(349)	2003	2003	360
Newark	Newark	CA		855	3,421	4,276	499	855	3,920	4,775	(1,167)	1996	1991	360
Northridge	Northridge	CA		2,215	6,250	8,465	1,701	2,215	7,951	10,166	(454)	2004	2004	360
Oakley	Oakley	CA		1,570	4,655	6,225	17	1,570	4,672	6,242	(693)	2001	2001	360
Ontario	Ontario	CA		512	2,058	2,570	472	512	2,530	3,042	(696)	1996	1984	360
Orange	Orange	CA		1,144	4,580	5,724	96	1,144	4,676	5,820	(1,504)	1996	1985	360
Palm Desert	Palm Desert	CA		921	5,885	6,806		921	5,885	6,806	(105)	2005	2005	360
Palms	Los Angeles	CA	4,839	1,598	6,309	7,907		1,598	6,309	7,907	(409)	2003	2001	360
Palo Alto	Palo Alto	CA		701	2,805	3,506	596	705	3,397	4,102	(1,279)	1986	1987	360
Pinole	Pinole	CA		614	1,023	1,637	1,658	1,006	2,289	3,295	(672)	1995	1988	360
Presidio	San Francisco	CA		104	1,137	1,241		104	1,137	1,241	(40)	2005	2005	360
Rancho Mirage	Rancho Mirage	CA		912	5,313	6,225	1,125	957	6,393	7,350	(288)	2004	2004	360
Rancho San Diego	Rancho San Diego	CA	3,759	1,312	4,874	6,186		1,312	4,874	6,186	(519)	2003	2002	360
Sacramento	Sacramento	CA		680	2,723	3,403	132	680	2,855	3,535	(916)	1996	1991	360
San Juan Creek	San Juan Capistran	CA	4,693	1,450	5,526	6,976	1,345	1,450	6,871	8,321	(933)	2001	2001	360
San Leandro	San Leandro	CA		776	3,105	3,881	156	776	3,261	4,037	(1,080)	1996	1991	360
San Lorenzo	San Lorenzo	CA		611	2,447	3,058	212	611	2,659	3,270	(875)	1996	1990	360
Santa Ana	Santa Ana	CA		1,467	5,920	7,387	621	1,467	6,541	8,008	(2,704)	1986	1975/86	360
SF-Evans	San Francisco	CA		2,073	11,236	13,309	44	2,073	11,280	13,353	(1,155)	2002	2002	360
Solana Beach	Solana Beach	CA			6,837	6,837	620		7,457	7,457	(3,035)	1987	1984	360
South San Francisco	San Francisco	CA		721	2,897	3,618	333	721	3,230	3,951	(1,322)	1987	1985	360
Sunnyvale	Sunnyvale	CA		1,697	6,541	8,238	5,827	1,697	12,368	14,065	(3,750)	1986	1975/98	360
Tracy	Tracy	CA		732	2,928	3,660	279	732	3,207	3,939	(1,035)	1996	1986	360
Tracy II	Tracy	CA		840	2,858	3,698	42	826	2,914	3,740	(395)	2002	2000	360
Union City	Hayward	CA		287	1,208	1,495	197	287	1,405	1,692	(835)	1985	1985	360
Van Ness	San Francisco	CA		5,289	9,001	14,290	530	5,289	9,531	14,820	(1,878)	1999	1999/1934	360
Vista Park-Land Lease	San Jose	CA			93	93	4		97	97	(75)	2001	2000	360
Walnut Creek	Walnut Creek	CA	3,181	630	4,512	5,142	1,317		6,459	6,459	(1,430)	1999	1987	327
West Covina	West Covina	CA	3,896	1,470	4,869	6,339	8	1,470	4,877	6,347	(205)	2004	2001	360
Westpark	Irvine	CA	7,382	690	7,478	8,168	5,021	4,190	8,999	13,189	(1,841)	2000	1999	360
Westwood	Los Angeles	CA		951	3,797	4,748	4,318	951	8,115	9,066	(2,744)	1986	1988/97	360
Woodland Hills	Woodland Hills	CA	4,889	1,980	8,342	10,322	3	1,980	8,345	10,325	(297)	2004	2003	360
Denver Tech Center	Greenwood Village	CO		863	3,296	4,159	25	863	3,321	4,184	(265)	2003	2003	360

Table of Contents

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

				INITIAL COST			Costs	Gross Amount as of December 31, 2005						
Property Name	Location	State or Country (3)	Encum-brances (2)	Land	Building, Equip. & Other	Gross Storage Centers	Subsequent to Acquisition	Land and Land Held for Sale	Building Equip. & Other	Gross Storage centers	Accum. Depr.	Owned Since	Year Built	Depr. Life in mos.
Highlands Ranch	Highlands Ranch	CO		594	2,822	3,416	155	596	2,975	3,571	(121)	2004	2004	360
Kipling & Hampden	Lakewood	CO		326	2,472	2,798	8	327	2,479	2,806	(340)	2002	2002	360
Lakewood	Golden	CO		528	2,108	2,636	238	528	2,346	2,874	(922)	1986	1985	360
Northglenn	Northglenn	CO		531	2,152	2,683	729	531	2,881	3,412	(1,237)	1987	1979	360
Tamarac	Denver	CO		194	776	970	225	194	1,001	1,195	(446)	1984	1977	360
Thornton	Denver	CO		237	956	1,193	204	235	1,162	1,397	(506)	1984	1984	360
Windermere	Littleton	CO		653	2,690	3,343	481	653	3,171	3,824	(1,364)	1984	1977/79	360
Alafaya JV	Orlando	FL	2,791	1,984	3,234	5,218	105	1,984	3,339	5,323	(473)	2002	2002	360
Blue Heron	West Palm Beach	FL		1,327	5,490	6,817	236	1,327	5,726	7,053	(2,384)	1987	1975	360
Brandon	Brandon	FL	2,999	973	3,423	4,396	143	989	3,550	4,539	(825)	1999	1999	360
Carrollwood	Tampa	FL	1,480	884	2,705	3,589	579	911	3,257	4,168	(666)	2000	1999	360
Central Parkway	Altamonte Springs	FL		1,166	3,972	5,138		1,166	3,972	5,138	(95)	2005	1992	360
Colonial Town	Orlando	FL	4,564	1,040	3,439	4,479	269	1,040	3,708	4,748	(565)	2001	2001	360
Davie	Davie	FL		1,890	3,021	4,911	3,997	2,633	6,275	8,908	(2,314)	1996	1990	360
Daytona Beach	Daytona Beach	FL	2,902	1,620	3,165	4,785	174	1,651	3,308	4,959	(729)	1999	1999	360
Delray Beach	Delray Beach	FL		748	2,993	3,741	347	748	3,340	4,088	(1,114)	1996	1986	360
Eau Gallie	Melbourne	FL	2,607	629	2,718	3,347	139	649	2,837	3,486	(640)	1999	1999	360
Fairbanks	Winter Park	FL		1,104	3,329	4,433	165	1,104	3,494	4,598	(411)	2002	2002	360
Hunt Club	Apopka	FL		764	3,614	4,378		764	3,614	4,378	(328)	2003	2003	360
Hyde Park	Tampa	FL	2,907	1,237	2,773	4,010	1,000	1,243	3,767	5,010	(761)	2000	1999	360
Kirkman	Orlando	FL		954	3,151	4,105		954	3,151	4,105	(74)	2005	1990	360
Lauderhill	Lauderhill	FL		761	3,164	3,925	325	761	3,489	4,250	(1,050)	1997	1986	360
Maguire	Orlando	FL	3,501	954	4,244	5,198		954	4,244	5,198	(26)	2005	2005	360
Maitland	Maitland	FL	4,426	74	4,985	5,059	575	106	5,528	5,634	(1,598)	1997	1997	360
Margate	Margate	FL		906	3,623	4,529	(9)	906	3,614	4,520	(1,175)	1996	1984	360
McCoy-Wells Fargo NW	Orlando	FL		765	3,700	4,465	16	765	3,716	4,481	(542)	2001	2001	360
Military Trail	West Palm Beach	FL		1,140	4,564	5,704	222	1,140	4,786	5,926	(1,912)	1987	1981	360
Oakland Park	FT Lauderdale	FL		2,443	9,878	12,321	217	2,439	10,099	12,538	(4,073)	1985	1974/78	360
Oldsmar	Oldsmar	FL	2,273	606	2,787	3,393	155	628	2,920	3,548	(516)	2000	2000	360
Ormond Beach	Ormond Beach	FL	2,912	761	3,202	3,963	253	792	3,424	4,216	(739)	1999	1999	360
Oviedo	Oviedo	FL	2,744	527	2,716	3,243	331	535	3,039	3,574	(907)	1997	1997	360
Red Bug	Badsprings	FL	2,530	856	2,951	3,807	150	825	3,132	3,957	(867)	1997	1997	360
Seminole	Seminole	FL		336	1,344	1,680	181	336	1,525	1,861	(654)	1986	1984/85	360
South Orange	Orlando	FL	3,032	715	2,709	3,424	349	741	3,032	3,773	(893)	1997	1997	360
South Semoran	Orlando	FL	2,701	933	3,184	4,117	862	965	4,014	4,979	(1,037)	1997	1997	360
University	Orlando	FL		1,140	4,374	5,514	7	1,140	4,381	5,521	(587)	2002	2002	360
Vineland	Orlando	FL	1,896	1,752	1,165	2,917		638	2,279	2,917	(522)	1999	1999	360
West Town	Altamonte Springs	FL	2,155	657	3,070	3,727	439	728	3,438	4,166	(843)	1998	1998	360

F-51

Table of Contents

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

				INITIAL COST			Costs	Gross Amount as of December 31, 2005						
Property Name	Location	State or Country (3)	Encum-brances (2)	Land	Building, Equip. & Other	Gross Storage Centers	Subsequent to Acquisition	Land and Land Held for Sale	Building Equip. & Other	Gross Storage centers	Accum. Depr.	Owned Since	Year Built	Depr. Life in mos.
West Waters	Tampa	FL	2,269	950	3,569	4,519	168	950	3,737	4,687	(650)	2000	2000	360
Ansley Park	Atlanta	GA		804	3,255	4,059	3,130	1,301	5,888	7,189	(2,374)	1995	1991	360
Brookhaven	Atlanta	GA		1,082	2,223	3,305	2,589	1,568	4,326	5,894	(1,718)	1995	1992	360
Clairmont Road	Atlanta	GA		470	1,907	2,377	370	470	2,277	2,747	(723)	1996	1990	360
Decatur	Decatur	GA		644	2,719	3,363	2,665	1,111	4,917	6,028	(1,973)	1995	1992	360
Forest Park	Forest Park	GA		573	2,293	2,866	201	573	2,494	3,067	(850)	1996	1980	360
Gwinnett Place	Lawrenceville	GA		820	2,324	3,144	551	820	2,875	3,695	(948)	1996	1996	360
Holcomb Bridge	Roswell	GA	2,750	917	2,991	3,908	8	920	2,996	3,916	(582)	1999	2000	360
Jones Bridge	Alpharetta	GA		676	3,833	4,509	28	630	3,907	4,537	(1,038)	1997	1997	360
Lawrenceville	Lawrenceville	GA		858	3,064	3,922	162	858	3,226	4,084	(874)	1997	1997	360
Morgan Falls	Atlanta	GA		1,429	5,718	7,147	382	1,429	6,100	7,529	(1,985)	1996	1990	360
Norcross	Norcross	GA		562	2,248	2,810	193	562	2,441	3,003	(831)	1996	1984	360
Peachtree	Duluth	GA		1,144	4,784	5,928	213	1,144	4,997	6,141	(1,564)	1997	1996	360
Perimeter Center	Atlanta	GA		1,458	2,715	4,173	256	1,458	2,971	4,429	(1,030)	1996	1996	360
Roswell	Roswell	GA		435	1,743	2,178	289	435	2,032	2,467	(814)	1986	1986	360
Sandy Plains	Marietta	GA		1,012	4,066	5,078	449	1,012	4,515	5,527	(1,089)	1998	1998	360
Satellite Blvd	Atlanta	GA		670	2,831	3,501	146	670	2,977	3,647	(892)	1997	1994	360
Stone Mountain	Stone Mountain	GA		656	2,637	3,293	262	656	2,899	3,555	(961)	1996	1985	360
Tucker	Tucker	GA		241	656	897	509	241	1,165	1,406	(390)	1996	1987	360
Alsip	Alsip	IL		250	1,001	1,251	1,520	250	2,521	2,771	(824)	1982	1980	360
Berwyn	Berwyn	IL		868	5,375	6,243	69	868	5,444	6,312	(694)	2002	2002	360
Bolingbrook	Bolingbrook	IL		641	2,631	3,272	571	641	3,202	3,843	(838)	1997	1997	360
Bridgeview	Bridgeview	IL		479	1,917	2,396	253	479	2,170	2,649	(890)	1985	1983	360
Chicago Heights	Chicago Heights	IL		1,543	3,575	5,118	(5)	1,543	3,570	5,113	(466)	2002	2002	360
Country Club Hills	Country Club Hills	IL		777	3,109	3,886	596	781	3,701	4,482	(789)	1999	1999	360
Dolton	Calumet City	IL		344	1,489	1,833	1,502	344	2,991	3,335	(1,003)	1982	1979	360
Fox Valley	Aurora	IL		927	2,986	3,913	30	932	3,011	3,943	(815)	1998	1998	360
Fullerton	Chicago	IL		3,325	6,965	10,290	98	3,325	7,063	10,388	(614)	2003	2003	360
Glenview West	Glenview	IL		1,003	3,878	4,881	25	1,003	3,903	4,906	(388)	2003	2003	360
Hillside	Hillside	IL		261	1,043	1,304	308	261	1,351	1,612	(516)	1988	1988	360
Lincolnwood	Lincolnwood	IL		818	4,356	5,174	5	818	4,361	5,179	(680)	2001	2001	360
Lisle	Lisle	IL		575	2,335	2,910	304	576	2,638	3,214	(1,073)	1986	1976/86	360
Lombard	Lombard	IL		392	1,566	1,958	269	239	1,988	2,227	(836)	1982	1980	360
Niles	Niles	IL		1,449	3,935	5,384	161	1,449	4,096	5,545	(524)	2002	2002	360
Oak Forest	Orland Park	IL		704	1,869	2,573	1,493	704	3,362	4,066	(1,206)	1995	1991	360
Palatine	Palatine	IL	2,134	413	2,213	2,626	1,146	453	3,319	3,772	(582)	2000	2000	360
River West	Chicago	IL		1,187	5,116	6,303	333	1,187	5,449	6,636	(426)	2003	2003	360
Rolling Meadows	Rolling Meadows	IL		384	1,587	1,971	550	384	2,137	2,521	(812)	1982	1980	360

Table of Contents

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

				INITIAL COST				Gross Amount as of December 31, 2005						
Property Name	Location	State or Country (3)	Encum- brances (2)	Land	Building, Equip. & Other	Gross Storage Centers	Costs Subsequent to Acquisition	Land and Land Held for Sale	Building Equip. & Other	Gross Storage centers	Accum. Depr.	Owned Since	Year Built	Depr. Life in mos.
Schaumburg	Schaumburg	IL		443	1,808	2,251	501	429	2,323	2,752	(887)	1982	1980	360
Schaumburg South	Schaumburg	IL		490	3,231	3,721	1,531	921	4,331	5,252	(911)	1999	1999	360
Wheaton	Wheaton	IL		247	4,190	4,437	80	221	4,296	4,517	(744)	2002	2001	360
Willowbrook	Willowbrook	IL		412	1,650	2,062	433	412	2,083	2,495	(820)	1986	1979/82	360
Carmel	Carmel	IN		404	2,560	2,964	24	404	2,584	2,988	(899)	1996	1996	360
Castleton	Indianapolis	IN		494	1,969	2,463	189	522	2,130	2,652	(609)	1998	1988	360
College Park	Indianapolis	IN		694	2,777	3,471	778	694	3,555	4,249	(1,388)	1986	1984	360
Downtown Indy	Indianapolis	IN	2,792	947	3,393	4,340	(17)	1,286	3,037	4,323	(637)	2004	2000	360
Eagle Creek	Indianapolis	IN		802	2,646	3,448	76	802	2,722	3,524	(733)	1998	1998	360
East 62nd Street	Indianapolis	IN		376	1,629	2,005		376	1,629	2,005	(221)	2002	1999	360
East Washington St.	Indianapolis	IN	2,136	399	2,583	2,982	20	412	2,590	3,002	(539)	1999	1999	360
Fishers	Fishers	IN		827	3,394	4,221	424	827	3,818	4,645	(1,089)	1997	1987	360
Geist	Fishers	IN		547	2,356	2,903	5	547	2,361	2,908	(328)	2002	1999	360
Georgetown	Indianapolis	IN		461	2,143	2,604	432	461	2,575	3,036	(804)	1996	1996	360
Glendale	Indianapolis	IN		520	2,077	2,597	210	520	2,287	2,807	(949)	1986	1985	360
North Greenwood	Indianapolis	IN			2,600	2,600	65		2,665	2,665	(684)	1998	1998	360
Speedway IN	Indianapolis	IN		472	2,094	2,566	177	452	2,291	2,743	(291)	2002	2002	360
Annapolis	Annapolis	MD			3,432	3,432	90		3,522	3,522	(917)	1998	1998	360
Briggs Chaney	Silver Springs	MD		430	1,727	2,157	187	430	1,914	2,344	(757)	1994	1987	360
Clinton	Clinton	MD		303	1,213	1,516	2,106	650	2,972	3,622	(927)	1986	1985	360
Crofton	Gambrills	MD		376	1,516	1,892	161	376	1,677	2,053	(674)	1988	1985	360
Frederick Road	Frederick	MD		206	826	1,032	154	206	980	1,186	(409)	1994	1987	360
Gaithersburg	Gaithersburg	MD		614	2,465	3,079	1,634	614	4,099	4,713	(1,493)	1994	1986	360
Germantown	Germantown	MD		552	2,218	2,770	231	552	2,449	3,001	(942)	1994	1988	360
Laurel	Laurel	MD		391	1,570	1,961	298	391	1,868	2,259	(752)	1988	1984	360
Oxon Hill	FT Washington	MD		349	1,401	1,750	192	349	1,593	1,942	(608)	1994	1987	360
Reisterstown	Owing Mills	MD		586	1,177	1,763	176	586	1,353	1,939	(178)	2002	1992	360
Suitland	Suitland	MD		660	2,638	3,298	246	660	2,884	3,544	(1,171)	1987	1985	360
Ann Arbor	Ann Arbor	MI		424	1,695	2,119	295	424	1,990	2,414	(878)	1988	1977	360
Auburn Hills	Auburn Hills	MI		565	2,798	3,363	198	565	2,996	3,561	(475)	2002	2001	360
Canton	Canton	MI		433	1,797	2,230	447	433	2,244	2,677	(789)	1988	1986	360
Canton South	Canton	MI	2,591	842	2,308	3,150	803	852	3,101	3,953	(557)	2000	2000	360
Clinton Township	Clinton Township	MI		754	3,195	3,949	267	772	3,444	4,216	(794)	1999	1999	360
Dearborn	Dearborn	MI		1,773	2,694	4,467		1,773	2,694	4,467	(238)	2003	2003	360
Farmington Hills (O Brien)	Farmington Hills	MI		1,361	3,597	4,958	6	1,361	3,603	4,964	(234)	2004	2004	360
Flint South	Flint	MI		615	1,738	2,353	273	615	2,011	2,626	(301)	2001	1983	360
Fraser	Fraser	MI		627	2,599	3,226	290	627	2,889	3,516	(917)	1988	1985	360
Jackson	Jackson	MI		317	1,282	1,599	(376)	309	914	1,223	(4)	1997	1978	360

Table of Contents

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

				INITIAL COST			Costs	Gross Amount as of December 31, 2005						Depr.
Property Name	Location	State or Country (3)	Encum-brances (2)	Land	Building, Equip. & Other	Gross Storage Centers	Subsequent to Acquisition	Land and Land Held for Sale	Building Equip. & Other	Gross Storage centers	Accum. Depr.	Owned Since	Year Built	Life in mos.
Lansing	Lansing	MI		124	500	624	(184)	124	316	440	(2)	1983	1978/79	360
Livonia	Livonia	MI		636	2,634	3,270	532	636	3,166	3,802	(944)	1988	1985	360
Madison Heights	Madison Height	MI		487	2,099	2,586	772	487	2,871	3,358	(951)	1995	1977	360
Mt. Clemens	Mt. Clemens	MI	1,856	935	2,614	3,549	(130)	935	2,484	3,419	(390)	2001	2001	360
Plymouth	Canton Township	MI		348	1,436	1,784	1,295	348	2,731	3,079	(970)	1985	1979	360
Rochester	Shelby Township	MI		610	2,445	3,055	201	610	2,646	3,256	(880)	1996	1989	360
Rochester Hills	Rochester Hills	MI		970	3,929	4,899	84	970	4,013	4,983	(613)	2001	2001	360
Roseville	Roseville	MI		931	3,295	4,226	2	931	3,297	4,228	(235)	2003	2003	360
Southfield	Southfield	MI		702	2,824	3,526	721	702	3,545	4,247	(1,326)	1983	1976	360
Southfield at Telegraph	Southfield	MI		702	2,824	3,526	2,461	1,333	4,654	5,987	(579)	2002	2002	360
Sterling Heights	Sterling Heights	MI		919	3,692	4,611	174	919	3,866	4,785	(1,283)	1996	1986	360
Taylor	Taylor	MI		632	2,094	2,726	1,586	632	3,680	4,312	(1,311)	1995	1980	360
Troy Maple	Troy	MI		556	2,243	2,799	3,359	1,987	4,171	6,158	(1,451)	1981	1975/77	360
Troy Oakland Mall	Troy	MI		642	2,604	3,246	762	642	3,366	4,008	(1,313)	1983	1979	360
Walled Lake	Walled Lake	MI		359	1,437	1,796	564	359	2,001	2,360	(796)	1985	1984	360
Warren	Warren	MI		683	2,831	3,514	1,376	815	4,075	4,890	(1,110)	1988	1985	360
Westland	Westland	MI		617	3,607	4,224		617	3,607	4,224	(363)	2003	2003	360
Anoka	Anoka	MN		368	1,714	2,082	125	368	1,839	2,207	(166)	2003	1986	360
Apple Valley	Apple Valley	MN		633	3,103	3,736	44	633	3,147	3,780	(272)	2003	2001	360
Brooklyn Park	Brooklyn Park	MN		1,226	3,195	4,421	232	1,226	3,427	4,653	(283)	2003	1986	360
Burnsville	Burnsville	MN		661	3,074	3,735	40	661	3,114	3,775	(276)	2003	1999	360
Chanhassen	Chanhassen	MN		774	4,343	5,117	79	774	4,422	5,196	(389)	2003	1988/2000	360
Coon Rapids	Coon Rapids	MN		971	4,161	5,132	133	971	4,294	5,265	(366)	2003	1986/1997	360
Eden Prairie East	Eden Prairie	MN		1,182	4,894	6,076	162	1,182	5,056	6,238	(432)	2003	1978/1992	360
Eden Prairie West	Eden Prairie	MN		913	5,151	6,064	189	913	5,340	6,253	(439)	2003	1988/1997	360
Edina	Edina	MN		1,316	5,627	6,943	63	1,316	5,690	7,006	(475)	2003	1998	360
Hopkins	Hopkins	MN		829	2,522	3,351	60	829	2,582	3,411	(219)	2003	1989/1995	360
Little Canada	Little Canada	MN		1,233	8,182	9,415	410	1,233	8,592	9,825	(708)	2003	1982/1997	360
Maple Grove	Maple Grove	MN		653	2,199	2,852	39	653	2,238	2,891	(194)	2003	1996	360
Minnetonka	Minnetonka	MN		631	3,089	3,720	327	631	3,416	4,047	(267)	2003	1994	360
Plymouth 169	Plymouth	MN		534	1,175	1,709	20	534	1,195	1,729	(106)	2003	1972	360
Plymouth 494	Plymouth	MN		1,364	4,025	5,389	(5)	1,364	4,020	5,384	(344)	2003	1978	360
Plymouth West	Plymouth	MN		813	3,346	4,159	48	813	3,394	4,207	(286)	2003	2001	360
Richfield	Richfield	MN		1,298	5,458	6,756	18	1,298	5,476	6,774	(485)	2003	1983	360
Shorewood	Shorewood	MN		1,039	5,793	6,832	158	1,039	5,951	6,990	(510)	2003	1984/1998	360
Woodbury	Woodbury	MN		1,097	4,467	5,564	30	1,097	4,497	5,594	(393)	2003	2000	360
Southhaven	Hornlake	MS	1,761	814	1,863	2,677	1,007	835	2,849	3,684	(614)	1998	1998/2004	360
Albermarle	Charlotte	NC	3,308	707	3,960	4,667	149	707	4,109	4,816	(517)	2002	1984	360

Table of Contents

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

Property Name	Location	State or Country (3)	Encum-brances (2)	INITIAL COST Land	INITIAL COST Building, Equip. & Other	INITIAL COST Gross Storage Centers	Costs Subsequent to Acquisition	Gross Amount as of December 31, 2005 Land and Land Held for Sale	Gross Amount as of December 31, 2005 Building Equip. & Other	Gross Amount as of December 31, 2005 Gross Storage centers	Accum. Depr.	Owned Since	Year Built	Depr. Life in mos.
Amity Ct	Charlotte	NC	1,842	433	2,054	2,487	57	459	2,085	2,544	(280)	2002	1993	360
Arrowood	Charlotte	NC	2,597	1,155	2,541	3,696	212	1,218	2,690	3,908	(363)	2002	1992	360
Atlantic Avenue	Raleigh	NC		1,424	4,058	5,482		1,424	4,058	5,482	(96)	2005	1997	360
Capital Boulevard	Raleigh	NC		342	1,376	1,718	1,308	339	2,687	3,026	(798)	1994	1984	360
Cary	Cary	NC		714	2,860	3,574	1,843	714	4,703	5,417	(1,224)	1994	1984	360
Clayton	Clayton	NC		764	2,344	3,108	473	807	2,774	3,581	(305)	2002	1999	360
Concord	Concord	NC	1,897	665	1,949	2,614	110	703	2,021	2,724	(260)	2002	1995	360
Cone Blvd	Greensboro	NC	1,070	599	3,024	3,623	507	651	3,479	4,130	(419)	2002	2000	360
COTT	Matthews	NC	857	237	1,210	1,447	49	273	1,223	1,496	(155)	2002	1989	360
Country Club	Winston Salem	NC		757	3,198	3,955	1,355	803	4,507	5,310	(411)	2002	2000	360
Creedmoor	Raleigh	NC		807	3,178	3,985	15	807	3,193	4,000	(858)	1997	1997	360
Eastland	Charlotte	NC	2,228	536	3,209	3,745	144	536	3,353	3,889	(416)	2002	1983	360
English Rd	High Point	NC		602	2,020	2,622	433	636	2,419	3,055	(285)	2002	2000	360
Friendly Avenue	Greensboro	NC		657	3,175	3,832		657	3,175	3,832	(77)	2005	1997	360
Garner	Garner	NC		204	818	1,022	188	250	960	1,210	(392)	1994	1987	360
Gastonia	Gastonia	NC	2,200	881	2,138	3,019		881	2,138	3,019	(75)	2005	2005	360
Glenwood	Raleigh	NC		266	1,066	1,332	139	266	1,205	1,471	(509)	1994	1983	360
Glenwood Avenue	Raleigh	NC		1,214	2,975	4,189		1,214	2,975	4,189	(71)	2005	1997	360
Hickory	Hickory	NC	4,317	892	2,885	3,777	3,770	1,410	6,137	7,547	(773)	2002	1986	360
Lexington NC	Lexington	NC	1,046	430	1,315	1,745	83	425	1,403	1,828	(188)	2002	1987	360
Matthews	Matthews	NC	1,733	775	4,709	5,484	26	743	4,767	5,510	(603)	2002	1981	360
Monroe	Monroe	NC	2,125	506	2,628	3,134	10	506	2,638	3,144	(369)	2002	1985	360
Morrisville	Morrisville	NC		409	1,640	2,049	144	409	1,784	2,193	(725)	1994	1988	360
N. Tryon	Charlotte	NC	1,974	873	2,175	3,048	125	873	2,300	3,173	(309)	2002	1987	360
Park Rd	Charlotte	NC		1,014	3,337	4,351	2	1,014	3,339	4,353	(428)	2002	1998	360
Pavilion	Charlotte	NC	1,487	1,320	1,969	3,289	61	1,298	2,052	3,350	(254)	2002	1997	360
Pineville	Pineville	NC	9,168	2,334	4,764	7,098	151	2,334	4,915	7,249	(652)	2002	1983	360
Poole Road	Raleigh	NC		1,123	1,266	2,389		1,123	1,266	2,389	(31)	2005	1998	360
Randleman	Greensboro	NC	1,950	1,094	2,314	3,408	9	1,094	2,323	3,417	(293)	2002	1998	360
Rockingham	Rockingham	NC	774	157	1,564	1,721	20	157	1,584	1,741	(209)	2002	1996	360
Salisbury	Salisbury	NC	3,188	155	4,617	4,772	97	155	4,714	4,869	(579)	2002	1986	360
Silas Creek	Winston Salem	NC		1,640	2,311	3,951	1,035	1,691	3,295	4,986	(381)	2002	2000	360
South Boulevard	Charlotte	NC	4,794	2,180	3,926	6,106	36	2,180	3,962	6,142	(221)	2004	1996	360
South Raleigh	Raleigh	NC		792	610	1,402		792	610	1,402	(15)	2005	1997	360
Stallings	Matthews	NC	2,068	747	1,689	2,436	535	786	2,185	2,971	(317)	2002	1995	360
Wake Forest	Wake Forest	NC	713	851	1,484	2,335	500	901	1,934	2,835	(237)	2002	1998	360
Weddington	Waxhaw	NC	2,386	642	2,345	2,987	71	706	2,352	3,058	(293)	2002	1999	360
Wendover	Charlotte	NC		1,736	6,402	8,138		1,736	6,402	8,138	(151)	2005	2003	360

Table of Contents

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

				INITIAL COST			Costs	Gross Amount as of December 31, 2005						
Property Name	Location	State or Country (3)	Encum-brances (2)	Land	Building, Equip. & Other	Gross Storage Centers	Subsequent to Acquisition	Land and Land Held for Sale	Building Equip. & Other	Gross Storage centers	Accum. Depr.	Owned Since	Year Built	Depr. Life in mos.
Wilkinson	Charlotte	NC	1,968	548	2,777	3,325	115	548	2,892	3,440	(363)	2002	1986	360
Winston	Winston Salem	NC	1,171	354	1,441	1,795	252	328	1,719	2,047	(232)	2002	1985	360
Bricktown	Bricktown	NJ	3,699	1,398	2,640	4,038	2,423	1,957	4,504	6,461	(749)	2004	2000	360
Marlboro	Morganville	NJ		1,320	4,963	6,283	75	1,320	5,038	6,358	(814)	2001	2001	360
Marlton	Marlton	NJ		842	4,643	5,485	77	842	4,720	5,562	(421)	2003	2003	360
Old Bridge	Matawan	NJ		767	2,301	3,068	2,185	767	4,486	5,253	(1,479)	1987	1987/2000	360
Rockaway (dover)	Dover	NJ		2,038	3,983	6,021	38	2,038	4,021	6,059	(421)	2003	2003	360
Voorhees	Voorhees	NJ		1,121	4,268	5,389	(60)	1,121	4,208	5,329	(674)	2001	2001	360
West Paterson	West Paterson	NJ		1,944	6,367	8,311	66	1,944	6,433	8,377	(399)	2004	2004	360
Bethpage	Bethpage	NY	6,475	2,370	6,209	8,579	2,674	3,417	7,836	11,253	(1,211)	2004	2000	360
Commack	Commack	NY	6,140	3,461	6,203	9,664	212	3,461	6,415	9,876	(1,430)	1999	1999	360
Gold Street	Brooklyn	NY		1,194	4,821	6,015	1,622	1,194	6,443	7,637	(2,590)	1986	1940	360
Great Neck	Great Neck	NY	2,047	436	2,632	3,068	320	438	2,950	3,388	(569)	1999	1929/2000	360
Hempstead	Hempstead	NY	4,420	1,902	4,572	6,474	1,450	2,599	5,325	7,924	(969)	2004	2000	360
Melville	Melville	NY		1,099	3,897	4,996	3,739	1,099	7,636	8,735	(1,595)	1998	1998	360
Nesconset	Nesconset	NY	3,048	1,072	2,919	3,991	665	1,074	3,582	4,656	(678)	2000	2000	360
Northern Boulevard	Long Island	NY		1,244	5,039	6,283	1,119	1,244	6,158	7,402	(2,561)	1987	1940	360
Utica Avenue	Brooklyn	NY		830	3,556	4,386	653	830	4,209	5,039	(1,728)	1986	1964	360
Van Dam Street	Long Island	NY		760	3,189	3,949	540	760	3,729	4,489	(1,621)	1986	1925	360
Yonkers	Yonkers	NY		913	3,936	4,849	739	913	4,675	5,588	(2,008)	1986	1928	360
16th & Sandy	Portland	OR		231	938	1,169	1,521	492	2,198	2,690	(700)	1995	1973	360
Allen Boulevard	Beaverton	OR		525	2,101	2,626	121	525	2,222	2,747	(734)	1996	1973	360
Barbur Boulevard	Portland	OR		337	3,411	3,748	2,612	790	5,570	6,360	(2,157)	1995	1993	360
Beaverton	Beaverton	OR		216	4,201	4,417		216	4,201	4,417	(161)	1985	2005	360
Denney Road	Beaverton	OR		593	2,380	2,973	271	593	2,651	3,244	(1,070)	1989	1988	360
Division	Portland	OR		352	1,395	1,747	2,708	809	3,646	4,455	(1,320)	1996	1992	360
Gresham	Gresham	OR		744	2,442	3,186	122	744	2,564	3,308	(864)	1996	1996	360
Hillsboro	Hillsboro	OR		720	2,992	3,712	185	720	3,177	3,897	(1,047)	1996	1996	360
King City / Tigard	Tigard	OR		511	2,051	2,562	228	511	2,279	2,790	(929)	1987	1986	360
Liberty Road	Salem	OR		524	1,280	1,804	3,971	889	4,886	5,775	(1,245)	1995	1993	360
Milwaukie	Milwaukie	OR		583	2,005	2,588	3,290	1,161	4,717	5,878	(1,687)	1996	1990	360
Oregon City	Oregon City	OR		321	1,613	1,934	2,088	715	3,307	4,022	(1,334)	1995	1992	360
Portland	Portland	OR		382	1,530	1,912	160	382	1,690	2,072	(694)	1988	1988	360
Salem	Salem	OR		574	2,294	2,868	519	574	2,813	3,387	(1,172)	1983	1979/81	360
Airport	Philadelphia	PA		799	3,194	3,993	731	799	3,925	4,724	(1,509)	1986	1985	360
Edgemont	Newton Square	PA		497	3,070	3,567	2,761	949	5,379	6,328	(2,075)	1995	1992	360
Jenkintown	Jenkintown	PA		1	2,247	2,248	115		2,363	2,363	(128)	2004	2004	360
Oxford Valley	Fairless Hills	PA		1,197	4,174	5,371	84	1,197	4,258	5,455	(558)	2002	2002	360

F-56

Table of Contents

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

				INITIAL COST			Costs	Gross Amount as of December 31, 2005						Depr.
Property Name	Location	State or Country (3)	Encum-brances (2)	Land	Building, Equip. & Other	Gross Storage Centers	Subsequent to Acquisition	Land and Land Held for Sale	Building Equip. & Other	Gross Storage centers	Accum. Depr.	Owned Since	Year Built	Life in mos.
Painters Crossing	Glen Mills	PA		513	2,868	3,381	9	511	2,879	3,390	(765)	1998	1998	360
Valley Forge	Berwyn	PA		331	2,816	3,147	594		3,741	3,741	(416)	2002	2002	360
Westchester	West Chester	PA			4,197	4,197	578		4,775	4,775	(1,931)	1986	1980	360
Ashley River	Charleston	SC		851	3,880	4,731	5	910	3,826	4,736	(483)	2002	1999	360
Ballantyne	Fort Mill	SC		640	1,976	2,616	638	681	2,573	3,254	(286)	2002	1998	360
Charleston	Ladson	SC	1,892	403	3,063	3,466	505	467	3,504	3,971	(427)	2002	1999	360
Dave Lyle	Rock Hill	SC		487	2,483	2,970	417	533	2,854	3,387	(341)	2002	2000	360
Florence	Florence	SC	2,653	584	3,841	4,425	213	584	4,054	4,638	(483)	2002	1985	360
Garners Ferry	Columbia	SC	2,338	1,026	2,361	3,387	44	1,026	2,405	3,431	(309)	2002	1988	360
Greenville	Greenville	SC	1,794	330	1,557	1,887	33	330	1,590	1,920	(235)	2002	1987	360
James Island (Folly Road)	Charleston	SC		605	2,372	2,977		605	2,372	2,977	(190)	2003	2003	360
Rock Hill	Rock Hill	SC	2,181	415	1,867	2,282	381	451	2,212	2,663	(284)	2002	1998	360
Rosewood (Morningstar)	Columbia	SC		363	3,549	3,912	11	363	3,560	3,923	(256)	2002	2004	360
Shriners	Greenville	SC	1,968	431	2,324	2,755	73	460	2,368	2,828	(314)	2002	1998	360
Spartanburg	Spartanburg	SC	472	212	1,065	1,277	102	212	1,167	1,379	(156)	2002	1986	360
Sumter	Sumter	SC	1,142	268	1,657	1,925	72	253	1,744	1,997	(225)	2002	1986	360
Sunset	Lexington	SC		535	2,299	2,834	443	400	2,877	3,277	(331)	2002	1999	360
Woodruff	Greenville	SC	1,866	1,082	1,390	2,472	208	1,078	1,602	2,680	(216)	2002	1996	360
Franklin	Franklin	TN	2,245	569	2,057	2,626	140	584	2,182	2,766	(796)	1995	1995	360
Hermitage	Hermitage	TN	2,259	157	2,445	2,602	597	327	2,872	3,199	(1,325)	1995	1995	360
Hickory Hollow	Antioch	TN	1,686	743	2,337	3,080	318	758	2,640	3,398	(777)	1997	1997	360
Medical Center TN	Nashville	TN	1,738	236	2,251	2,487	126	246	2,367	2,613	(909)	1995	1995	360
Rivergate	Madison	TN	2,913	760	1,958	2,718	870	776	2,812	3,588	(854)	1996	1996	360
South Main	Memphis	TN	585	465	1,480	1,945	(329)	352	1,264	1,616	(312)	2000	2000	360
Stones River	Murfreesboro	TN	2,175	373	1,879	2,252	584	399	2,437	2,836	(661)	1998	1998	360
Sycamore View	Memphis	TN	1,161	340	1,460	1,800	1,360	364	2,796	3,160	(716)	1998	1998	360
Winchester	Memphis	TN	1,897	620	2,655	3,275	277	642	2,910	3,552	(807)	1998	1998	360
Wolfchase	Memphis	TN	1,564	760	1,881	2,641	630	781	2,490	3,271	(760)	1997	1997	360
Audelia II	Richardson	TX		689	2,286	2,975	(5)	689	2,281	2,970	(339)	2002	2002	360
Bandera Road	San Antonio	TX		468	1,873	2,341	155	468	2,028	2,496	(867)	1988	1981	360
Bedford	Bedford	TX		408	1,678	2,086	174	408	1,852	2,260	(800)	1985	1984	360
Bee Caves Road	Austin	TX		608	3,609	4,217	1,305	1,207	4,315	5,522	(944)	1999	1999	360
Beltline	Irving	TX		414	1,671	2,085	476	414	2,147	2,561	(953)	1989	1985/86	360
Blanco Road	San Antonio	TX		801	3,235	4,036	160	801	3,395	4,196	(1,436)	1988	1989/91	360
Champions	Houston	TX		515	2,775	3,290	261	484	3,067	3,551	(782)	1998	1998	360
Cinco Ranch	Katy	TX		1,751	1,336	3,087	108	523	2,672	3,195	(630)	1999	1998	360
City Place	Dallas	TX		1,045	3,314	4,359	464	1,118	3,705	4,823	(846)	1999	1999	360
East Lamar	Arlington	TX		742	1,863	2,605	592	742	2,455	3,197	(767)	1996	1996	360

Table of Contents

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

Property Name	Location	State or Country (3)	Encum-brances (2)	INITIAL COST Land	Building, Equip. & Other	Gross Storage Centers	Costs Subsequent to Acquisition	Gross Amount as of December 31, 2005 Land and Land Held for Sale	Building Equip. & Other	Gross Storage centers	Accum. Depr.	Owned Since	Year Built	Depr. Life in mos.
Federal Road	Houston	TX		552	2,223	2,775	208	552	2,431	2,983	(1,039)	1988	1988	360
First Colony	Missouri City	TX		447	2,175	2,622	36	427	2,231	2,658	(431)	2000	1994	360
Forum 303	Arlington	TX		273	1,100	1,373	182	273	1,282	1,555	(565)	1986	1984	360
Fredericksburg Road	San Antonio	TX		645	2,596	3,241	439	645	3,035	3,680	(1,254)	1987	1978/82	360
Greenville Avenue	Dallas	TX		768	3,104	3,872	817	1,375	3,314	4,689	(922)	1998	1998	360
Helotes	Helotes	TX	1,816	481	2,277	2,758	41	493	2,306	2,799	(453)	2000	2000	360
Henderson Pass	San Antonio	TX		562	2,348	2,910	933	1,386	2,457	3,843	(670)	1998	1995	360
Henderson Street	Fort Worth	TX		318	3,137	3,455	966	338	4,083	4,421	(884)	1999	1999	360
Highway 26	Hurst	TX		517	2,761	3,278	(1)	527	2,750	3,277	(468)	2001	2001	360
Highway 78	San Antonio	TX		392	1,550	1,942	229	392	1,779	2,171	(480)	1998	1997	360
Hill Country Village	San Antonio	TX		679	2,731	3,410	200	679	2,931	3,610	(1,237)	1985	1982	360
Hillcroft	Houston	TX			3,645	3,645	101		3,746	3,746	(1,548)	1991	1988	360
Hurst	Hurst	TX		363	1,492	1,855	154	363	1,646	2,009	(677)	1987	1974	360
Imperial Valley	Houston	TX		461	1,856	2,317	224	461	2,080	2,541	(887)	1988	1987	360
Irving	Irving	TX		180	734	914	813	314	1,413	1,727	(592)	1985	1975/84	360
Kingwood	Kingwood	TX		525	2,097	2,622	813	511	2,924	3,435	(1,128)	1988	1988	360
Lakeline	Austin	TX		737	3,412	4,149	(24)	748	3,377	4,125	(596)	2001	2001	360
Las Colinas	Irving	TX	2,326	478	2,717	3,195	461	491	3,165	3,656	(591)	2000	2000	360
Lewisville	Lewisville	TX		434	2,521	2,955	31	434	2,552	2,986	(810)	1997	1997	360
MacArthur	Irving	TX		180	734	914	1,241	359	1,796	2,155	(838)	1985	1975/84	360
Macarthur Crossing	Irving	TX		746	2,577	3,323	404	746	2,981	3,727	(1,023)	1996	1996	360
Medical Center (TX)	Houston	TX		737	2,950	3,687	336	737	3,286	4,023	(1,500)	1989	1989	360
Medical Center SA	San Antonio	TX	2,165	660	2,683	3,343	149	667	2,825	3,492	(544)	2000	2000	360
Mission Bend	Houston	TX		653	2,218	2,871	560	653	2,778	3,431	(937)	1995	1995	360
Nacogdoches	San Antonio	TX		363	1,565	1,928	1,561	381	3,108	3,489	(773)	1998	1996	360
North Austin	Austin	TX		609	1,331	1,940	25	609	1,356	1,965	(62)	1986	2004	360
North Carrollton	Carrollton	TX		627	2,739	3,366	38	627	2,777	3,404	(575)	2000	1999	360
North Park	Kingwood	TX		570	2,163	2,733	79	549	2,263	2,812	(432)	2000	1996	360
Oak Farms	Houston	TX		2,603	2,730	5,333	986	2,652	3,667	6,319	(827)	1999	1999	360
Oak Hills	Austin	TX	2,491	149	3,568	3,717	21		3,738	3,738	(840)	1999	1999	360
Oltorf	Austin	TX		609	4,399	5,008	2	609	4,401	5,010	(593)	2002	2002	360
Olympia	Missouri City	TX	2,247	489	2,912	3,401	24	505	2,920	3,425	(550)	2000	2000	360
Park Cities East	Dallas	TX		1,017	2,686	3,703	329	1,017	3,015	4,032	(1,054)	1995	1995	360
Parker Road	Plano	TX		809	2,133	2,942	49	809	2,182	2,991	(765)	1995	1995	360
Preston Road	Dallas	TX		703	2,702	3,405	118	697	2,826	3,523	(888)	1997	1997	360
River Oaks	Houston	TX		987	2,565	3,552	5,018	1,738	6,832	8,570	(2,657)	1996	1989	360
Round Rock	Round Rock	TX		386	1,641	2,027	162	386	1,803	2,189	(589)	1997	1995	360
San Antonio NE	San Antonio	TX		406	1,630	2,036	159	406	1,789	2,195	(758)	1985	1982	360

Table of Contents

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

Property Name	Location	State or Country (3)	Encum-brances (2)	INITIAL COST Land	INITIAL COST Building, Equip. & Other	INITIAL COST Gross Storage Centers	Costs Subsequent to Acquisition	Gross Amount as of December 31, 2005 Land and Land Held for Sale	Gross Amount as of December 31, 2005 Building Equip. & Other	Gross Amount as of December 31, 2005 Gross Storage centers	Accum. Depr.	Owned Since	Year Built	Depr. Life in mos.
Shavano Park	San Antonio	TX		566	2,887	3,453	(6)	565	2,882	3,447	(440)	2001	2001	360
Slaughter Lane	Austin	TX		592	2,428	3,020	340	592	2,768	3,360	(866)	1997	1994	360
South Cooper	Arlington	TX		632	2,305	2,937	335	632	2,640	3,272	(867)	1996	1996	360
South Main TX	Houston	TX		404	1,039	1,443	184	392	1,235	1,627	(284)	2000	1999	360
Southlake	Southlake	TX		670	2,738	3,408	429	670	3,167	3,837	(801)	1998	1998	360
Sugarland	Sugarland	TX		761	2,991	3,752	191	761	3,182	3,943	(1,309)	1988	1987	360
T.C. Jester	Houston	TX		903	3,613	4,516	491	903	4,104	5,007	(1,304)	1996	1990	360
The Quarry	San Antonio	TX		1,316	2,817	4,133	164	488	3,809	4,297	(919)	1999	1999	360
Thousand Oaks	San Antonio	TX		421	1,683	2,104	158	421	1,841	2,262	(771)	1986	1987	360
Universal City	Universal City	TX		169	593	762	1,098	169	1,691	1,860	(690)	1995	1985	360
Valley Ranch	Coppell	TX		791	3,210	4,001	240	791	3,450	4,241	(1,064)	1997	1995	360
West University	Houston	TX		1,121	4,484	5,605	205	1,121	4,689	5,810	(1,942)	1989	1988	360
Westchase	Houston	TX		250	2,756	3,006	16	351	2,671	3,022	(520)	2000	1998	360
Westheimer	Houston	TX		611	2,470	3,081	92	611	2,562	3,173	(1,040)	1986	1977	360
Windcrest	San Antonio	TX		626	2,535	3,161	510	626	3,045	3,671	(995)	1996	1975	360
Woodforest	Houston	TX		538	1,870	2,408	438	538	2,308	2,846	(732)	1996	1996	360
Woodlands	Spring	TX		737	2,948	3,685	405	737	3,353	4,090	(1,374)	1988	1988	360
Bayside	Virginia Beach	VA		236	943	1,179	358	236	1,301	1,537	(500)	1988	1984	360
Burke	Fairfax	VA		634	2,539	3,173	233	634	2,772	3,406	(878)	1996	1984	360
Burke Centre	Burke	VA		1,035	4,778	5,813	274	1,035	5,052	6,087	(700)	2001	1983	360
Cedar Road	Chesapeake	VA		295	1,184	1,479	268	295	1,452	1,747	(547)	1994	1989	360
Charlottesville	Charlottesville	VA		305	1,225	1,530	150	305	1,375	1,680	(583)	1994	1984	360
Chesapeake	Chesapeake	VA		454	1,821	2,275	110	454	1,931	2,385	(639)	1996	1986	360
Crater Road	Petersburg	VA		224	898	1,122	120	224	1,018	1,242	(416)	1994	1987	360
Dale City	Dale City	VA		346	1,388	1,734	514	346	1,902	2,248	(711)	1994	1986	360
Fairfax	Fairfax	VA		1,136	4,555	5,691	2,542	1,414	6,819	8,233	(2,636)	1986	1980	360
Falls Church	Falls Church	VA		1,413	5,661	7,074	1,685	1,413	7,346	8,759	(2,477)	1987	1988	360
Fordson	Alexandria	VA		324	3,114	3,438	95	324	3,209	3,533	(452)	2002	1984	360
Fullerton	Springfield	VA		1,139	4,346	5,485	128	1,139	4,474	5,613	(657)	2001	1983	360
Gainesville	Gainesville	VA		245	983	1,228	196	245	1,179	1,424	(489)	1994	1988	360
Herndon	Herndon	VA		582	2,334	2,916	576	582	2,910	3,492	(1,142)	1988	1985	360
Holland Road	Virginia Beach	VA		204	818	1,022	207	204	1,025	1,229	(443)	1994	1985	360
Jefferson Davis Hwy	Richmond	VA		306	1,226	1,532	127	306	1,353	1,659	(552)	1994	1990	360
Kempsville	Virginia Beach	VA		279	1,116	1,395	170	279	1,286	1,565	(512)	1989	1985	360
Laskin Road	Virginia Beach	VA		305	1,225	1,530	181	305	1,406	1,711	(588)	1994	1984	360
Leesburg	Leesburg	VA		541	2,174	2,715	97	541	2,271	2,812	(742)	1996	1986	360
Manassas East	Manassas	VA		339	1,406	1,745	28	339	1,434	1,773	(596)	2004	N/A	360
Manassas West/East	Manassas	VA		315	1,221	1,536	738	315	1,959	2,274	(767)	1988	1984	360

Table of Contents

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

				INITIAL COST				Gross Amount as of December 31, 2005						
Property Name	Location	State or Country (3)	Encum-brances (2)	Land	Building, Equip. & Other	Gross Storage Centers	Costs Subsequent to Acquisition	Land and Land Held for Sale	Building Equip. & Other	Gross Storage centers	Accum. Depr.	Owned Since	Year Built	Depr. Life in mos.
McLean	McLean	VA			1,839	1,839	1,799		3,638	3,638	(1,599)	1997	1997	225
Merrifield	Fairfax	VA		3,184	3,966	7,150	918	3,192	4,876	8,068	(1,006)	1999	1999	360
Midlothian Turnpike	Richmond	VA		646	2,591	3,237	85	582	2,740	3,322	(902)	1996	1984	360
Newport News North	Newport News	VA		574	2,301	2,875	393	574	2,694	3,268	(857)	1996	1986	360
Newport News South	Newport News	VA		496	2,014	2,510	383	496	2,397	2,893	(969)	1985	1985	360
North Richmond	Richmond	VA		344	1,375	1,719	220	344	1,595	1,939	(670)	1988	1984	360
Old Towne	Alexandria	VA	5,500	2,036	7,210	9,246	173	2,036	7,383	9,419	(1,548)	1999	1999	360
Potomac Mills	Woodbridge	VA		1,114	3,440	4,554	32	1,122	3,464	4,586	(932)	1997	1997	360
Princess Anne Road	Virginia Beach	VA		305	1,225	1,530	128	305	1,353	1,658	(539)	1994	1985	360
South Military Highway	Virginia Beach	VA		289	1,161	1,450	363	289	1,524	1,813	(512)	1996	1984	360
Sterling (Cascades)	Sterling	VA		2,292	3,639	5,931	64	2,292	3,703	5,995	(937)	1998	1998	360
Telegraph	Lorton	VA		441	2,036	2,477	302	441	2,338	2,779	(319)	2001	2001	360
Temple	Prince George	VA		297	1,193	1,490	213	297	1,406	1,703	(562)	1994	1989	360
Virginia Beach Blvd.	Virginia Beach	VA		502	1,832	2,334	513	502	2,345	2,847	(963)	1989	1985	360
Auburn	Auburn	WA		760	2,773	3,533	214	760	2,987	3,747	(1,042)	1996	1996	360
Ballinger Way	Shoreline	WA		893	3,545	4,438	55	893	3,600	4,493	(226)	2004	2004	360
Bellefield	Bellevue	WA		957	3,830	4,787	288	957	4,118	5,075	(1,367)	1996	1978	360
Bellevue	Bellevue	WA		1,860	7,483	9,343	5,196	2,320	12,219	14,539	(4,159)	1984	1975/99	360
Bellingham	Bellingham	WA		601	2,400	3,001	415	601	2,815	3,416	(1,121)	1981	1981	360
Bremerton	Bremerton	WA		563	2,297	2,860	135	563	2,432	2,995	(716)	1997	1976	360
Burien	Burien	WA		646	2,622	3,268	565	646	3,187	3,833	(1,296)	1985	1974	360
Burien II	Seatac	WA		388	1,553	1,941	313	388	1,866	2,254	(788)	1985	1979	360
Canyon Park	Bothell	WA		1,023	2,949	3,972	332	1,023	3,281	4,304	(1,534)	1996	1990	360
Canyon Road Puyallup	Puyallup	WA		234	937	1,171	168	234	1,105	1,339	(379)	1996	1986	360
Capitol Hill	Seattle	WA		764	4,516	5,280	990	839	5,431	6,270	(3,164)	1987	1988	360
East Bremerton	Bremerton	WA		576	2,312	2,888	262	576	2,574	3,150	(854)	1996	1985	360
East Lynnwood	Lynnwood	WA		482	1,933	2,415	534	482	2,467	2,949	(955)	1986	1978	360
Edmonds	Edmonds	WA		1,190	4,806	5,996	670	1,190	5,476	6,666	(2,133)	1984	1974/75	360
Everett	Everett	WA		512	2,045	2,557	772	512	2,817	3,329	(1,107)	1981	1978	360
Factoria	Bellevue	WA		590	2,362	2,952	241	580	2,613	3,193	(1,010)	1984	1984	360
Factoria Square	Bellevue	WA		1,226	4,909	6,135	203	1,226	5,112	6,338	(1,635)	1996	1989	360
Federal Way	Federal Way	WA		862	3,414	4,276	301	872	3,705	4,577	(1,611)	1984	1975	360
Gig Harbor	Gig Harbor	WA		1,119	769	1,888	126	1,059	955	2,014	(248)	1999	1980	360
Hazel Dell	Vancover	WA		728	1,506	2,234	2,928	1,279	3,883	5,162	(1,350)	1996	1989	360
Highland Hills	Tacoma	WA		592	2,362	2,954	290	592	2,652	3,244	(1,085)	1981	1982	360
Issaquah	Issaquah	WA		615	2,460	3,075	248	615	2,708	3,323	(1,159)	1985	1986	360
Juanita	Kirkland	WA	3,472	877	4,469	5,346	30	877	4,499	5,376	(866)	2000	2000	360
Kennydale	Renton	WA		816	3,267	4,083	233	816	3,500	4,316	(1,095)	1996	1991	360

Table of Contents

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

				INITIAL COST				Gross Amount as of December 31, 2005						
Property Name	**Location**	**State or Country (3)**	**Encum-brances (2)**	**Land**	**Building, Equip. & Other**	**Gross Storage Centers**	**Costs Subsequent to Acquisition**	**Land and Land Held for Sale**	**Building Equip. & Other**	**Gross Storage centers**	**Accum. Depr.**	**Owned Since**	**Year Built**	**Depr. Life in mos.**
Kent	Kent	WA		557	2,297	2,854	52	543	2,363	2,906	(701)	1997	1977	360
Lacey	Lacey	WA		251	1,014	1,265	105	185	1,185	1,370	(362)	1997	1977	360
Lake City	Seattle	WA		572	2,421	2,993	340	572	2,761	3,333	(1,212)	1995	1987	360
Lake Union	Seattle	WA		1,580	7,440	9,020	62	2,956	6,126	9,082	(2,614)	1998	1998	360
Lakewood 512	Lakewood	WA		920	3,676	4,596	737	920	4,413	5,333	(1,602)	1987	1979/81	360
Lynnwood	Lynnwood	WA		775	3,186	3,961	143	757	3,347	4,104	(980)	1997	1979	360
Mill Creek	Everett	WA		627	3,760	4,387	315	627	4,075	4,702	(975)	1998	1998	360
Parkland	Tacoma	WA		400	1,634	2,034	138	391	1,781	2,172	(531)	1997	1980	360
Pier 57	Seattle	WA		872	4,558	5,430	131	872	4,689	5,561	(1,141)	1986	1912/98	360
Port Orchard	Port Orchard	WA		483	2,013	2,496	151	483	2,164	2,647	(690)	1997	1991	360
Queen Anne/Magnolia	Seattle	WA		952	3,777	4,729	305	952	4,082	5,034	(1,705)	1987	1988	360
Redmond	Redmond	WA		537	5,503	6,040	52	529	5,563	6,092	(1,380)	1998	1998	360
Renton	Renton	WA		625	2,557	3,182	308	625	2,865	3,490	(1,211)	1984	1979/89	360
Salmon Creek	Vancouver	WA		759	3,327	4,086	153	759	3,480	4,239	(1,048)	1997	1997	360
Sammamish Plateau	Sammamish	WA		963	3,854	4,817	71	963	3,925	4,888	(982)	1998	1998	360
Shoreline	Shoreline	WA		770	3,446	4,216	734	770	4,180	4,950	(1,643)	1986	1978	360
Smokey Point (1)(5)	Arlington	WA		232	929	1,161	(280)	881		881		1987	1984/87	360
South Hill	Puyallup	WA		300	1,247	1,547	209	300	1,456	1,756	(591)	1995	1980	360
Southcenter	Renton	WA		425	1,783	2,208	241	425	2,024	2,449	(881)	1985	1979	360
Sprague	Tacoma	WA		717	1,431	2,148	2,937	1,241	3,844	5,085	(1,435)	1996	1950/89	360
Tacoma South (1)(5)	Tacoma	WA		315	1,263	1,578	(284)	1,294		1,294		1987	1975	360
Totem Lake	Kirkland	WA		660	2,668	3,328	321	660	2,989	3,649	(1,233)	1984	1978	360
Vancouver Mall	Vancouver	WA		364	1,457	1,821	326	364	1,783	2,147	(770)	1980	1982	360
W. Olympia	Olympia	WA		359	1,446	1,805	131	351	1,585	1,936	(456)	1997	1978	360
West Seattle	Seattle	WA		698	4,202	4,900	66	698	4,268	4,966	(1,298)	1997	1997	360
White Center (aka West Seattle)	Seattle	WA		559	2,284	2,843	199	559	2,483	3,042	(1,014)	1980	1981	360
Woodinville	Woodinville	WA		674	2,693	3,367	454	674	3,147	3,821	(1,203)	1984	1982/84	360
Corporate Office	Seattle	WA		3,947	7,096	11,043	19,204	4,070	26,178	30,248	(18,669)	1998	1998	360
Monocacy (Land with no Building)	Frederick	MD		1,288		1,288		1,288		1,288		2002	N/A	N/A
Olive Interbelt (Non-Shurgard Store)	St. Louis	MO		818	3,705	4,523	116	818	3,821	4,639	(1,527)	1994	1994	360
Dolfield (1)	Baltimore	MD					565	565		565		2003	N/A	N/A
Fontana-Sierra (1)	Fontana	CA		391	1,572	1,963	(1,635)	328		328		1987	1980/85	N/A
St. Peters (Land with no Building)	St. Peters	MO		1,012		1,012	25	1,037		1,037		1999	N/A	N/A
Domestic total			248,741	376,524	1,421,816	1,798,340	259,428	398,314	1,659,455	2,057,769	(432,937)			

Table of Contents

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

				INITIAL COST				Gross Amount as of December 31, 2005						
Property Name	**Location**	**State or Country (3)**	**Encumbrances (2)**	**Land**	**Building, Equip. & Other**	**Gross Storage Centers**	**Costs Subsequent to Acquisition**	**Land and Land Held for Sale**	**Building Equip. & Other**	**Gross Storage centers**	**Accum. Depr.**	**Owned Since**	**Year Built**	**Depr. Life in mos.**
Aartselaar	Antwerpen	Belgium	$ 3,345	$ 1,030	$ 6,038	$ 7,068	$ 674	$ 1,397	$ 6,345	$ 7,742	$ (1,402)	2004	1997	360
Antwerpen Bredabaan	Antwerpen	Belgium	3,045	1,753	4,683	6,436	423	2,003	4,856	6,859	(672)	2004	2000	360
Borgerhout	Antwerpen	Belgium	2,685	395	4,842	5,237	252	685	4,804	5,489	(523)	2004	2002	360
Brugge	Brugge	Belgium	2,269	1,023	3,784	4,807	68	1,023	3,852	4,875	(619)	2004	1999	360
Forest	Brussels	Belgium	4,306		5,336	5,336	858	408	5,786	6,194	(1,469)	2004	1995	360
Ghent	Ghent	Belgium	3,841	1,283	6,730	8,013	328	1,288	7,053	8,341	(2,226)	2004	1998	360
Groot-Bijgaarden	Brussels	Belgium	3,118	1,959	3,799	5,758	(1)	1,959	3,798	5,757		2005	2005	360
Jette	Brussels	Belgium	4,249	1,190	7,802	8,992	543	1,406	8,129	9,535	(1,367)	2004	2000	360
Kortrijk	Kortrijk	Belgium	2,685	1,418	4,491	5,909	651	1,946	4,614	6,560	(643)	2004	1999	360
Leuven	Leuven	Belgium	3,248	1,843	5,024	6,867	69	1,843	5,093	6,936	(876)	2004	1998	360
Linkeroever	Antwerpen	Belgium	2,075	789	3,510	4,299	165	820	3,644	4,464	(402)	2004	2002	360
Luik	Luik	Belgium	2,085	924	3,403	4,327	235	938	3,624	4,562	(504)	2004	2000	360
Machelen	Machelen	Belgium	2,517	871	4,459	5,330	669	1,348	4,651	5,999	(1,021)	2004	1997	360
Molenbeek	Brussels	Belgium	1,978	839	3,242	4,081	150	839	3,392	4,231	(847)	2004	1995	360
Overijse	Overijse	Belgium	2,299	1,459	3,385	4,844	541	1,644	3,741	5,385	(613)	2004	1998	360
Sint Pieters Leeuw	Brussels	Belgium	2,344	743	4,206	4,949	195	806	4,338	5,144	(651)	2004	2001	360
Waterloo	Waterloo	Belgium	4,899	626	7,680	8,306	984	1,913	7,377	9,290	(1,581)	2004	1995	360
Wavre	Wavre	Belgium	2,199	851	3,704	4,555	33	851	3,737	4,588	(275)	2004	2003	360
Zaventem	Zaventem	Belgium	3,983	3,272	5,090	8,362	1,038	3,706	5,694	9,400	(2,156)	2004	1996	360
Amager	Copenhagen	Denmark	4,457	475	6,683	7,158	60	481	6,737	7,218	(152)	2005	2005	360
Herlev	Copenhagen	Denmark	4,350	2,197	4,124	6,321	414	2,223	4,512	6,735	(161)	2004	2004	360
Hørsholm	Hørsholm	Denmark	4,543	1,373	7,775	9,148	664	1,440	8,372	9,812	(708)	2004	2002	360
Hvidovre	Hvidovre	Denmark	4,780	1,907	8,133	10,040	845	1,968	8,917	10,885	(976)	2004	2001	360
Ishøj	Ishøj	Denmark	3,595	1,203	6,232	7,435	182	1,203	6,414	7,617	(736)	2004	2001	360
Osterbro	Copenhagen	Denmark	4,724	2,332	7,409	9,741	259	2,351	7,649	10,000	(611)	2004	2003	360
Roskilde	Roskilde	Denmark	4,603	2,348	7,645	9,993	57	2,348	7,702	10,050	(672)	2004	2002	360
Tårnby	Copenhagen	Denmark	4,705	1,753	5,195	6,948	317	1,773	5,492	7,265	(297)	2004	2004	360
Aix La Pioline	Marseille	France	4,089	1,748	4,643	6,391	24	1,748	4,667	6,415	(20)	2005	2005	360
Asnières	Asnières	France	5,285	2,762	8,485	11,247	821	2,964	9,104	12,068	(1,439)	2004	2001	360
Avignon	Avignon	France	3,403	1,255	3,389	4,644	653	1,283	4,014	5,297	(133)	2004	2004	360
Ballainvilliers	Ballainvilliers	France	3,612	1,918	5,673	7,591	214	1,934	5,871	7,805	(1,052)	2004	2000	360
Buchelay	Buchelay	France	3,567	1,465	6,090	7,555	231	1,465	6,321	7,786	(1,051)	2004	2001	360
Chambourcy	Chambourcy	France	4,602	3,806	6,042	9,848	382	3,980	6,250	10,230	(435)	2004	2003	360
Coignières	Coignières	France	3,330	1,536	5,514	7,050	443	1,611	5,882	7,493	(860)	2004	2001	360
Epinay	Epinay	France	3,620	1,401	6,290	7,691	65	1,401	6,355	7,756	(843)	2004	2002	360
Eragny	Paris	France	3,770	748	5,071	5,819	71	756	5,134	5,890	(380)	2004	2003	360
Fresnes	Fresnes	France	3,988	2,514	5,961	8,475	717	2,733	6,459	9,192	(1,089)	2004	2000	360
Grigny	Grigny	France	3,586	1,312	6,288	7,600	73	1,312	6,361	7,673	(924)	2004	2001	360

F-62

Table of Contents

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

				INITIAL COST				Gross Amount as of December 31, 2005						
Property Name	Location	State or Country (3)	Encumbrances (2)	Land	Building, Equip. & Other	Gross Storage Centers	Costs Subsequent to Acquisition	Land and Land Held for Sale	Building Equip. & Other	Gross Storage centers	Accum. Depr.	Owned Since	Year Built	Depr. Life in mos.
La Seyne	La Seyne-sur-mer	France	3,330	749	6,226	6,975	368	838	6,505	7,343	(776)	2004	2002	360
Lormont	Bordeaux	France	3,676	914	5,004	5,918	32	914	5,036	5,950	(29)	2005	2005	360
Lyon Gerland	Lyon	France	3,987	3,291	5,104	8,395	105	3,291	5,209	8,500	(529)	2004	2002	360
Lyon Sarrazin	Lyon	France	4,178	720	6,111	6,831	34	720	6,145	6,865	(24)	2005	2005	360
Lyon Vaise	Lyon	France	3,997	2,168	3,855	6,023	335	2,192	4,166	6,358	(244)	2004	2003	360
Marseille	Marseille	France	4,193	1,958	6,928	8,886	140	1,964	7,062	9,026	(942)	2004	2002	360
Marseille Bonneveine	Marseille	France	3,534	2,280	3,234	5,514	69	2,305	3,278	5,583	(303)	2004	2003	360
Mérignac	Bordeaux	France	3,696	1,097	4,379	5,476	311	1,110	4,677	5,787	(194)	2004	2004	360
Montrouge	Montrouge	France	2,798	988	6,474	7,462	1,470	988	7,944	8,932	(2,554)	2004	1997	360
Nanterre	Nanterre	France	5,089	2,787	7,487	10,274	1,727	3,148	8,853	12,001	(1,614)	2004	2000	360
Nice	Nice	France	3,699	1,710	4,576	6,286	2,118	1,878	6,526	8,404	(2,335)	2004	1997	360
Noisy	Noisy	France	4,592	2,618	6,984	9,602	346	2,705	7,243	9,948	(744)	2004	2002	360
Osny	Osny	France	2,899	1,134	4,982	6,116	503	1,203	5,416	6,619	(1,001)	2004	2000	360
Pessac	Bordeaux	France	3,085	1,427	3,793	5,220	67	1,443	3,844	5,287	(133)	2004	2004	360
Pierrefitte	Paris	France	4,205	1,964	4,163	6,127	656	1,986	4,797	6,783	(190)	2004	2004	360
Poissonniers	Paris	France	6,449	1,968	10,262	12,230	58	1,968	10,320	12,288	(5)	2005	2005	360
Pontault Combault	Pontault Combault	France	2,989	1,116	5,205	6,321	706	1,187	5,840	7,027	(1,138)	2004	1999	360
Port-Marly	Port-Marly	France	3,248	1,207	5,681	6,888	994	1,434	6,448	7,882	(1,037)	2004	2000	360
Rosny	Rosny	France	3,708	1,551	6,273	7,824	941	1,691	7,074	8,765	(1,139)	2004	2000	360
Sevran	Sevran	France	3,780	1,471	6,572	8,043	110	1,470	6,683	8,153	(763)	2004	2002	360
Sucy	Paris	France	4,433	3,278	3,584	6,862	98	3,315	3,645	6,960	(322)	2004	2003	360
Thiais	Thiais	France	5,136	4,266	6,537	10,803	227	4,366	6,664	11,030	(861)	2004	2001	360
Varlin	Varlin	France	277		550	550	572		1,122	1,122	(696)	2004	1997	360
Villejust	Villejust	France	3,546	1,504	5,996	7,500	457	1,553	6,404	7,957	(1,151)	2004	2000	360
Vitrolles	Vitrolles	France	3,780	1,799	6,201	8,000	98	1,803	6,295	8,098	(759)	2004	2002	360
Wambrechies	Lille	France	2,927	1,593	2,837	4,430	134	1,611	2,953	4,564	(184)	2004	2003	360
Wasquehal	Lille	France	3,533	708	4,750	5,458	45	716	4,787	5,503	(83)	2005	2005	360
Wattignies	Lille	France	3,252	640	4,606	5,246	81	647	4,680	5,327	(288)	2004	2003	360
Bonn Bornheimer Strasse	Bonn	Germany	4,244	2,129	4,452	6,581	122	2,152	4,551	6,703	(226)	2004	2004	360
Düsseldorf Erkrather Strasse	Düsseldorf	Germany	4,240	1,508	5,023	6,531	170	1,538	5,163	6,701	(326)	2004	2003	360
Düsseldorf Heerdter Landstrasse	Düsseldorf	Germany	3,753	1,064	5,079	6,143	4	1,078	5,069	6,147	(361)	2004	2003	360
Essen Martin Luther Strasse	Essen	Germany	4,580	1,689	5,979	7,668	28	1,708	5,988	7,696	(435)	2004	2003	360
Köln Clevischer Ring	Köln	Germany	3,571	1,362	4,813	6,175	47	1,362	4,860	6,222	(66)	2005	2005	360
Köln Melatengürtel	Köln	Germany	4,635	2,277	4,609	6,886	54	2,297	4,643	6,940	(230)	2004	2004	360
Krefeld Diessemer Bruch	Krefeld	Germany	3,522	926	4,476	5,402	425	936	4,891	5,827	(230)	2004	2004	360
Mönchengladbach Krefelder Strasse	Mönchengladbach	Germany	4,012	1,575	4,707	6,282	95	1,592	4,785	6,377	(345)	2004	2003	360

Table of Contents

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

				INITIAL COST				Gross Amount as of December 31, 2005						
Property Name	**Location**	**State or Country (3)**	**Encum-brances (2)**	**Land**	**Building, Equip. & Other**	**Gross Storage Centers**	**Costs Subsequent to Acquisition**	**Land and Land Held for Sale**	**Building Equip. & Other**	**Gross Storage centers**	**Accum. Depr.**	**Owned Since**	**Year Built**	**Depr. Life in mos.**
Mönchengladbach Waldnieler Strasse	Mönchengladbach	Germany	4,197	1,980	4,590	6,570	64	2,001	4,633	6,634	(340)	2004	2003	360
Mülheim Düsseldorfer Strasse	Essen	Germany	3,617	868	4,631	5,499	40	876	4,663	5,539	(81)	2005	2005	360
Wuppertal Friedrich-Engels-Alle	Wuppertal	Germany	3,859	926	4,556	5,482	575	935	5,122	6,057	(169)	2004	2004	360
Almere	Amsterdam	Netherlands	4,005	1,066	4,766	5,832	397	1,078	5,151	6,229	(340)	2004	2003	360
Amersfoort	Amersfoort	Netherlands	5,984	3,136	5,931	9,067	(2,097)	683	6,287	6,970	(859)	2004	2000	360
Amstelveen	Amsterdam	Netherlands	2,448		3,584	3,584	181		3,765	3,765	(235)	2004	2003	360
Amsterdam	Amsterdam	Netherlands	2,738	287	3,527	3,814	2,432	287	5,959	6,246	(733)	2004	2000	360
Amsterdam Badhoeve	Amsterdam	Netherlands	3,546	1,404	3,886	5,290	371	1,420	4,241	5,661	(251)	2004	2003	360
Amsterdam Sneevliet	Amsterdam	Netherlands	4,259		4,525	4,525	117		4,642	4,642	(342)	2004	2003	360
Apeldoorn	Apeldoorn	Netherlands	3,256	1,666	5,207	6,873	312	1,704	5,481	7,185	(683)	2004	2001	360
Breda	Breda	Netherlands	3,975	2,267	6,169	8,436	252	2,341	6,347	8,688	(785)	2004	2001	360
Delft	Delft	Netherlands	3,910	2,386	4,778	7,164	972	2,466	5,670	8,136	(512)	2004	2002	360
Den Haag	The Hague	Netherlands	4,908	782	9,420	10,202	974	782	10,394	11,176	(1,657)	2004	1999	360
Den Haag 2, Lozerlaan	The Hague	Netherlands	326		3,268	3,268			3,268	3,268		2005	2005	360
Diemen	Amsterdam	Netherlands	4,256	3,755	5,224	8,979	460	4,074	5,365	9,439	(508)	2004	2002	360
Dordrecht Ampere	Dordrecht	Netherlands	3,265	1,501	4,465	5,966	772	1,513	5,225	6,738	(466)	2004	2002	360
Dordrecht II	Dordrecht	Netherlands	4,048	2,011	6,467	8,478	153	2,037	6,594	8,631	(711)	2004	2001	360
Ede	Ede	Netherlands	3,268	484	5,933	6,417	485	484	6,418	6,902	(692)	2004	2002	360
Eindhoven Praxis	Eindhoven	Netherlands	2,847		4,344	4,344	7		4,351	4,351		2005	2005	360
Heemstede	Amsterdam	Netherlands	6,459	3,434	6,257	9,691	(2,037)	730	6,924	7,654	(772)	2004	2001	360
Kerkrade Heerlen	Kerkrade	Netherlands	3,119	1,343	5,235	6,578	107	1,342	5,343	6,685	(623)	2004	2001	360
Maastricht	Maastricht	Netherlands	3,047	389	4,318	4,707	1,446	448	5,705	6,153	(794)	2004	2000	360
Nijmegen	Nijmegen	Netherlands	2,385		5,032	5,032	300		5,332	5,332	(562)	2004	2001	360
Rijswijk	Rijswijk	Netherlands	3,260	511	6,275	6,786	483	511	6,758	7,269	(638)	2004	2002	360
Rotterdam	Rotterdam	Netherlands	2,990	1,121	5,168	6,289	836	1,121	6,004	7,125	(845)	2004	2000	360
Rotterdam Stadionweg	Rotterdam	Netherlands	2,957	1,302	4,934	6,236	248	1,328	5,156	6,484	(585)	2004	2001	360
Spaanse Polder	Rotterdam	Netherlands	2,200		5,238	5,238	402		5,640	5,640	(743)	2004	2001	360
Spijkenisse	Rotterdam	Netherlands	3,369	1,399	5,779	7,178	51	1,399	5,830	7,229	(410)	2004	2003	360
Tilburg	Tilburg	Netherlands	3,502	1,209	4,101	5,310	132	1,223	4,219	5,442	(270)	2004	2003	360
Utrecht Cartesius	Utrecht	Netherlands	3,887	2,151	5,066	7,217	1,006	2,244	5,979	8,223	(522)	2004	2002	360
Utrecht Franciscus	Utrecht	Netherlands	4,466	2,930	4,141	7,071	90	2,963	4,198	7,161	(342)	2004	2003	360
Utrecht Nieuwegein	Utrecht	Netherlands	3,858	2,129	5,975	8,104	1,000	2,397	6,707	9,104	(925)	2004	2000	360
Veldhoven	Eindhoven	Netherlands	3,728	1,944	5,032	6,976	903	2,014	5,865	7,879	(530)	2004	2002	360
Zaandam	Amsterdam	Netherlands	3,608	2,059	5,544	7,603	203	2,106	5,700	7,806	(750)	2004	2001	360
Zoetermeer	The Hague	Netherlands	335		3,278	3,278			3,278	3,278		2005	2005	360
Årstaberg	Årstaberg	Sweden	3,831	1,548	5,680	7,228	679	1,548	6,359	7,907	(709)	2004	2002	360

F-64

Table of Contents

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

				INITIAL COST				Gross Amount as of December 31, 2005						
Property Name	**Location**	**State or Country (3)**	**Encum-brances (2)**	**Land**	**Building, Equip. & Other**	**Gross Storage Centers**	**Costs Subsequent to Acquisition**	**Land and Land Held for Sale**	**Building Equip. & Other**	**Gross Storage centers**	**Accum. Depr.**	**Owned Since**	**Year Built**	**Depr. Life in mos.**
Danderyd	Danderyd	Sweden	4,206	1,760	6,623	8,383	446	1,791	7,038	8,829	(794)	2004	2002	360
Handen	Handen	Sweden	3,652	1,147	6,356	7,503	810	1,296	7,017	8,313	(1,611)	2004	1999	360
Helsingborg	Malmö	Sweden	3,292	559	3,976	4,535	240	565	4,210	4,775	(428)	2004	2003	360
Högdalen	Högdalen	Sweden	3,756	1,319	6,378	7,697	292	1,319	6,670	7,989	(947)	2004	2002	360
Jakobsberg	Jakobsberg	Sweden	2,769	503	5,180	5,683	946	928	5,701	6,629	(1,612)	2004	1998	360
Kungens Kurva	Kungens Kurva	Sweden	3,581	1,087	6,271	7,358	1,398	2,376	6,380	8,756	(2,108)	2004	1998	360
Lund (MMÖ)	Malmö	Sweden	2,896	1,468	4,423	5,891	250	1,511	4,630	6,141	(723)	2004	2001	360
Lundavägen (MMÖ)	Malmö	Sweden	4,110	2,168	5,737	7,905	1,150	2,372	6,683	9,055	(1,307)	2004	2000	360
Minelund (GBG)	Goteborg	Sweden	3,628	1,736	5,742	7,478	419	1,824	6,073	7,897	(1,005)	2004	2001	360
Molndal (GBG)	Goteborg	Sweden	3,493	1,249	5,958	7,207	848	1,699	6,356	8,055	(1,529)	2004	1999	360
Moraberg (STHLM)	Stockholm	Sweden	3,365	1,171	5,724	6,895	293	1,299	5,889	7,188	(1,173)	2004	2000	360
Rissne	Rissne	Sweden	3,991	2,450	5,774	8,224	945	2,450	6,719	9,169	(1,715)	2004	1998	360
Sköndal	Sköndal	Sweden	3,644	1,380	6,097	7,477	303	1,379	6,401	7,780	(853)	2004	2001	360
Sodermalm	Sodermalm	Sweden	1,330	333	2,111	2,444	525	332	2,637	2,969	(909)	2004	1999	360
Solna	Solna	Sweden	6,614	2,445	11,097	13,542	1,813	3,361	11,994	15,355	(2,849)	2004	1999	360
Taby	Taby	Sweden	3,320	1,415	5,401	6,816	1,057	1,654	6,219	7,873	(1,672)	2004	1998	360
Upplands Väsby	Upplands Väsby	Sweden	3,873	1,418	6,509	7,927	348	1,429	6,846	8,275	(1,282)	2004	2001	360
Uppsala	Uppsala	Sweden	3,370	983	5,925	6,908	699	1,124	6,483	7,607	(1,580)	2004	1999	360
Vällingby	Stockholm	Sweden	4,258	2,509	6,149	8,658	255	2,509	6,404	8,913	(454)	2004	2003	360
Västra Frölunda (GBG)	Goteborg	Sweden	3,651	2,324	5,132	7,456	422	2,489	5,389	7,878	(810)	2004	2001	360
Ystadsvägen (MMÖ)	Malmö	Sweden	3,128	1,073	5,231	6,304	336	1,078	5,562	6,640	(821)	2004	2001	360
Croydon	Croydon	UK	5,574	3,887	8,216	12,103	1,621	4,597	9,127	13,724	(1,411)	2004	1999	360
Edgeware	Edgeware	UK	7,326	3,133	7,633	10,766	112	3,168	7,710	10,878	(505)	2004	2003	360
Ewell	Ewell	UK	5,595	3,301	8,841	12,142	2,145	3,994	10,293	14,287	(1,261)	2004	2001	360
Forest Hill	London	UK	6,908	3,351	7,837	11,188	113	3,389	7,912	11,301	(176)	2004	2005	360
Greenford	Greenford	UK	8,590	5,966	12,670	18,636	1,524	7,348	12,812	20,160	(1,208)	2004	2002	360
Gypsy Corner	London	UK	6,685	4,784	9,456	14,240	920	5,461	9,699	15,160	(688)	2004	2003	360
Hanworth	Hanworth	UK	5,457	4,424	7,436	11,860	1,350	5,539	7,671	13,210	(1,187)	2004	2000	360
Hatch End	Harrow	UK	7,309	2,823	6,726	9,549	531	2,847	7,233	10,080	(253)	2004	2004	360
Hayes	Hayes	UK	5,500	3,532	8,358	11,890	1,667	4,582	8,975	13,557	(1,382)	2004	1999	360
Neasden	Neasden	UK	7,316	5,345	10,479	15,824	926	5,812	10,938	16,750	(1,290)	2004	2001	360
Putney	Putney	UK	7,455	5,129	10,847	15,976	1,057	5,510	11,523	17,033	(1,069)	2004	2002	360
Reading	Reading	UK	6,636	6,016	8,353	14,369	141	6,119	8,391	14,510	(1,259)	2004	2000	360
Ruislip	Ruislip	UK	4,507		9,766	9,766	1,665		11,431	11,431	(1,030)	2004	2002	360
Streatham	London	UK	4,564	3,847	6,001	9,848	882	4,136	6,594	10,730	(985)	2004	1999	360
Surbiton	Surbiton	UK		3,351	2,033	5,384	246	3,395	2,235	5,630	(128)	2004	2004	360
Wallington	London	UK	6,094	2,130	6,793	8,923	72	2,130	6,865	8,995	(112)	2005	2005	360
West London	London	UK		4,989	8,884	13,873	762	5,118	9,517	14,635	(416)	2004	2004	360

Table of Contents

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

				INITIAL COST				Gross Amount as of December 31, 2005						
Property Name	**Location**	**State or Country (3)**	**Encum-brances (2)**	**Land**	**Building, Equip. & Other**	**Gross Storage Centers**	**Costs Subsequent to Acquisition**	**Land and Land Held for Sale**	**Building Equip. & Other**	**Gross Storage centers**	**Accum. Depr.**	**Owned Since**	**Year Built**	**Depr. Life in mos.**
Wokingham	Wokingham	UK	6,124	6,306	7,033	13,339	552	6,703	7,188	13,891	(628)	2004	2003	360
Borsbeek (1)	Antwerpen	Belgium					2,238	2,238		2,238		2005	2006	360
Europe Corporate	Brussels	Belgium			7,086	7,086	50	7	7,129	7,136	(6,037)	2004	1996	360
European total			575,632	266,556	853,908	1,120,464	72,799	283,839	909,424	1,193,263	(119,234)			
Total (4)			$ 824,373	$ 643,080	$ 2,275,724	$ 2,918,804	$ 332,227	$ 682,153	$ 2,568,879	$ 3,251,032	$ (552,171)			

(1) These properties were classified as held for sale as of December 31, 2005.
(2) In addition to encumbrances listed we had $1.2 million of mortgage debt on two properties under construction in Europe.
(3) All amounts for properties in foreign countries have been translated from the functional currency of the country at the balance sheet rate as of December 31, 2005.
(4) Gross amounts as of December 31, 2005, included properties held for sale of $6.8 million (including properties subsequently reclassified to properties held for use as of March 31, 2006, as discussed in Note 25 to the accompanying consolidated financial statements).
(5) These properties were reclassified to properties held for use from properties held for sale as of March 31, 2006.

Table of Contents

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

The following tables reconcile the changes in land, building, equipment and other, as well as accumulated depreciation over the last three years:

		(in thousands)
Land, Building, Equipment and Other		
Balance at January 1, 2003		$ 1,728,636
Additions during the period		
Acquisitions	$ 123,234	
Developments	41,219	
Improvements and other	23,282	
		187,735
Cost of real estate sold or disposed		(13,735)
Balance at December 31, 2003		1,902,636
Additions during the period		
Effect of consolidation of Shurgard Europe	966,437	
Acquisitions	70,501	
Developments	166,072	
Improvements and other	10,170	
Effect of change in currency translation rate	62,356	
		1,275,536
Cost of real estate sold or disposed		(34,684)
Balance at December 31, 2004		3,143,488
Additions during the period		
Acquisitions	96,304	
Developments	125,820	
Improvements and other	45,241	
Effect of change in currency translation rate	(155,136)	
		112,229
Cost of real estate sold or disposed		(11,459)
Balance at December 31, 2005		$ 3,244,258
Accumulated Depreciation		
Balance at January 1, 2003		$ 274,435
Depreciation expense		54,253
Depreciation associated with discontinued operations		842
Disposals		(7,525)
Balance at December 31, 2003		322,005
Effect of consolidation of Shurgard Europe		72,275
Depreciation expense		86,138
Depreciation associated with discontinued operations		625
Disposals		(5,526)
Effect of change in currency translation rate		4,014
Balance at December 31, 2004		479,531
Depreciation expense		92,819

Depreciation associated with discontinued operations	99
Disposals	(5,947)
Effect of change in currency translation rate	(14,331)
Balance at December 31, 2005	$ 552,171

Table of Contents

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(Amounts in thousands except share and per share data)

	March 31, 2006	December 31, 2005
ASSETS		
Storage centers:		
Operating storage centers	$ 3,316,120	$ 3,244,258
Less accumulated depreciation	(576,875)	(552,171)
Operating storage centers, net	2,739,245	2,692,087
Construction in progress	88,349	67,073
Properties held for sale	3,783	6,774
Total storage centers	2,831,377	2,765,934
Cash and cash equivalents	36,616	39,778
Restricted cash	2,876	4,972
Goodwill	27,440	27,440
Other assets	125,071	119,248
Total assets	$ 3,023,380	$ 2,957,372
LIABILITIES AND SHAREHOLDERS EQUITY		
Accounts payable and other liabilities	$ 143,136	$ 181,435
Lines of credit	620,700	583,500
Notes payable	1,322,780	1,275,720
Total liabilities	2,086,616	2,040,655
Minority interest	138,983	116,365
Commitments and contingencies (Note 17)		
Shareholders equity:		
Series C Cumulative Redeemable Preferred Stock; $0.001 par value; 2,000,000 shares authorized; 2,000,000 shares issued and outstanding; liquidation preference of $50,000	48,115	48,115
Series D Cumulative Redeemable Preferred Stock; $0.001 par value; 3,450,000 shares authorized; 3,450,000 shares issued and outstanding; liquidation preference of $86,250	83,068	83,068
Class A Common Stock; $0.001 par value; 120,000,000 shares authorized; 47,251,336 and 47,041,680 shares issued and outstanding, respectively	47	47
Additional paid-in capital	1,150,041	1,142,288
Accumulated deficit	(483,856)	(459,586)
Accumulated other comprehensive income (loss)	366	(13,580)
Total shareholders equity	797,781	800,352
Total liabilities and shareholders equity	$ 3,023,380	$ 2,957,372

The accompanying notes are an integral part of these statements.

Table of Contents

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(Amounts in thousands except share and per share data)

	For the three months ended March 31,	
	2006	2005
Revenue		
Storage center operations	$ 126,768	$ 112,238
Other	842	1,386
Total revenue	127,610	113,624
Expenses		
Operating	61,094	59,078
Real estate development	1,670	2,930
Depreciation and amortization	25,923	23,344
Impairment and abandoned project expense	545	323
General, administrative and other	7,453	8,029
Total storage center expenses	96,685	93,704
Income from operations	**30,925**	**19,920**
Other Income (Expense)		
Costs related to proposed merger (Note 17)	(1,465)	
Interest expense	(29,404)	(24,125)
Gain (loss) on derivatives, net	691	(359)
Foreign exchange gain (loss)	125	(3,848)
Interest income and other, net	405	960
Other expense, net	(29,648)	(27,372)
Income (loss) before minority interest, equity in earnings of other real estate investments, net and income tax expense	1,277	(7,452)
Minority interest	3,933	6,110
Equity in earnings of other real estate investments, net		21
Income tax expense	(19)	(10)
Income (loss) from continuing operations	5,191	(1,331)
Discontinued operations		
Income from discontinued operations	68	164
Gain on sale of discontinued operations		6,423
Total income from discontinued operations	68	6,587
Cumulative effect of change in accounting principle (Note 10)	(200)	
Net Income	**5,059**	**5,256**
Net Income Allocation		

Preferred stock dividends and other	(3,037)	(3,042)
Net income available to common shareholders	$ 2,022	$ 2,214

The accompanying notes are an integral part of these statements.

F-69

Table of Contents

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Continued)

(unaudited)

(Amounts in thousands except share and per share data)

	For the three months ended March 31, 2006	2005
Basic per share amounts:		
Income (loss) from continuing operations available to common shareholders	$ 0.04	$ (0.09)
Discontinued operations		0.14
Cumulative effect of change in accounting principle		
Net income available to common shareholders per share	$ 0.04	$ 0.05
Diluted per share amounts:		
Income (loss) from continuing operations available to common shareholders	$ 0.04	$ (0.09)
Discontinued operations		0.14
Cumulative effect of change in accounting principle		
Net income available to common shareholders per share	$ 0.04	$ 0.05
Distributions per common share	$ 0.56	$ 0.55

The accompanying notes are an integral part of these statements.

F-70

Table of Contents

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(Amounts in thousands)

	For the three months ended March 31, 2006	2005
Operating activities:		
Net income	$ 5,059	$ 5,256
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of assets, including discontinued operations	(31)	(6,483)
Depreciation, amortization and impairment losses	25,925	23,384
(Gain) loss on derivatives, net	(691)	359
Stock-based compensation expense	2,024	509
Non-cash interest and other	2,236	2,747
Foreign exchange (gain) loss	(125)	3,848
Minority interest	(3,933)	(6,110)
Changes in operating accounts, net of effect of acquisitions:		
Payments of accrued costs related to proposed merger	(10,840)	
Other assets	3,213	407
Accounts payable and other liabilities	(16,827)	(6,848)
Net cash provided by operating activities	6,010	17,069
Investing activities:		
Construction and improvements to storage centers	(27,306)	(24,492)
Acquisitions of storage centers, including associated intangible assets	(3,114)	(3,000)
Payment for purchase of 3S-Self-Storage, net of cash acquired	(46,262)	
Purchase of intangible assets	(621)	(1,397)
Proceeds from sale of assets	2,530	13,177
Changes in restricted cash, net	2,128	1,412
Increase in notes receivable	(505)	(603)
Purchase of additional interest in European affiliated partnerships	(450)	
Net cash used in investing activities	(73,600)	(14,903)

The accompanying notes are an integral part of these statements.

Table of Contents

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(unaudited)

(Amounts in thousands)

	For the three months ended March 31, 2006	2005
Financing activities:		
Proceeds from notes payable	$ 36,713	$ 23,421
Payments on notes payable	(897)	(755)
Proceeds from lines of credit	72,200	425,900
Payments on lines of credit	(35,000)	(405,100)
Payment of loan costs	(1,306)	(2,847)
Distributions paid on common and preferred stock	(32,303)	(28,632)
Payments on derivatives	(217)	(14,890)
Proceeds from derivatives	172	
Proceeds from exercise of stock options and dividend reinvestment plan	2,536	954
Contributions received from minority partners	23,638	4,313
Distributions paid to minority partners	(1,480)	(1,068)
Net cash provided by financing activities	64,056	1,296
Effect of exchange rate changes on cash and cash equivalents	372	(1,591)
(Decrease) increase in cash and cash equivalents	(3,162)	1,871
Cash and cash equivalents at beginning of period	39,778	50,277
Cash and cash equivalents at end of period	$ 36,616	$ 52,148
Supplemental schedule of cash flow information:		
Cash paid for interest, net of amounts capitalized	$ 21,808	$ 15,544
Cash paid for income taxes	$ 489	$
Supplemental schedule of non-cash investing information:		
Liabilities assumed in acquisition of management contracts	$	$ 1,200
Supplemental schedule of non-cash financing information:		
Receivable from stock options exercised	$ 3,916	$

The accompanying notes are an integral part of these statements.

Table of Contents

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the quarterly period ended March 31, 2006

(unaudited)

Note 1 Organization

Shurgard Storage Centers, Inc. and our subsidiaries (the Company, we, Shurgard or us), are engaged principally in investing in, acquiring, developing and operating self-storage centers located throughout the United States and in Western Europe. Our revenues are generated primarily from leasing self-storage space to tenants on a month-to-month basis. We also provide ancillary services at our storage centers consisting primarily of truck rentals and sales of storage products.

On March 6, 2006, we entered into an Agreement and Plan of Merger (Merger Agreement), dated as of March 6, 2006, with Public Storage, Inc. (Public Storage), which contemplates that we will be merged with and into a subsidiary of Public Storage. Each outstanding share of our common stock will be converted into the right to receive 0.82 of a fully paid and non-assessable share of Public Storage common stock. In addition, in connection with the merger, we expect to redeem each outstanding series of our preferred stock in accordance with its terms. Public Storage will assume approximately $1.9 billion of our debt. Our board of directors and the board of directors of Public Storage have approved the Merger Agreement. The proposed merger is subject to our shareholders approval, Public Storage s shareholders approval of the issuance of shares of Public Storage common stock to be used as merger consideration and other customary closing conditions. (See further discussion at Note 17).

Note 2 Summary of Significant Accounting Policies

Basis of presentation: The condensed consolidated financial statements include the accounts of Shurgard and our consolidated subsidiaries presented on an accrual basis in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in accordance with the requirements of Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of our financial condition at March 31, 2006 and December 31, 2005, and the results of operations and cash flows for the three-month periods ended March 31, 2006 and 2005. Interim results are not necessarily indicative of the results for the year. The interim financial statements should be read in conjunction with our annual report on Form 10-K for the year ended December 31, 2005. All amounts are presented in U.S. dollars unless indicated otherwise; all balances related to our foreign subsidiaries have been translated into U.S. dollars at period-average or period-end exchange rates as appropriate. All intercompany balances and transactions have been eliminated in consolidation. The interim financial statements assume that Shurgard continues as a separate public company, and therefore do not reflect the effects of transactions or decisions that are contingent on the completion of the proposed merger with Public Storage.

Consolidated and unconsolidated subsidiaries: We consolidate all wholly-owned subsidiaries. We assess whether our subsidiaries are Variable Interest Entities (VIEs) as defined by the Financial Accounting Standards Board s (FASB) Interpretation No. (FIN) 46R, Consolidation of Variable Interest Entities. Upon implementation of FIN 46R in January 1, 2004, we consolidated all VIEs of which we are the primary beneficiary. We evaluate partially-owned subsidiaries and joint ventures held in partnership form to determine whether rights held by other investors constitute substantive participating rights in accordance with Emerging Issues Task Force (EITF) Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights. For partially-owned subsidiaries or joint ventures held in corporate form (including limited liability companies with

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

governance provisions that are the functional equivalent of regular corporations), we consider the guidance of Statement of Financial Accounting Standard (SFAS) No. 94, Consolidation of All Majority-Owned Subsidiaries and EITF Issue No. 96-16, Investor s Accounting for an Investee When the Investor has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights and, in particular, whether rights held by other investors would be viewed as participating rights as defined therein. To the extent that any minority investor has substantive participating rights, has the ability to dissolve the partnership or remove the general partner without cause in a partnership or participating rights in a corporation, including substantive veto rights, the related entity will generally not be consolidated.

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

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

Storage centers: We carry storage centers to be developed or held and used in operations at depreciated cost, reduced for impairment losses where appropriate. We capitalize acquisition, development and construction costs of properties in development in accordance with SFAS No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, and include, where applicable, salaries and related costs, real estate taxes, interest, lease expense and preconstruction costs directly related to the project. Preconstruction costs, which included efforts to secure land control and zoning, to evaluate feasibility and to complete other initial tasks that are essential to development, incurred prior to the acquisition of the property or acquisition of an option to purchase the property being probable, are charged as real estate development expenses as incurred. Real estate development expense represents costs incurred in connection with real estate development projects that do not qualify for capitalization under the above provisions. In addition, for the three months ended March 31, 2006, real estate development includes $500,000 of non-capitalizable fees related to the financing of an acquisition. We record abandonment losses for previously capitalized costs of development projects when we assess that the completion of the project is no longer probable. We capitalize development and construction costs and costs of significant improvements and replacements and renovations at storage centers, while we expense costs of maintenance and repairs as we incur them.

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

If events or circumstances indicate that the carrying value of an operating storage center may be impaired, we conduct a recoverability analysis based on expected undiscounted cash flows to be generated from the property. If the analysis indicates that we cannot recover the carrying value from estimated future cash flows, we write down the property to its estimated fair value and recognize an impairment loss. We determine fair values based on expected future cash flows using appropriate market discount and capitalization rates.

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

Discontinued operations: We report real estate dispositions as discontinued operations separately as prescribed under the provisions of SFAS No. 144. Accordingly, we report the operating results attributable to operating properties sold or held for sale and the applicable gain or loss on the disposition of the properties as discontinued operations. The condensed consolidated statements of income for prior periods are also adjusted to conform to this classification. There is no impact on our previously reported consolidated financial position, net income or cash flows.

Revenue recognition: The majority of our customers rent under month-to-month lease agreements and revenue is recognized at the contracted rate for each month occupied. Revenue related to customers who sign longer period leases is recognized ratably over the term of the lease. Management fee revenue is recognized each month for which services are rendered; these contracts are generally cancelable by either party on specified advanced notice. We recognize revenue related to profit sharing contracts related to our tenant insurance referral program based on the excess of premiums over actual and estimated claims and administrative costs. Revenues are presented net of provisions for doubtful accounts of $1.6 million and $1.5 million for the three months ended March 31, 2006 and 2005, respectively.

Income taxes: We have elected to be taxed as a Real Estate Investment Trust (REIT) pursuant to the Internal Revenue Code of 1986, as amended. To qualify as a REIT, we must distribute annually to our shareholders at least 90% of our REIT taxable income and meet certain other requirements relating primarily to the nature of our assets and the sources of our revenues. As a REIT, we are not subject to U.S. federal income taxes to the extent of distributions. We believe that we met the qualifications for REIT status at December 31, 2005 and intend to

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

meet the qualifications in the future and to distribute at least 90% of our REIT taxable income to shareholders in future tax years. Our domestic non-REIT activities are conducted primarily through Shurgard TRS, Inc., a taxable REIT subsidiary. Our foreign non-REIT activities are conducted primarily through six European taxable REIT subsidiaries. As a result, we have not provided for U.S. federal income taxes for the REIT in our financial statements. However, we do provide for U.S. federal income taxes for our domestic taxable REIT subsidiaries (TRSs). Additionally, both the REIT and our domestic TRSs are subject to certain state income taxes as well as certain franchise taxes. We also provide for income taxes of our European subsidiaries, which are subject to income taxes in the respective jurisdictions of the countries in which they operate.

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

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

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

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

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Derivative financial instruments are measured at fair value and recognized as assets or liabilities in the balance sheet. Changes in the values of the effective portions of derivative financial instruments designated as cash flow hedges and changes in the values of derivative financial instruments designated as economic hedges of net investments in foreign subsidiaries are reported as components of other comprehensive income (loss). Changes in the values of the ineffective portions of cash flow hedges and all changes in the values of undesignated derivative financial instruments are recognized in earnings. Amounts receivable or payable under interest rate cap and swap agreements designated as cash flow hedges are accounted for as adjustments to interest expense on the related debt. To qualify for hedge accounting, the details of the hedging relationship must be formally documented at inception of the arrangement, including the risk management objective, hedging strategy, hedged item, specific risks that are being hedged, the derivative instrument and how effectiveness is being assessed. The derivative must be highly effective in offsetting either changes in fair value or cash flows, as appropriate, for the risk being hedged. Effectiveness is evaluated on a retrospective and prospective basis based on quantitative measures of correlation. When it is determined that a derivative has ceased to be highly effective as a hedge, we discontinue hedge accounting prospectively.

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

When hedge accounting is discontinued due to our determination that the derivative no longer qualifies as an effective fair-value hedge, we will continue to carry the derivative on the balance sheet at its fair value but cease to adjust the hedged asset or liability for changes in fair value. When hedge accounting is discontinued due to our determination that the derivative no longer qualifies as an effective cash flow hedge, we reclassify the related accumulated other comprehensive income (loss) into earnings when the previously effectively hedged transactions affect earnings. When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, we will continue to carry the derivative on the balance sheet at its fair value, removing from the balance sheet any asset or liability that was recorded to recognize the firm commitment and recording the resulting gain or loss in current period earnings. When we discontinue hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period, the gain or loss on the derivative remains in accumulated other comprehensive income (loss) and is reclassified into earnings when the forecasted transaction affects earnings. However, if it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within an additional two month period of time thereafter, the gains and losses that were accumulated in other comprehensive income (loss) will be recognized immediately in earnings. If we discontinue a cash flow hedge because the variability of the probable forecasted transaction has been eliminated, we will reclassify the net accumulated other comprehensive income (loss) to income over the term of the designated hedging relationship. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, we will carry the derivative at its fair value on the balance sheet, recognizing subsequent changes in the fair value in current period earnings. Expenses recognized relating to changes in the time value of interest rate cap agreements were insignificant in 2006 and 2005.

Table of Contents

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other comprehensive income (loss):

The following tables summarize components of other comprehensive income (loss):

	For the three months ended March 31,	
	2006	2005
	(in thousands)	
Net income	$ 5,059	$ 5,256
Other comprehensive income (loss):		
Derivatives designated as hedges	10,816	(1,675)
Currency translation adjustment	3,130	(3,440)
Total other comprehensive income (loss)	13,946	(5,115)
Total comprehensive income	$ 19,005	$ 141

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

Financial instruments with characteristics of both liabilities and equity: We adopted the requirements of SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, in the third quarter of 2003; there was no impact on our financial position, operating results or cash flows. However, the minority interests associated with certain of our consolidated joint ventures and our subsidiaries that have finite lives under the terms of the partnership agreements represent mandatorily redeemable interests as defined in SFAS No. 150. As of March 31, 2006 and December 31, 2005 the aggregate book value of these minority interests in finite-lived entities on our condensed consolidated balance sheet was $128.1 million and $105.3 million, respectively. We believe that the estimated aggregate settlement value of these interests was approximately $249.1 million and $213.2 million, respectively. These amounts are based on the estimated liquidation values of the assets and liabilities and the resulting proceeds that we would distribute to our joint venture partners assuming dissolution as of March 31, 2006 and December 31, 2005, respectively. As required under the terms of the respective partnership agreements, subsequent changes to the estimated fair value of the assets and liabilities of the consolidated joint ventures will affect our estimate of the aggregate settlement value. The partnership agreements do not limit the amount to which the minority partners would be entitled to in the event of liquidation of the assets and liabilities and dissolution of the respective partnerships.

Recent accounting pronouncements:

Stock-based compensation expense: At March 31, 2006, we have stock-based employee compensation plans, which are described more fully in Note 10 to the condensed consolidated financial statements. Prior to January 1, 2006, we accounted for those plans under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), and related Interpretations, as permitted by SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123).

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123(R), Share-Based Payment, (SFAS 123R), using the modified-prospective-transition method. Under that transition method, compensation costs recognized in the first quarter of 2006 include: (a) compensation cost for all share-based awards granted prior to, but not yet vested as of January 1, 2006, which is estimated in accordance with the original provisions of SFAS 123 for (i) equity awards (as defined in SFAS 123R) based on the grant-date fair value, and for (ii) liability awards based on the balance sheet date fair value, and (b) compensation cost for all share-based awards granted subsequent to January 1, 2006, based on the grant-date or balance sheet date fair

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

value, as applicable, estimated in accordance with the provisions of SFAS 123R. Stock-based compensation expense recognized during the period is based on the value of the portion of stock-based payment awards that is ultimately expected to vest. Expense recognized in the first quarter of 2006, therefore, was reduced for estimated forfeitures. Estimated forfeitures are adjusted at least annually if actual forfeitures differ from those estimates. Results for prior periods have not been restated pursuant to SFAS 123R. (See Note 10.)

Prior to January 1, 2006, stock-based compensation recognized in our statement of income was based on the grant date fair value of restricted shares of Shurgard s common stock, and the intrinsic value of stock options and stock appreciation rights granted to employees of our European subsidiary. Under APB 25 we did not recognize stock-based compensation cost related to stock options that had an exercise price equal to the market value of Shurgard s common stock on the date of grant. Prior to adoption of SFAS 123R, the value of stock options was estimated for purposes of this pro forma disclosure using the Black-Scholes option-pricing formula and amortized to pro forma expense ratably over the options vesting periods. Pre-vesting forfeitures were recognized as incurred through cumulative reversal of previously reported compensation expense.

Prior to the adoption of SFAS 123R, tax benefits of deductions resulting from the exercise of stock options or vesting of restricted share awards were presented as operating cash flows in the Statement of Cash Flows. SFAS 123R requires the cash flows resulting from the tax benefits from tax deductions in excess of the compensation cost recognized for those share based payments (excess tax benefits) to be classified as financing cash flows. Due primarily to our status as a REIT, no excess tax benefit was recognized during the quarters ended March 31, 2006 or 2005.

In October 2005, the FASB issued FASB Staff Position (FSP) FAS 13-1 Accounting for Rental Costs Incurred during a Construction Period, which is effective for lease agreements entered into after January 1, 2006. This FSP clarifies that rental costs incurred during the period of construction of an asset on leased property should not be capitalized; rather they should be recognized as rental expense in the same manner as rental costs incurred after the construction period. However, to the extent a lessee accounts for rental of real estate projects under SFAS No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, it should continue capitalizing rental costs. We lease under operating leases certain parcels of land and buildings on which we develop storage centers or perform certain construction improvements. We have historically capitalized rental costs during the construction period on such properties. We account for real estate projects involving our development and construction of self-storage facilities under SFAS No. 67; therefore, the adoption of this FSP did not have a material impact on our financial position, operating results or cash flows.

In June 2005, the FASB issued EITF Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights. In light of guidance provided in FIN 46R regarding kick-out rights in the context of evaluating variable interests and consolidation of variable interest entities, EITF 04-5 clarifies when a sole general partner should consolidate a limited partnership. EITF 04-5 provides authoritative guidance for purposes of assessing whether a limited partner s rights are important rights that, under SOP 78-9, might preclude a general partner from consolidating a limited partnership. For general partners of all new limited partnerships formed and for existing limited partnerships for which the partnership agreements are modified, EITF 04-5 is effective after June 29, 2005. For general partners in all other limited partnerships, the guidance in this Issue is effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. The adoption of EITF 04-05 did not have a material effect on our financial position, operating results or cash flows.

Effective January 1, 2006 we adopted SFAS No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3 , which was issued in May 2005. This statement replaces APB Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Interim Financial Statements, and changes the requirements for the accounting for and reporting of a voluntary change in accounting principle. It also applies to changes required by an accounting pronouncement in the instance that the pronouncement does not include specific transition provisions. APB Opinion No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period the cumulative effect of changing to the new accounting principle. SFAS No. 154 requires retrospective application of changes in accounting principle to prior periods financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. Adoption of this standard had no impact on our financial position, operating results or cash flows.

Note 3 Variable Interest Entities

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

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

Shurgard Europe has created two joint venture entities: First Shurgard SPRL (First Shurgard) formed in January 2003 and Second Shurgard SPRL (Second Shurgard) formed in May 2004. Those joint ventures are expected to develop or acquire up to approximately 75 storage facilities in Europe. Shurgard Europe has a 20% interest in each of these ventures. We have also determined that First Shurgard and Second Shurgard are each VIEs, of which Shurgard Europe is the primary beneficiary. Accordingly, First Shurgard has been consolidated in our financial statements since January 1, 2004, and Second Shurgard has been consolidated since inception. At March 31, 2006, First Shurgard and Second Shurgard had aggregate total assets of $394.8 million, total liabilities of $247.8 million, and credit facilities collateralized by assets with net book value of $370.0 million (see Note 7). As of March 31, 2006, First Shurgard s and Second Shurgard s creditors had no recourse to the general credit of Shurgard or Shurgard Europe other than Shurgard s commitment to subscribe to up to $20 million and an additional 7.5 million ($9.0 million as of March 31, 2006) in preferred bonds in order for First Shurgard to fulfill its obligations under its senior credit agreement. We have an option to put 80% of the bonds issued by First Shurgard to Crescent Euro Self Storage Investments, Shurgard Europe s partner in the joint venture.

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

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

Table of Contents

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4 Storage Centers and Acquisitions

The following table summarizes the components of our operating storage centers:

	March 31, 2006	December 31, 2005
	(in thousands)	
Land	$ 696,997	$ 675,379
Building	2,538,731	2,487,831
Equipment & Other	80,392	81,048
	$ 3,316,120	$ 3,244,258

Storage centers activity

During the three-month period ended March 31, 2006, we acquired ten new storage centers (one of which is held for sale to be resold) and completed one redevelopment project on an existing storage center. In March 2006, we reevaluated and canceled the disposition plans of two storage centers that were classified as held for sale as of December 31, 2005, at an aggregate carrying value of $2.2 million, and we reclassified them to operating storage centers. Also in March 2006, we sold one parcel of land at no gain that was held for sale at December 31, 2005 at a carrying value of $2.2 million.

Construction in progress at March 31, 2006, consisted primarily of 11 storage centers under construction, of which three were located in Europe and eight were located in the United States, and redevelopment projects for four existing storage centers in the United States.

Acquisitions

On January 23, 2006, we completed the acquisition of 3S Self-Storage Systems SAS a company that operates nine self-storage facilities in various metropolitan areas in France where we already have operating properties. 3S Self-Storage Systems SAS owns six of the facilities and leases the other three under operating leases. We completed the acquisition through Second Shurgard, our 20% owned European joint venture for total cash consideration and acquisition costs of approximately $47.4 million. We financed the acquisition with $20.0 million from draws on Second Shurgard s credit facility and the remainder with Second Shurgard s cash from equity contributions provided by us and our 80% joint venture partner. We incorporated the results of operations of the acquired entity in our condensed consolidated financial statements from the date of acquisition.

This acquisition was accounted for as a purchase transaction. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

Receivables and other assets (1)	$ 4,965
Property held for sale	2,547
Operating storage centers	42,466
Total assets acquired	49,978
Accounts payable and other liabilities assumed	(2,591)
Net assets acquired	$ 47,387

(1) Receivables and other assets include an operating lease related intangible of $880,000 that is amortized over the remaining period of the lease.

Additionally, in March 2006, we acquired a self-storage center in France for cash of $3.1 million.

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5 Other Assets and Accounts Payable and Other Liabilities

The following table summarizes other assets:

	March 31, 2006	December 31, 2005
	(in thousands)	
Financing costs, net of accumulated amortization of $24,846 in 2006 and $22,852 in 2005	$ 33,481	$ 34,121
Trade receivable, net of allowance of $4,983 in 2006 and $4,681 in 2005	15,187	14,964
Prepaid expenses	13,675	14,751
Software costs, net of accumulated amortization of $3,504 in 2006 and $3,056 in 2005	15,266	14,638
Notes receivable	14,397	13,868
Non-competition, trademark and management agreements, net of accumulated amortization of $10,318 in 2006 and $9,827 in 2005	3,695	4,186
Other accounts receivable	16,028	10,958
Derivatives assets (see Note 8)	5,080	4,709
Other assets, net of accumulated amortization of $1,639 in 2006 and $1,575 in 2005	8,262	7,053
Total other assets	$ 125,071	$ 119,248

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

	March 31, 2006	December 31, 2005
	(in thousands)	
Accounts payable	$ 12,508	$ 17,937
Accrued real estate taxes	12,803	12,652
Accrued personnel cost	16,981	15,711
Accrued interest	9,915	15,330
Prepaid revenue and deposits	32,095	28,641
Taxes payable (1)	14,529	15,765
Accrued expense related to exploration of strategic alternatives	360	11,350
Derivatives liabilities (see Note 8)	10,040	23,997
Other accrued expenses and liabilities	33,905	40,052
Total accounts payable and other liabilities	$ 143,136	$ 181,435

(1) Consists of Value added tax, franchise tax, income tax and sales and use tax.

Table of Contents

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6 Lines of Credit

The following table summarizes our lines of credit:

	March 31, 2006	December 31, 2005	Weighted Average interest rate at March 31, 2006	Weighted Average interest rate at December 31, 2005
	(in thousands)			
Unsecured domestic line of credit	$ 270,700	$ 233,500	5.62%	5.46%
Unsecured domestic term loan credit facility	350,000	350,000	5.76%	5.76%
	$ 620,700	$ 583,500	5.70%	5.64%

As of March 31, 2006, we had an unsecured domestic credit agreement, which includes a revolving credit facility with a group of banks to borrow up to $350 million and a $350 million term loan facility that matures in February 2008. The revolving credit facility can be extended for one year at our option for a fee. The revolving credit facility and the term loan require monthly interest payments at LIBOR plus 0.90% and LIBOR plus 1.10%, respectively, at March 31, 2006. These rates can range from LIBOR plus 0.60% to LIBOR plus 1.15% for the revolving credit facility and from LIBOR plus 0.75% to LIBOR plus 1.50% for the term loan facility based on the ratings assigned to our senior unsecured long-term debt securities. As of March 31, 2006, availability under the revolving credit facility was $79.3 million.

The domestic credit agreement requires us to maintain quarterly maximum total debt and secured debt to gross asset value ratios and minimum adjusted EBITDA to fixed charges and unencumbered net operating income to unsecured interest expense ratios. The financial covenants also require us to maintain a minimum tangible net worth. A breach of these covenants and other various covenants may result in an acceleration of the maturity of amounts outstanding. The domestic credit agreement restricts our distributions to a maximum of 105% of Adjusted Funds from Operations (Adjusted FFO) for up to four consecutive quarters; after that it must not exceed 95% of Adjusted FFO. Adjusted FFO is defined in the domestic credit agreement as (i) net income (calculated in accordance with GAAP) excluding non-recurring gains and losses on or from operating properties; plus (ii) depreciation and amortization; and after adjustments for unconsolidated subsidiaries. Adjusted FFO excludes the effects of charges and costs associated with Public Storage s merger proposal and our exploration of strategic alternatives. Contributions to Adjusted FFO from unconsolidated subsidiaries are reflected in Adjusted FFO in proportion to borrower s share of such unconsolidated subsidiaries. The quarterly distributions did not reach 95% of the Adjusted FFO in 2005 or 2006. As of March 31, 2006, we were in compliance with these financial covenants.

Table of Contents

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7 Notes Payable

	March 31, 2006 (1)	December 31, 2005
	(in thousands)	
Domestic Notes Payable (1)		
5.875% senior unsecured notes due in 2013	$ 200,000	$ 200,000
7.75% senior unsecured notes due in 2011	200,000	200,000
7.625% senior unsecured notes due in 2007	50,000	50,000
Fixed rate mortgage notes payable	166,554	167,331
Maturity dates range from 2006 to 2015		
Interest rates range from 4.95% to 8.9%		
Variable rate mortgage notes payable	81,674	81,410
Maturity dates range from 2006 to 2010		
Interest rates range from 6.19% to 7.75%		
European Notes Payable (1)		
Collateralized 325 million notes payable due in 2011	392,512	384,889
Interest rate of 3.00% (EURIBOR + 0.51%)		
First Shurgard and Second Shurgard	225,845	185,931
Senior credit agreements		
Maturity dates range from 2008 to 2009		
Interest rate of 4.78% (EURIBOR + 2.25%)		
Capital leases	6,064	6,010
Maturity dates range from 2011 to 2052		
Interest rates range from 6% to 14%		
	1,322,649	1,275,571
Discount on domestic senior notes payable	(589)	(610)
Premium on domestic mortgage notes payable	720	759
Total Notes Payable	$ 1,322,780	$ 1,275,720

(1) All maturities and interest rates are as of March 31, 2006.

First Shurgard and Second Shurgard have senior credit agreements denominated in euros to borrow, in aggregate, up to 272.5 million ($329.1 million as of March 31, 2006). As of March 31, 2006, the available amount under those credit facilities was, in aggregate, 85.5 million ($103.3 million). In January 2006, we amended Second Shurgard s credit agreement such as to allow for borrowings for up to 21.9 million ($26.4 million as of March 31, 2006) to be used for acquisition of existing self-storage properties including properties under capital leases. Our draws under the First Shurgard and Second Shurgard credit facilities are determined on a development project basis, or on an acquisition project basis when applicable for Second Shurgard, and can be limited if the completion of projects is not timely and if we have certain cost overruns. The credit facilities also require us to maintain a maximum loan to value of the collateral ratio and a minimum debt service ratio. As of March 31, 2006, we were in compliance with these financial covenants.

At March 31, 2006, we had two credit facilities with $4.7 million available for draw to develop two new domestic properties.

As of March 31, 2006 and December 31, 2005, our notes payable were collateralized by storage centers with net book values of $1.47 billion and $1.42 billion, respectively.

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We capitalized interest of $1.0 million and $559,000 for the three-month periods ended March 31, 2006 and 2005, respectively, using a weighted-average rate of our credit facilities and senior notes payable.

Note 8 Derivative Financial Instruments

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

	March 31, 2006	December 31, 2005
	(in thousands)	
Assets		
Debt-related contracts	$ 3,545	$ 2,792
Foreign currency exchange contracts	$ 1,535	$ 1,917
	$ 5,080	$ 4,709
Liabilities		
Debt-related contracts	$ (8,277)	$ (21,778)
Foreign currency exchange contracts	$ (1,763)	$ (2,219)
	$ (10,040)	$ (23,997)

As of March 31, 2006 and December 31, 2005, the balance in accumulated other comprehensive income (loss) related to derivative transactions was a gain of $1.3 million and a loss of $9.5 million, respectively.

Shurgard Europe has entered into an interest rate swap to effectively fix EURIBOR at 3.714% through October 2011 on 325 million of variable rate debt. This swap is designated as a cash flow hedge and was a liability of $2.3 million and $12.9 million at March 31, 2006 and December 31, 2005, respectively. Shurgard Europe has also entered into foreign currency exchange derivatives designated as cash flow hedges. These instruments were liabilities of $1.4 million and assets of $470,000 at March 31, 2006, and liabilities of $1.7 million and assets of $940,000 at December 31, 2005. We had undesignated interest rate caps for interest rate changes between October 2011 and October 2014 that we entered into as part of Shurgard Europe s bond issuance. Shurgard Europe s interest rate cap was an asset of $3.5 million and $2.8 million at March 31, 2006 and December 31, 2005, respectively, and expires in October 2014. To offset the earnings impact of this cap, we sold two interest rate caps with terms, that combined, reciprocate those of Shurgard Europe s cap. These caps were liabilities of $3.8 million and $3.0 million at March 31, 2006 and December 31, 2005, respectively.

First Shurgard has entered into interest rate swaps designated as cash flow hedges of interest payments on future borrowings under its credit facility. In June 2005, we determined that a swap had ceased to be an effective hedge and no longer qualified for hedge accounting. Accordingly, we reclassified the remaining related accumulated other comprehensive loss to earnings. During the three months ended March 31, 2006, we reclassified $95,000 through earnings for this instrument that matured in March 2006. The weighted-average notional amounts and fixed pay rates of these swaps designated as cash flow hedges are as follows (euros in millions):

	2006	2007	2008
Notional amounts	123.6	118.8	45.1

Weighted-average pay rates	3.7%	3.8%	3.8%

The swap agreements were liabilities of $1.4 million and $2.7 million at March 31, 2006 and December 31, 2005, respectively.

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

First Shurgard has also entered into foreign currency exchange derivatives designated as cash flow hedges or economic hedges of net investments in subsidiaries outside the euro zone. These instruments, which mature in May 2008, were liabilities of $360,000 and $490,000 at March 31, 2006 and December 31, 2005, respectively. We recognized a loss of $150,000 and a gain of $420,000 in currency translation adjustment on our consolidated balance sheet for those derivatives for the three-month periods ended March 31, 2006 and 2005, respectively.

In connection with financing agreements, First Shurgard also entered into call options maturing on May 27, 2008, for the purchase of 15 million equating to $18.6 million at a fixed exchange rate. This transaction does not qualify for hedge accounting. These instruments were assets of $1.0 million and $970,000 at March 31, 2006 and December 31, 2005, respectively.

Second Shurgard has entered into interest rate swaps designated as cash flow hedges of interest payments on future borrowings under its credit facility. In March 2006, we determined that one of these EURIBOR swaps, with a 60 million notional amount no longer qualified for hedge accounting. Based on our methodology for determining hedge effectiveness we determined the swap to be no longer effective in offsetting changes in cash flows of the hedged variable rate borrowing. As a result, for the three months ended March 31, 2006, we recognized through earnings a gain of $300,000, representing the change in fair value of the swap from the date the hedge first fell out of effectiveness through the end of the quarter, of which $240,000 was allocated to our joint venture partner. Accordingly, we are reclassifying the remaining related accumulated other comprehensive loss, net of minority interest of 50,000 ($60,000 at March 31, 2006) to earnings through the swap s maturity. The weighted-average notional amounts and fixed pay rates of these swaps are as follows (euros in millions):

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

These swap agreements were liabilities of $810,000 and $3.1 million at March 31, 2006 and December 31, 2005, respectively.

Note 9 Shareholders Equity

We had the following activity with respect to common stock in the quarters ended March 31, 2006 and 2005:

	Three months ended March 31, 2006	Three months ended March 31, 2005
Shares issued for dividend reinvestment	5,006	8,523
Shares issued for options exercised and employee stock purchase plan	204,650	23,412
Restricted shares issued		1,418

Note 10 Stock-Based Compensation and Benefit Plans

Summary of stock compensation plans

We have several stock-based compensation plans that provide for the granting of options, as well as restricted stock awards, performance awards, stock unit awards and distribution equivalent rights. A more detailed description of these plans can be found in our 2005 annual report on Form 10-K. As of March 31, 2006, awards outstanding consisted of stock options, restricted stock, restricted stock units and stock appreciation rights. Stock options, restricted stock and restricted stock units are settled at exercise or converted upon vesting

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

through issuance of new shares; stock appreciation rights are settled in cash. As of March 31, 2006, we had 3.1 million authorized shares available for future grants under our 2004 Long-Term Incentive Plan (the 2004 Plan).

Compensation expense

Effective January 1, 2006, we adopted the provisions of SFAS 123R using the modified prospective method as described in further detail in Note 2. Total stock-based compensation expense for the three months ended March 31, 2006 was $2.0 million, of which $940,000 related to stock options, $600,000 related to restricted stock and restricted stock units, and $490,000 related to stock appreciation rights. Of the $2.0 million compensation expense, $200,000 relates to the effect of the requirement under SFAS 123R to recognize, on a fair value basis, compensation expense for certain awards that had previously been expensed based on the awards intrinsic value, net of the cumulative effect that resulted from applying estimated expected pre-vesting forfeitures. This $200,000 cumulative effect has been reported on our condensed consolidated statement of income as a cumulative effect of change in accounting principle.

The following table illustrates the effect on net income and earnings per share if we had applied the recognition provisions of SFAS 123 to record stock-based compensation in all periods presented:

	For the three months ended March 31, 2005 (in thousands except per share data)
Net income:	
As reported	$ 5,256
Add: Stock based compensation expense included in reported net income	472
Less: Pro forma stock based compensation expense	(862)
Pro forma net income	$ 4,866
Basic and diluted net income per share:	
As reported	$ 0.05
Pro forma	$ 0.04

As of March 31, 2006, we had $12.8 million of unrecognized compensation expense, net of estimated pre-vesting forfeitures, related to unvested awards under our stock-based compensation plans, of which $5.5 million relates to stock options, $5.4 million relates to restricted stock and restricted stock units and $1.9 million relates to stock appreciation rights. We expect to recognize the unrecognized compensation expense over a weighted-average period of 2.0 years.

Stock options

We estimate the fair value of stock option awards using the Black-Scholes option-pricing model. The fair value of option awards is expensed on a straight-line basis over the vesting period of the options. Expected volatility is based on historic volatility of our stock adjusted for current trends. The risk-free interest rate is based on the yield curve of a risk free investment on the grant date with a maturity equal to the expected term of each award. We use historical data and trends in actual forfeitures to estimate pre-vesting forfeitures; compensation expense is recognized only for the portion of awards that is expected to vest. The expected term of awards is derived from historical experience under our stock-based compensation plans and represents the period of time that awards are expected to be outstanding.

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

U.S. stock options: As of March 31, 2006, we had approximately 2.6 million stock options outstanding that were issued to our employees and non-employee directors in the United States. Each stock option provides the recipient the right to purchase shares of our Class A common stock at the fair value of our common stock as of the date of grant. Stock options have a ten-year term from the grant date and vest over a minimum of three years under the 2000 Long-Term Incentive Plan (2000 Plan) and a minimum of four years under the 2004 Plan with a vesting schedule determined by the plan administrator at the time of grant.

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

	Three months ended March 31, 2006	2005
Dividend yield	3.88%	5.26%
Expected volatility	20%	22%
Risk free interest rate	4.50%	3.76%
Expected life (in years)	5.5	5.6
Fair value per option	$ 9.23	$ 5.31

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

	Number of Shares	Weighted average exercise price	Weighted average remaining contractual term	Aggregate Intrinsic Value (in thousands)
Outstanding, January 1, 2006	2,817,587	$ 35.11	6.6 years	$ 60,862
Granted	790	$ 58.33		
Forfeited	(2,681)	$ 51.44		
Exercised	(196,075)	$ 30.55		
Outstanding, March 31, 2006	2,619,621	$ 35.44	6.4 years	$ 81,704
Exercisable, March 31, 2006	1,709,482	$ 28.92	5.1 years	$ 64,460
Vested and expected to vest in the future, at March 31, 2006	2,482,697	$ 34.68	6.3 years	$ 79,312

The total intrinsic value of options exercised during the three months ended March 31, 2006 and 2005, was $6.9 million and $260,000, respectively. Intrinsic value is measured using the fair value of the stock at the date of exercise (for options exercised during the period) or at the specified date (for options outstanding), less the applicable exercise price.

Shurgard Self Storage SCA stock options: Certain of our key employees in Europe receive incentive stock options for shares in our subsidiary, Shurgard Europe, under our Shurgard Self Storage SCA European Share Plan (European Plan). These options have a ten-year contractual term, vest in full at the end of a three-year period from the grant date, and are generally forfeited if a recipient s employment is terminated prior to maturity. Recipients of Shurgard Europe s stock options may exercise options upon vesting and have the right to require Shurgard to repurchase the shares for cash at fair value after the recipient s employment with Shurgard Europe terminates. As a result, the cumulative compensation expense is presented as a liability in our consolidated balance sheet and compensation expense recognized for these awards will equal the appreciation in the fair value of the underlying shares of Shurgard Europe over the exercise price of the option from the date of grant through the date of the redemption of the shares.

Table of Contents

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of March 31, 2006 and December 31, 2005, options for 4,152 shares were outstanding under our European Plan with a weighted average exercise price of $1,495 per share of Shurgard Europe. At March 31, 2006, these options had a weighted average remaining contractual term of 8.9 years and an aggregate intrinsic value of $910,000. Of the 4,152 options outstanding as of March 31, 2006, 237 were exercisable at a weighted average exercise price of $1,147 per share; vested options had a remaining contractual term of 6.5 years and an aggregate intrinsic value of $130,000.

As of March 31, 2006, the fair value of Shurgard Europe s stock options has been estimated using the Black-Scholes option-pricing model with weighted-average assumptions as follows:

	March 31, 2006
Per-share fair value of Shurgard Europe stock	$ 1,715
Expected volatility	20.0%
Risk free interest rate	3.9%
Expected term (in years)	4.9
Dividend yield	0.0%
Fair value per option	$ 542

Restricted stock and restricted stock units

U.S. restricted stock and restricted stock units: We grant restricted shares and restricted stock units to key employees in the United States and in Europe under our 2000 Plan and 2004 Plan. Restricted shares entitle the grantees to all shareholder rights with respect to voting and receipt of dividends during the restriction period, except restricted stock may not be sold, assigned, transferred, pledged or otherwise disposed of prior to vesting. Awards generally vest ratably over five years. We recognize compensation expense for restricted shares and restricted share units on a straight-line basis over the vesting period based on the grant date fair value of a single share of our Class A common stock multiplied by the number of awards expected to vest. Generally, if a grantee s employment is terminated prior to the end of the five-year period, the unvested shares will be forfeited.

The table below presents the activity for restricted shares and restricted stock units for the three months ended March 31, 2006:

	Restricted Stock		Restricted Stock Units	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Units	Weighted Average Grant Date Fair Value
Outstanding, Jan. 1, 2006	112,753	$ 44.53		$
Granted		$	20,102	$ 60.16
Vested	(270)	$ 38.56		$
Forfeited		$		$
Outstanding, March 31, 2006	112,483	$ 44.55	20,102	$ 60.16
Weighted average remaining term (years)	1.8		2.8	
Aggregate intrinsic value (in millions)	$ 7.5		$ 1.3	

Shurgard Self Storage SCA restricted stock units: We have granted 286 restricted stock units under our European Plan to certain key employees in Europe. These awards are paid in shares of Shurgard Europe and vest

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

in full after three years from the date of grant. After the recipient s employment with Shurgard Europe has terminated, holders of these restricted stock units will have the right to require us to repurchase vested shares at fair value for cash. As a result, the cumulative compensation expense is presented as a liability in our consolidated balance sheet and total compensation expense recognized for these awards will equal the fair value of the underlying shares of Shurgard Europe at the date of the redemption of the shares. During the three months ended March 31, 2006, we recorded $110,000 of stock based compensation expense for these awards. As of March 31, 2006, we estimate the value of these awards at $490,000 based on an estimated value of Shurgard Europe s stock of $1,715 per share. The accrued liability as of March 31, 2006, included in our condensed consolidated balance sheet was $110,000; the unrecognized compensation cost was $380,000; the weighted average remaining term was 2.3 years.

Stock appreciation rights

We grant stock appreciation rights to most of our employees in Europe under our Shurgard Europe Gain Sharing Plan (Gain Sharing Plan). Recipients are entitled to receive a payment at maturity based on the sum of the appreciation of our common stock and dividends paid over the vesting period. The rights vest in full at the end of a three-year term and are generally forfeited if a participant s employment is terminated prior to maturity. Compensation expense is recognized in our financial statements ratably over the three-year vesting period, net of estimated pre-vesting forfeitures. Gain Sharing Plan awards are settled in cash when they vest. As a result, the compensation expense recognized over the vesting period for Gain Sharing Plan awards under SFAS 123R will equal the fair value (i.e., cash value) of an award as of the last day of the vesting period multiplied by the number of awards that are earned. We determine the fair value of stock appreciation rights using a Black-Scholes option-pricing model, using assumptions that are generally consistent with those we used in valuing U.S. stock options, plus dividend rights accrued for all rights outstanding. The expected term of stock appreciation rights is each award s remaining contractual term. As of March 31, 2006, 144,109 stock appreciation rights were outstanding, which had a weighted average remaining contractual term of 1.9 years, and an aggregate intrinsic value of $2.7 million.

Measurement of compensation costs for Gain Sharing Plan awards and stock options of Shurgard Europe

Grants to employees of our European subsidiary of both stock appreciation rights granted under our Gain Sharing Plan and stock options for shares of Shurgard Europe under our European Plan represent awards that are classified and accounted for as liabilities under SFAS 123R. Accordingly, SFAS 123R requires the quarterly compensation expense recognized during the vesting period to be based on the fair value of Shurgard Europe s stock options and Gain Sharing Plan awards as of the end of the most recent accounting period. Prior to the end of the vesting period, compensation costs for these awards are based on the awards most recent fair values, determined as of the end of the accounting period, and the number of months of service rendered during the vesting period.

Modifications of stock-based compensation and benefit plans under our plan of merger

Under the terms of our proposed merger with Public Storage, all U.S. stock options outstanding (except for certain options issued to nonemployee directors) will become fully vested as of the consummation of the merger and will be converted into options to acquire shares of Public Storage common stock. Outstanding stock options granted to our nonemployee directors will terminate as of the consummation of the merger; for 20 days prior to the consummation of the merger, each director will be entitled to exercise all options granted to such director, whether vested or unvested. Any outstanding restricted shares of Shurgard common stock held by employees and directors that were granted under our stock-based compensation plans will be converted into the number of shares of Public Storage common stock obtained by multiplying such number of restricted shares of Shurgard

Table of Contents

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

common stock by 0.82. In addition, each of our executive officers is a party to a senior management employment agreement that provides for payments in the event that the executive s employment is terminated, within two and a half years after a business combination, including the consummation of the merger with Public Storage, either by the executive for good reason or by Shurgard for any reason other than death, disability or for cause.

Other stock compensation and benefit plans

As required by the Merger Agreement our employee stock ownership plan (the ESOP), which is part of our employee retirement savings plan, and our employee stock purchase plan (the ESPP) were suspended as of March 6, 2006, the date of the Merger Agreement. During the three months ended March 31, 2006, we funded the ESOP contributions that were included in accrued compensation costs as of December 31, 2005, related to amounts earned by employees in 2005. For our ESOP, there will be no further funding in subsequent periods and, as a result, no related expense was incurred during the three months ended March 31, 2006. Related to our ESPP, we issued all shares during the three months ended March 31, 2006, for employee contributions made from January 1, 2006 through March 6, 2006.

Note 11 Income Taxes

We conduct our domestic non-REIT activities primarily through TRSs. Our foreign non-REIT activities are primarily conducted through six European taxable TRSs.

The components of deferred tax assets (liabilities) for Shurgard s taxable operations at March 31, 2006 and December 31, 2005 are included in the table below. As of March 31, 2006 and December 31, 2005, we had established a valuation allowance against the value of our net deferred tax assets. Our domestic TRS entities have started to generate taxable income, which resulted in a reduction of our domestic deferred tax assets as of March 31, 2006 compared to December 31, 2005. However, given the history of losses of our domestic TRS and of our European operations, we have concluded that there is currently insufficient evidence to justify recognition of the benefits of these deferred tax assets on our books. At the time the transaction with Public Storage is consummated, it is possible that certain domestic and European net operating loss carryforwards, could be lost in whole or in part.

	March 31, 2006	December 31, 2005
	(in thousands)	
Domestic	$ 9,483	$ 9,627
Foreign	100,493	95,062
Net deferred tax asset before valuation allowance	109,976	104,689
Valuation allowance	(109,976)	(104,689)
Net deferred tax asset	$	$

F-91

Table of Contents

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12 Restructuring and Exit Costs

In June 2005, when we acquired the remaining minority interest in Shurgard Europe, we announced a plan to change the management structure, including the consolidation of certain national offices, and recorded charges associated with these activities, including certain termination benefits payable to certain involuntarily terminated employees and lease termination costs relating to certain leased office facilities that we ceased using in 2005. Under this plan, we also announced that we would undertake further cost reduction initiatives through the end of 2007. In 2005, we started implementing cost reductions by consolidating certain departments, and we reduced the number of positions in the operations management, real estate and finance groups in various countries. We record the charges related to these cost reduction initiatives as the various initiatives take effect. We also recognized a liability for lease termination costs based on the remaining rental payments under the lease less estimated market sublease payments we might receive should we sublease the space. The operating leases for facilities we have ceased to use expire in 2009. We expect to incur additional expenses in 2006 and 2007 as we make further reorganization decisions. The following table summarizes costs incurred since June 2005 for our plan to change the management structure of Shurgard Europe:

	(in thousands)
Exit costs for lease obligations	$ 342
Exit costs for severance	2,021
Payments made	(1,738)
Total accrued exit costs as of December 31, 2005	625
Exit costs for severance	77
Payments made	(355)
Effect of foreign exchange	45
Total accrued exit costs as of March 31, 2006	$ 392

In December 2001 and 2003, our board of directors approved exit plans to discontinue our containerized storage operations. In connection with these decisions, we accrued incremental costs expected to be incurred during the closing of the warehouses affected by our exit plan. As of March 31, 2006, we had a remaining liability of $590,000 for warehouse operating lease obligations through 2008. The liability is recognized at its fair value for the remaining lease rentals, reduced by estimated sublease rentals and is reevaluated periodically. As of March 31, 2006, we had entered into subleasing agreements for all seven warehouses, including some on a month-to-month basis.

Since 2001, we have incurred $5.4 million of exit costs related to containerized storage operations. During the three months ended March 31, 2006, we incurred $80,000 related to exit costs and we made payments of $260,000.

Additionally, in the first quarter of 2006, we recorded a restructuring liability of approximately $190,000 related to the acquisition of 3S Self-Storage Systems SAS (see Note 4) which was included as part of the costs of the assets.

Table of Contents

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 13 Net Income (Loss) Per Share

The following summarizes the computation of basic and diluted net income (loss) per share for the three-month periods ended March 31, 2006 and 2005:

	Three months ended March 31,	
	2006	2005
	(in thousands except share data)	
Results of operations Numerator		
Income (loss) from continuing operations	$ 5,191	$ (1,331)
Preferred dividends and other	(3,037)	(3,042)
Income (loss) from continuing operations available to common shareholders	2,154	(4,373)
Discontinued operations	68	6,587
Cumulative effect of change in accounting principle	(200)	
Net income available to common shareholders	$ 2,022	$ 2,214
Effect of dilutive stock based awards	$	$
Weighted average share amounts Denominator		
Basic weighted average shares outstanding	46,955	46,514
Effect of dilutive stock based awards	1,228	
Diluted weighted average shares outstanding	48,183	46,514
Basic per share amounts		
Income (loss) from continuing operations available to common shareholders	$ 0.04	$ (0.09)
Discontinued operations		0.14
Cumulative effect of change in accounting principle		
Net income available to common shareholders	$ 0.04	$ 0.05
Diluted per share amounts		
Income (loss) from continuing operations available to common shareholders	$ 0.04	$ (0.09)
Discontinued operations		0.14
Cumulative effect of change in accounting principle		
Net income available to common shareholders	$ 0.04	$ 0.05

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

	For the three months ended	
	March 31, 2006	**March 31, 2005**
Number of options	350,000	2.7 million
Exercise prices	$55.87 to $57.71	$21.63 to $44.01
Expiration on or before	December 2015	February 2015
Unvested common stock awards	113,000	123,000

Table of Contents

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 14 Foreign Operations

We conduct our foreign operations through Shurgard Europe and other European subsidiaries. Our European revenues amounted to $35.6 million or 28% of our revenues, for the three-month period ended March 31, 2006 compared to $30.4 million or 27% of our total revenues for the three-month period ended March 31, 2005.

As a result of our international operations, we recorded a $125,000 foreign exchange gain and a $3.8 million foreign exchange loss for the three months ended March 31, 2006 and 2005, respectively.

Through July 1, 2005, we were exposed to foreign currency exchange risk related to intercompany debt with or between our European subsidiaries that is not denominated in the functional currency of the subsidiary or the investee. In connection with the acquisition of the remaining interest in Shurgard Europe, we reevaluated our plans and expectations with respect to repayment of certain intercompany debt with our European subsidiaries and determined that it is prospectively a long-term-investment as defined in SFAS 52, Foreign Currency Translation. Accordingly, we do not recognize exchange gains or losses on such intercompany debt in our consolidated statements of income. Rather, beginning July 1, 2005, we report these translation adjustments as a component of other comprehensive income (loss). We had a foreign exchange gain of $120,000 in net income related to this intercompany debt during the first quarter of 2006 compared to a loss of $4.0 million during the first quarter of 2005. We recorded a gain of $1.4 million first quarter of 2006 as a component of other comprehensive income (loss).

Included in accumulated other comprehensive income was a cumulative foreign currency translation adjustment loss of $960,000 and $4.1 million as of March 31, 2006 and December 31, 2005, respectively.

Note 15 Discontinued Operations

In 2005, we sold five storage centers that we designated as discontinued operations as we have no continuing involvements in these properties. Of these storage centers two were sold in the first quarter of 2005 for aggregate proceeds of $14.1 million and at a gain of $6.4 million.

Additionally, in 2006, we designated one European storage center as discontinued. This property was acquired in January 2006 as part of a business acquisition (see Note 4) and has been held for sale since acquired.

We have presented the results of operations and gains on sales of these storage centers as discontinued operations for all periods presented.

The following table summarizes income from discontinued operations:

	Three months ended March 31,	
	2006	**2005**
Discontinued operations:		
Revenue	$ 98	$ 420
Operating expense	(30)	(204)
Depreciation and amortization		(52)
Operating income from discontinued operations	68	164
Gain on sale of properties		6,423
Discontinued operations	$ 68	$ 6,587

F-94

Table of Contents

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 16 Segment Reporting

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

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

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. There are no inter-segment sales and transfers. We do not allocate development and acquisition expense, depreciation and amortization, general, administrative and other, impairment, interest expense, interest income and other, net or minority interest to the segments.

The following table illustrates the results of our Same Store and New Store reportable segments as of and for the three-month periods ended March 31, 2006 and 2005. Same Store includes all storage centers acquired prior to January 1, 2005, and developments opened prior to January 1, 2004. New Store represents all storage centers acquired after January 1, 2005, and developments opened after January 1, 2004. Other Stores include properties no longer in service, properties closed in the process of being redeveloped, properties held for sale or disposed properties in which we have no remaining ownership interest as of March 31, 2006.

	For the three months ended March 31, 2006						
	Domestic Same Store	Domestic New Store	Europe Same Store	Europe New Store	Other Stores	Discon-tinued Stores	Total
				(in thousands)			
Storage center operations revenue	$ 87,583	$ 3,548	$ 32,123	$ 3,514	$ 98	$ (98)	$ 126,768
Direct operating expense	30,601	1,580	13,923	4,003	30	(30)	50,107
Net operating income (loss)	56,982	1,968	18,200	(489)	68	(68)	76,661
Indirect operating expense	4,755	227	2,637	857			8,476
Leasehold expense	1,002	163	654	317			2,136
Indirect and leasehold expense	5,757	390	3,291	1,174			10,612
Net operating income (loss) after indirect and leasehold expense	$ 51,225	$ 1,578	$ 14,909	$ (1,663)	$ 68	$ (68)	$ 66,049

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	For the three months ended March 31, 2005						
	Domestic Same Store	Domestic New Store	Europe Same Store	Europe New Store (in thousands)	Other Stores	Discon-tinued Stores	Total
Storage center operations revenue	$ 81,141	$ 651	$ 29,717	$ 721	$ 428	$ (420)	$ 112,238
Direct operating expense	29,351	539	15,209	1,653	187	(169)	46,770
Net operating income (loss)	51,790	112	14,508	(932)	241	(251)	65,468
Indirect operating expense	4,399	92	4,507	576	36	(35)	9,575
Leasehold expense	1,129	35	602				1,766
Indirect and leasehold expense	5,528	127	5,109	576	36	(35)	11,341
Net operating income (loss) after indirect and leasehold expense	$ 46,262	$ (15)	$ 9,399	$ (1,508)	$ 205	$ (216)	$ 54,127

The following table reconciles the reportable segments direct and indirect operating expense to consolidated operating expense, for the three-month periods ended March 31, 2006 and 2005:

	Three months ended March 31,	
	2006	2005
	(in thousands)	
Direct store operating expenses	$ 50,107	$ 46,770
Indirect operating and leasehold expense	10,612	11,341
Other operating	375	967
Operating expense	$ 61,094	$ 59,078

The following table reconciles the reportable segments NOI after indirect and leasehold expense per the table above to consolidated income from continuing operations for the three-month periods ended March 31, 2006 and 2005:

	Three months ended March 31,	
	2006	2005
	(in thousands)	
NOI after indirect and leasehold expense	$ 66,049	$ 54,127
Other revenue	842	1,386
Other operating expense, net	(375)	(967)
Real estate development expense	(1,670)	(2,930)
Depreciation and amortization	(25,923)	(23,344)
Impairment and abandoned project expense	(545)	(323)
General, administrative and other	(7,453)	(8,029)
Costs related to proposed merger	(1,465)	

Interest expense	(29,404)	(24,125)
Gain (loss) on derivatives, net	691	(359)
Foreign exchange gain (loss)	125	(3,848)
Interest income and other, net	405	960
Minority interest	3,933	6,110
Equity in earnings of other real estate investments, net		21
Income tax expense	(19)	(10)
Income (loss) from continuing operations	$ 5,191	$ (1,331)

Table of Contents

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 17 Commitments and Contingencies

The following table summarizes our contractual obligations, commitments and contingent liabilities as of March 31, 2006:

	Payments due by period				
	Total	2006	2007-2008 (in thousands)	2009-2010	2011 and beyond
Contractual Obligations					
Long-term debt	$ 1,937,285	$ 8,431	$ 918,847	$ 85,513	$ 924,494
Capital and operating lease obligations	232,901	9,740	20,627	16,499	186,035
Totals	$ 2,170,186	$ 18,171	$ 939,474	$ 102,012	$ 1,110,529

	Amount of commitment expiration per period				
	Total amounts committed	2006	2007-2008 (in thousands)	2009-2010	2011 and beyond
Other Commercial Commitments & Contingent Liabilities					
Development contract commitments (1)	$ 30,531	$ 30,309	$ 157	$ 65	$
Proposed merger advisory fees (2)	12,900	12,900			
Commitment to purchase interests and property (3)	5,200	5,200			
Outstanding letters of credit and other (4)	3,785	3,767	18		
Totals	$ 52,416	$ 52,176	$ 175	$ 65	$

(1) Includes costs to complete property development and redevelopment projects conducted with contractors. We computed the outstanding commitment based on total estimated project costs less costs incurred to date. This includes $5.3 million of development commitments on our 20% owned European joint ventures.

(2) Includes a commitment to financial advisors on the proposed merger with Public Storage. See further discussion below.

(3) Includes a commitment to purchase the ownership interest of a minority interest and a commitment to purchase a parcel of land. As of March 31, 2006, the commitment to purchase the real estate property was contingent upon the seller satisfying certain conditions prior to closing.

(4) Includes primarily an outstanding letter of credit related to our insurance trust for workmen s compensation and of letters of credit related to properties under construction.

Legal proceedings

On March 7, 2006, a putative class action complaint was filed on behalf of our public shareholders in the Superior Court of the State of Washington, King County, against Shurgard and certain of its directors entitled Staer v. Shurgard Storage Centers, Inc. et al (case no. 06-2-08148-0). The complaint alleges, among other things, that our directors breached their fiduciary duties in connection with the approval of the Merger Agreement with Public Storage, by failing to properly value the Company and by failing to protect against alleged conflicts of interest arising out of certain directors interests in the transaction. Among other things, the complaint seeks an order enjoining Shurgard from consummating the transactions contemplated by the Merger Agreement. We intend to defend the action vigorously. We believe that our actions and the actions of our board of directors were appropriate. We maintain directors and officers insurance, which we believe will provide coverage with respect to this matter.

F-97

Table of Contents

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We are a defendant in litigation filed on September 17, 2002, in the Superior Court of California for Orange County styled as Gary Drake v. Shurgard Storage Centers, Inc. et al (Case No. 02CC00152). The complaint alleges that we misrepresented the size of our storage units, seeks class action status and seeks damages, injunctive relief and declaratory relief against us under California statutory and common law relating to consumer protection, unfair competition, fraud and deceit and negligent misrepresentation. The Court recently ruled that the class of potential members in this lawsuit is limited to our California customers. No class has yet been certified. It is possible that we may incur losses as a result of this litigation, but we currently do not believe that the range of such losses would be material to our financial position, operating results or cash flows. However, we cannot presently determine the potential total damages, if any, or the ultimate outcome of the litigation. We are vigorously defending this action.

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

Merger proposal

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

Our board of directors and the board of directors of Public Storage have approved the Merger Agreement. The proposed merger is subject to our shareholders approval, Public Storage s shareholders approval of the issuance of shares of Public Storage common stock to be used as merger consideration and other customary closing conditions. On April 20, 2006, Public Storage filed a registration statement on Form S-4 relating to the Public Storage common stock issuable in connection with the merger and containing a joint proxy statement seeking the approvals necessary to consummate the merger and certain other approvals as described in a joint proxy statement/prospectus. We will ask our owners of common stock to approve the Merger Agreement and the transactions contemplated by the Merger Agreement.

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

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

SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2005, we had an accrued liability of $11.4 million for fees that were contingently due to our financial advisors in connection with the proposed merger with Public Storage and our review of strategic alternatives to such proposed merger. During the three months ended March 31, 2006, we paid $10.5 million of these fees plus out of pocket expenses, which became due upon entering into the Merger Agreement on March 6, 2006. Merger related expenses of $1.5 million recognized as incurred during the three months ended March 31, 2006, consisted of legal fees and reimbursements of expenses. As of March 31, 2006, we had commitments to pay our financial advisors additional success fees totaling $12.9 million, which we will recognize when incurred contingent upon the consummation of our merger with Public Storage.

Note 18 Related Party Affiliation

Charles K. Barbo, the chairman of our board of directors, indirectly owns a 0.5% ownership interest in a limited partnership known as Shurgard Institutional Fund L.P. I, a consolidated subsidiary of Shurgard. Shurgard owns a 99% interest in this entity.

Note 19 Subsequent Events

On May 5, 2006, our board of directors declared a first quarter dividend of $0.56 per common share payable on June 15, 2006 to common shareholders of record as of June 2, 2006.

Table of Contents

CONSOLIDATED FINANCIAL STATEMENTS OF SHURGARD SELF STORAGE S.C.A.

INDEPENDENT AUDITORS REPORT

To the Shareholders of

Shurgard Self Storage SCA,

Brussels, Belgium

We have audited the accompanying consolidated balance sheets of Shurgard Self Storage, SCA. and subsidiaries (collectively the Company) as of December 31, 2003, 2002, and 2001 and the related consolidated statements of operations, shareholders equity and comprehensive income, and cash flows for each of three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company s management.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2003, 2002, and 2001 and the results of its operations and cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note E, the accompanying 2002 and 2001 consolidated financial statements have been restated.

DELOITTE & TOUCHE

Reviseurs d Entreprises SC s.f.d. SCRL

Represented by Daniel Kroes

/s/ DANIEL KROES

April 23, 2004

Table of Contents

SHURGARD SELF STORAGE S.C.A.

CONSOLIDATED BALANCE SHEETS

(in thousands)

(in U.S. dollars)

	Note	2003	As of December 31, 2002 (as restated)	2001 (as restated)
ASSETS				
Storage Centres:				
Land		$ 137,615	$ 83,297	$ 53,623
Buildings & equipment, net		400,397	279,570	171,321
Construction in progress		12,766	87,225	68,839
Total Storage Centres	C	550,778	450,092	293,783
Investment in and receivables from affiliates	D	29,824		
Cash & cash equivalents		11,965	24,978	15,324
Deferred taxation	E			
Other assets	F	31,902	30,103	20,059
Total Assets		$ 624,469	$ 505,173	$ 329,166
LIABILITIES & SHAREHOLDERS EQUITY				
Accounts payable and other liabilities		$ 41,637	$ 35,617	$ 24,676
Liabilities under capital leases	G	11,391	9,469	7,838
Bonds payable to an affiliated company	H	57,287	49,623	
Line of credit	I	376,553	270,936	174,506
Subordinated loan payable to related party	K		127,620	99,534
Total Liabilities		486,868	493,265	306,554
Commitments and contingencies	N			
Shareholders equity	L			
General Partner Interest				
160.50 par value; 56 shares issued and outstanding in 2003 and 2002		10	10	10
Class A Limited Liability Partner Interest				
160.50 par value; 233,844 shares (2002: 97,733) issued and outstanding		40,948	17,769	17,769
Additional paid in capital		118,653	30	30
Profit Certificates: 219,234 (2002: 219,234) issued		139,754	139,754	139,754
Less: uncalled Profit Certificates		(26,089)	(26,089)	(47,718)
Total shareholders interest		273,276	131,474	109,845
Accumulated loss		(140,287)	(110,421)	(80,590)
Accumulated other comprehensive loss		4,612	(9,145)	(6,643)
Total shareholders equity		137,601	11,908	22,612
Total liabilities & shareholders equity		$ 624,469	$ 505,173	$ 329,166

See Notes to consolidated financial statements

Table of Contents

SHURGARD SELF STORAGE S.C.A.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands)

(in U.S. dollars)

	For the year ended December 31, 2003	2002 (as restated)	2001 (as restated)
Revenue			
Real estate operations	$ 67,318	$ 43,512	$ 26,526
Other revenue	11,376		
Total revenue	78,694	43,512	26,526
Expenses			
Operating expenses	54,383	32,236	24,296
Real estate taxes	3,540	2,193	1,777
Depreciation and amortization	19,433	12,959	9,044
General, administrative and other expenses	6,181	4,798	3,425
Total expenses	83,537	52,186	38,542
Net loss arising from operations	(4,843)	(8,674)	(12,016)
Other Income (Expense)			
Interest income and other	1,520	620	482
Interest and other charges	(21,508)	(13,863)	(9,206)
Interest expense on bonds payable to an affiliated company	(6,889)	(1,403)	
Interest expense on subordinated loan payable to related party	(7,774)	(8,881)	(7,750)
Exchange translation gain on bonds payable to an affiliated company	9,830	2,357	
Net loss before taxation	(29,664)	(29,844)	(28,490)
Income tax (charge) benefit	(202)	13	
Net loss before cumulative effect of a change in accounting principle	(29,866)	(29,831)	(28,490)
Cumulative effect of a change in accounting principle			(1,106)
Net loss	$ (29,866)	$ (29,831)	$ (29,596)

See Notes to consolidated financial statements

Table of Contents

SHURGARD SELF STORAGE S.C.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(in U.S. dollars)

		For the year ended December 31,		
	Note	2003	2002 (as restated)	2001 (as restated)
Operating activities:				
Net loss		$ (29,866)	$ (29,831)	$ (29,596)
Adjustments to reconcile earnings to net cash used in operating activities				
Income tax charge (benefit)		202	(13)	
Share of loss of affiliate		1,135		
(Gains) on disposal of property			(257)	(20)
Cumulative effect of a change in accounting principle				1,106
Derivative expense		192		
Depreciation and amortization		19,433	12,959	9,044
Amortization of financing costs as interest expense		4,651	3,268	2,706
Exchange translation gain on bonds payable to an affiliated company		(9,830)	(2,357)	
Interest and redemption premium accrued on bonds payable to an affiliated company		6,889	539	
Subordinated loan payable to related party	K	7,774	8,893	7,735
Changes in operating accounts:				
Receivables from affiliate	D	(6,307)		
Other assets		2,202	(5,742)	(1,016)
Accounts payable and other liabilities		1,630	4,608	7,429
Net cash used in operating activities		(1,895)	(7,933)	(2,612)
Investing activities:				
Payments for site acquisition and construction		(79,459)	(114,634)	(104,889)
Transfer of assets to affiliate	D	44,139		
Proceeds of derivative contract		2,283		
Investment in affiliate	D	(22,357)		
Proceeds of disposal of property			4,216	43
Payments for other intangible assets		(768)	(666)	(470)
Net cash used in investing activities		(56,162)	(111,084)	(105,316)
Financing activities:				
Proceeds from issue of Profit Certificates	L		21,837	38,339
Proceeds from issue of Partner Interests	L	7,316		
Proceeds from lines of credit		45,494	57,188	76,678
Proceeds from bonds payable to an affiliated company			49,317	
Repayment of subordinated loan payable to related party	K	(7,344)		
Increase in liabilities under capital leases		44	177	(54)
Payment of financing and related costs		(4,134)	(3,207)	(4,809)
Net cash provided by financing activities		41,376	125,312	110,154
Net effect of translation on cash		3,668	3,359	(664)
(Decrease) increase in cash and cash equivalents		(13,013)	9,654	1,562
Cash and cash equivalents at start of year		24,978	15,324	13,762

Cash and cash equivalents at end of year	$ 11,965	$ 24,978	$ 15,324
Supplemental schedule of cash flow information:			
Interest paid net of capitalization	$ 10,114	$ 9,055	$ 6,315
Capital lease obligation incurred on site acquisition	$	$	$ 5,989
Partner Interests issued for contribution in kind of subordinated loan payable to related party	$ 135,548	$	$
Total amount of corporate income taxes paid	$ 202	$ (13)	$

See Notes to consolidated financial statements

F-103

Table of Contents

SHURGARD SELF STORAGE S.C.A.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME

(in thousands)

(in U.S. dollars)

	General Partner Interest	Limited Partner Interest and profit certificates	Additional paid-in capital	Accumulated loss	Accumulated other comprehensive loss	Total shareholders equity
Balance January 1, 2001 (as restated)	$ 10	$ 71,902	$ 30	$ (50,994)	$ (6,392)	$ 14,556
Increase in shareholders interest		37,903				37,903
Comprehensive loss:						
Net loss				(29,596)		(29,596)
Other Comprehensive Income (loss):						
Gain on derivative instruments					900	900
Foreign currency translation					(1,151)	(1,151)
Total Comprehensive Loss:				(29,596)	(251)	(29,847)
Balance January 1, 2002 (as restated)	10	109,805	30	(80,590)	(6,643)	22,612
Increase in shareholders interest		21,629				21,629
Comprehensive loss:						
Net loss				(29,831)		(29,831)
Other Comprehensive Income (loss):						
Loss on derivative instruments					(2,483)	(2,483)
Foreign currency translation					(19)	(19)
Total Comprehensive Loss:				(29,831)	(2,502)	(32,333)
Balance January 1, 2003 (as restated)	10	131,434	30	(110,421)	(9,145)	11,908
Increase in shareholders interest cash		1,204	6,074			7,278
Increase in shareholders interest non cash		21,975	112,549			134,524
Comprehensive loss:						
Net Loss				(29,866)		(29,866)
Other Comprehensive Income (loss):						
Gain on derivative instruments					1,795	1,795
Foreign currency translation					11,962	11,962
Total Comprehensive Loss:				(29,866)	13,757	(16,109)
Balance December 31, 2003	$ 10	$ 154,613	$ 118,653	$ (140,287)	$ 4,612	$ 137,601

See Notes to consolidated financial statements

F-104

SHURGARD SELF STORAGE S.C.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A Organization

Shurgard Self Storage S.C.A. (the Company) was incorporated under Belgian Law as a Société en Commandite Simple on December 8, 1994 and reorganized as a Société en Commandite par Actions on September 28, 1999. The Company invests directly or through wholly-owned subsidiaries in Belgium, the Netherlands, France, Sweden, Denmark, the United Kingdom and Germany (Collectively the Group) in the development and operation of self-service storage properties providing month-to-month leases for business and personal use.

Note B Summary of Significant Accounting Policies

Basis of presentation: These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America on the basis described below.

Consolidation: The consolidated financial statements include the accounts of the Company and all of its domestic and foreign subsidiaries and joint ventures in which the Company has effective control as evidenced by, among other factors, holding a majority interest in the investment and having the ability to cause a sale of assets. All investments in joint ventures that do not qualify for consolidation, but in which the Company exercise significant influence, are accounted for under the equity method (See Note D). All inter-company balances and transactions have been eliminated upon consolidation.

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

New accounting principles: In November 2002, the FASB issued FASB Interpretation (FIN) 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, which elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor s fiscal year-end. The Group have not entered into any guarantees or modified any existing guarantees subsequent to December 31, 2002 and therefore adoption of this statement has had no effect on its financial position, results of operations or cash flows.

In December 2002, the FASB issued SFAS 148, Accounting for Stock-Based Compensation Transition and Disclosure, which amended SFAS No. 123, Accounting for Stock-Based Compensation . SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation and amends the disclosure requirements of SFAS 123 to require prominent disclosures of the method of accounting for stock-based employee compensation and the effect of the method used on reported results. On December 31, 2002, the Group adopted the disclosure provisions of SFAS 148 and continues to account for stock-based compensation under APB Opinion No. 25 Accounting for Stock Issued to Employees. Therefore, the adoption of SFAS 148 did not have any effect on its financial position or results of operations. The following table reflects pro forma net income as if the Group had recognized stock-based compensation expense using the fair value method in accordance with SFAS 123. As the Group is a non-public

Table of Contents

SHURGARD SELF STORAGE S.C.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

entity, the fair value of options issued in 2003 and 2002 was calculated at their minimum value of $99 (2002: $78) per option granted, applying a risk free interest rate of 2.75% and 2.74%, respectively. All grants of options were made at fair market value and no compensation expense has been recorded in Net Loss for the year ended December 31, 2003, 2002, and 2001.

	Year ended December 31,		
	2003	2002	2001
	(in thousands)		
Net loss as reported	29,866	29,831	29,596
Add: proforma compensation expense	49	12	
Proforma net loss	29,915	29,843	29,596

In January 2003, the FASB issued FIN 46, Consolidation of Variable Interest Entities, which clarifies the application of Accounting Research Bulletin 51, consolidated financial statements , for entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46, as revised by FIN 46R in December 2003, becomes effective for variable interest entities for periods ending after March 15, 2004. The Group is in the process of determining whether First Shurgard SPRL, an entity newly formed in May 2003 (Note D), meets the definition of a Variable Interest Entity under the conditions outlined in FIN 46R.

In April 2003, the FASB issued SFAS 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In May 2003, the FASB issued SFAS 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity which requires that certain financial instruments previously accounted for as equity should be classified as liabilities in statements of financial position. In December 2003, the FASB issued a revised SFAS 132, Employers Disclosures about Pensions and Other Postretirement Benefits an amendment of FASB Statements 87, 88 and 106 . Adoption of these statements has no effect on the Group s financial position, results of operations or cash flows.

Accounting for Derivative Instruments and Hedging Activities: The Group has adopted the requirements of SFAS 133, Accounting for Derivative Instruments and Hedging Activities , as amended and interpreted, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. SFAS 133 requires that all derivatives, whether designated in hedging relationships or not, be recorded on the balance sheet at fair value. The accounting for changes in fair value depends upon the purpose of the derivative instrument and whether it is designated and qualifies for hedge accounting. To the extent derivative instruments qualify and are designated as cash flow hedges, the effective portion of the gain or loss on such derivative instruments will generally be reported in Other Comprehensive Income (OCI) and the ineffective portion, if any, will be reported in net income. Such amounts recorded in accumulated OCI will be reclassified into net income when the hedged item affects earnings. To the extent derivative instruments qualify and are designated as hedges of changes in the fair value of an existing asset, liability or firm commitment, the gain or loss on the hedging instrument will be recognized currently in earnings along with the changes in fair value of the hedged asset, liability or firm commitment attributable to the hedged risk.

Foreign exchange: The consolidated financial statements are initially prepared in euro, the primary functional currency of the Group. Assets and liabilities of certain subsidiaries outside the euro zone, whose

SHURGARD SELF STORAGE S.C.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

functional currencies are the local currencies of the countries in which they are located, are translated in accordance with SFAS 52, Foreign Currency Translation . In accordance with SFAS 52, assets and liabilities of such subsidiaries denominated in local currencies are translated into euro at the exchange rates in effect at the balance sheet date and revenue and expenses are translated at average rates of exchange rate prevailing during the year. Gains or losses arising from such translation, together with gains or losses on translation of intercompany loans to such subsidiaries that are of a long-term nature, are accumulated in OCI as a separate component of shareholders equity.

For presentation, these financial statements have been translated into U.S. dollars. For this purpose, the consolidated balance sheet has been converted at the exchange rate in effect at the balance sheet date and the consolidated statement of operations has been translated at average rates of exchange. Gains or losses arising from this translation are also accumulated in OCI.

The Company has entered into contracts for the hedging of that proportion of investments made in currencies outside the euro through the forward sale of such currencies. In accordance with SFAS 133, the Company records such contracts on the balance sheet at market value. Changes in market values are recorded in OCI in the same manner as for the exchange translation of the related intercompany loans as above.

Gains or losses from transactions denominated in other currencies are included in the determination of net loss.

Storage Centers: Storage centers are recorded at cost. Depreciation on buildings is recorded on a straight-line basis over their estimated useful lives, on average over 30 years and equipment and leasehold improvements are depreciated over 5 years. Repair and maintenance costs are recognized in expense as incurred, unless the costs are incurred for the replacement of existing building infrastructures.

Valuation of long-lived assets: Whenever events or changes in circumstances indicate that the carrying amounts of storage centers or other long lived assets might not be recoverable, the Group reviews the related assets for impairment using best estimates based upon reasonable and supportable assumptions and projections. The Group uses the expected cash flow method to determine if the net book value of the properties exceeds fair value less costs to sell. As at December 31, 2003, no such assets had been written down.

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

Financing costs: Financing costs are amortized on the effective interest method over the life of the related debt (See Note I). The related expense is included in interest expense.

Revenue recognition: The majority of the Group s customers rent under month-to-month lease agreements and revenue is recognized at the contracted rate for each month occupied. Revenue related to customers who sign longer period leases is recognized ratably over the term of the lease. Revenue from development fees in respect of stores developed on behalf of First Shurgard SPRL (See Note D) is recognized as earned to the extent of development costs incurred and stores opened, calculated on the basis set out in the joint venture agreements. Revenue from management fees in respect of the operation of those stores is recognized based upon the revenue of those stores.

Financial instruments: The carrying values reflected on the balance sheet at December 31, 2003 reasonably approximate the fair value of cash and cash equivalents, other assets, accounts payable, lines of credit and other liabilities.

Table of Contents

SHURGARD SELF STORAGE S.C.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Income taxes: The Group accounts for income taxes under the provisions of SFAS 109, Accounting for Income Taxes. SFAS 109 requires companies to account for deferred income taxes using the asset and liability method. Deferred taxation liabilities or assets are recognized for the estimated future tax effects, based upon enacted tax law, attributable to temporary differences in the timing of recognition of transactions for reporting and tax purposes. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based upon available evidence, are not expected to be realized.

Comprehensive income: The Group follows SFAS 130, Reporting of Comprehensive Income . SFAS 130 establishes rules for the reporting of comprehensive income and its components. Comprehensive income comprises net income, foreign currency translation adjustments and adjustments to market value of certain derivative instruments and is presented in the consolidated statements of shareholders equity and comprehensive income.

Segment information: The Group has adopted SFAS 131, Disclosures About Segments of an Enterprise and Related Information , which establishes annual and interim reporting standards for an enterprise s business segments and related disclosures about products, services, geographic areas and customers. The segments adopted by the Group and related financial information are set out in Note O.

Environmental costs: Group policy is to accrue environmental assessments and/or remediation costs when it is probable that such efforts will be required and the related costs can be reasonably estimated. The majority of Group real estate facilities have undergone independent environmental investigations and Group policy is to have such investigations conducted on all new real estate acquired. Although there can be no assurance that there is no environmental contamination, the Group is not aware of any such contamination which individually or in aggregate would be material to its business, financial condition or results of operations.

Note C Storage Centers

	2003	2002	2001
		(in thousands)	
Land	137,615	83,297	53,623
Buildings	437,094	299,857	177,551
Properties under capital lease	12,040	5,640	5,297
Equipment and other	16,089	11,249	8,675
Total property, plant & equipment	602,838	400,043	245,146
Less: accumulated depreciation			
(Including $1,393,000 on leased assets)	(64,826)	(37,176)	(20,202)
	538,012	362,867	224,944
Construction in progress	12,766	87,225	68,839
Net book value	550,778	450,092	293,783

As at December 31, 2003, the Group had outstanding commitments under contracts for the acquisition and construction of new storage centers totaling $43,777,000. This amount includes the value of certain contracts for the acquisition of new properties, the completion of which are subject to conditions such as the achievement of planning consents. In 2003, 2002 and 2001, interest of $948,000, $2,149,000 and $1,927,000 respectively relating to the development of storage centers was capitalized.

Table of Contents

SHURGARD SELF STORAGE S.C.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note D Investment in and Receivables from Real Estate Affiliate

This comprises:

	December 31, 2003 (in thousands)
Investment in affiliates	23,615
Amounts receivable from affiliates	7,344
Less: share of losses of affiliates	(1,135)
	29,824

The investment comprises an investment in a 20% interest in the registered capital of First Shurgard SPRL (First Shurgard), a Belgian entity formed in May 2003, together with a 5.2% direct interest in one of its subsidiaries, First Shurgard Deutschland GmBH. These entities were formed under a joint venture agreement with Crescent Euro Self Storage Investments SARL (Crescent) for the development of up to 38 storage centers in the Group s European markets. During the year, the Group transferred ten properties under development into the joint venture at their cost of $44,139,000 plus reimbursement of interest carry cost of $1,283,000, included in Interest Income in the consolidated statements of operations.

First Shurgard has equity commitments of 20,000,000 (Equivalent to $25,104,000 at December 31, 2003) from the Group and 80,000,000 (Equivalent to $100,414,000 at December 31, 2003) from Crescent, of which 15,981,000 (equivalent to $20,059,000 at December 31, 2003) remains to be drawn, and has obtained a non-recourse five year debt facility for 140,000,000 (equivalent to $175,725,000 at December 31, 2003) from a group of commercial banks. Under the terms of this debt facility, a subsidiary of First Shurgard entered into a Subscription Agreement with Shurgard Storage Centers, Inc. (Shurgard) under which Shurgard irrevocably agreed to subscribe to subordinated and unsecured registered bonds in the aggregate principal amount of up to $20,000,000. This commitment may be reduced if certain financial covenants are met and otherwise terminates not later than July 25, 2009. These bonds may generally only be drawn down either to avoid an imminent default or in the event of a default and so applied to repay amounts due under the credit agreement.

Under the joint venture agreement, the Group is responsible for the acquisition and construction of sites on behalf of First Shurgard for which First Shurgard pays development fees equal to 7% of the cost of developed storage centers, together with reimbursement of certain out-of-pocket costs and certain other initial fees in connection with capital raising. In addition, the Group has entered into a 20-year management agreement for the operation of First Shurgard stores, for which the Group receives management fees equal to 7% of revenues subject to a minimum of 50,000 (equivalent to $63,000 at December 31, 2003) per year per store, together with certain other fixed fees. In the year ended December 31, 2003, the Group received a total of $12,108,000 in development and initial fees and $403,000 in management fees from First Shurgard, which amounts are included in Other Revenue in the consolidated statement of operations, net of the Group s share of losses of those affiliates of $1,135,000.

Store personnel of First Shurgard stores are employed either directly by the Group or under joint employment contracts between the Group and First Shurgard. First Shurgard reimburses to the Group the personnel costs of these employees, amounting in total to $801,000 in the year ended December 31, 2003.

The joint venture agreement also provides that, in addition to its initial 20% ownership interest, the Group will receive an additional 20% of First Shurgard s income and cash flow after each of the investors has received an internal rate of return of 12% on its equity investment. First Shurgard owns the developed storage centers

Table of Contents

SHURGARD SELF STORAGE S.C.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

subject to the management agreements. Although the Group has no obligation to purchase the properties, if they are put up for sale, it has a right of first offer at fair market value.

Below is summarized financial information for First Shurgard and its subsidiary companies:

First Shurgard

Unaudited Consolidated Balance Sheet

	December 31, 2003 ($000)
ASSETS	
Storage centers:	
Land	38,201
Buildings and equipment, net	79,887
Construction in progress	13,952
Total storage centers	132,040
Cash and cash equivalents	20,951
Other assets	21,998
Total assets	174,989
LIABILITIES AND SHAREHOLDERS EQUITY	
Accounts payable and other liabilities	11,618
Amounts payable to Shurgard Europe	7,344
Line of credit	55,228
Total liabilities	74,190
Minority interest	948
Shareholders equity	99,851
Total liabilities and shareholders equity	174,989

Table of Contents

SHURGARD SELF STORAGE S.C.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

First Shurgard

Unaudited Consolidated Statement of Operations

	December 31, 2003 $ 000
Revenue	
Rental revenue	596
Total revenue	596
Expenses	
Operating	3,647
Real estate taxes	66
Depreciation and amortization	660
General, administrative and other	1,416
Total expenses	5,789
Loss from operations	(5,193)
Interest expense	(177)
Minority interest	63
Net loss	(5,307)

Note E Income Taxation

The Income tax (charge) benefit comprises:

	2003 $ 000	2002 $ 000	2001 $ 000
Corporate income taxes payable	(202)	13	
	(202)	13	

The net deferred tax asset is made up as follows:

	2003 $ 000	2002 $ 000	2001 $ 000
Net loss before taxation	29,664	29,844	28,490

Deferred tax assets:			
Tax loss carried forward	64,269	44,676	28,560
Other timing assets	2,985	2,430	909
Deferred tax liabilities:			
Accelerated depreciation allowances	(2,569)	(2,791)	(2,067)
Exchange translation on bond payable	(4,664)	(850)	
Other timing liabilities	(5,383)	(3,102)	(1,654)
Net deferred tax asset (Before valuation allowance)	54,638	40,363	25,748
Valuation allowance	(54,638)	(40,363)	(25,748)
Net deferred tax asset			

Table of Contents

SHURGARD SELF STORAGE S.C.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Group has re-evaluated the appropriateness of its deferred tax assets. Based on the fact that it has not demonstrated a history of taxable income in any jurisdiction since inception, the Group has concluded that it is not appropriate to recognize the potential future benefit of these deferred tax assets until such time as it actually begins to realize them. Consequently, in accordance with SFAS 109, a full valuation allowance is necessary. The facts considered have been present since 2001, and as a result, the Group has determined that a full valuation allowance should have been recorded for net deferred tax assets recognized in prior periods. As a result, the accompanying consolidated financial statements for the years ended December 31, 2002 and December 31, 2001 have been restated.

A summary of the significant effects of the restatement is as follows:

	At December 31, 2002		At December 31, 2001	
	As previously reported $ 000	As restated $ 000	As previously reported $ 000	As restated $ 000
Net deferred tax asset	36,428		24,005	
Shareholder s Equity	48,336	11,908	46,617	22,612

	2002		2001	
	As previously reported $ 000	As restated $ 000	As previously reported $ 000	As restated $ 000
Net loss	(22,501)	(29,831)	(21,292)	(29,596)

Net operating losses carried forward at the end of 2003 amounted to $181,085,000 and they may be carried forward indefinitely in all jurisdictions.

In 2002 and 2001, net operating losses carried forward amounted to $125,860,000 and $90,167,000 respectively.

Note F Other Assets

Other assets are comprised of:

	2003	2002	2001
		(in thousands)	
Accounts receivable, net of allowances	8,710	5,187	2,490
Prepayments and deposits	8,216	10,003	1,810
Value Added Taxes recoverable	4,776	5,234	6,393
Financing costs, net of amortization	7,418	7,553	6,327
Software development and other intangibles, net of amortization	1,472	1,116	953
Other assets	1,310	1,010	2,086
	31,902	30,103	20,059

The risk on our accounts receivable is limited due to the nature of the business which is characterized by a large number of customers and low transaction values per customer.

F-112

Table of Contents

SHURGARD SELF STORAGE S.C.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note G Liabilities Under Leases

The Group has a number of operating lease commitments, including ground leases with terms up to 95 years. Under these lease agreements, the Group expensed $2,149,000, $1,416,000 and $1,209,000 in the years ended December 31, 2003, 2002 and 2001, respectively. The Group also leases five properties in Belgium and the Netherlands under capital leases with purchase options on the Belgian properties exercisable in 2011 and 2022 respectively. The liability under these leases was $11,391,000, $9,469,000 and $7,838,000 at December 31, 2003, 2002 and 2001 respectively.

The future minimum payments required under these leases are as follows *(in thousands)*:

Year	Future payments Operating leases	Future payments Capital leases
2004	2,557	879
2005	1,840	884
2006	2,109	886
2007	2,070	889
2008	2,105	892
Following years	32,584	32,036

Note H Bonds payable

In May 2002, the Company entered into a Subscription Agreement with Shurgard under which Shurgard irrevocably agreed to subscribe to registered bonds in the aggregate principal amount of up to $55,000,000 (reduced from $75,000,000 under amendments to the Subscription Agreement dated May and December 2003) to be issued by the Company from time to time in order to meet its development and working capital requirements. These subscription commitments automatically terminate two years following the date of the agreement.

The bonds are unsecured and subordinated to all creditors including other unsecured creditors, although they are senior to all equity distributions or distribution rights of any kind. They bear annual interest at 9.75% with an unused fee of 1% per annum on the undrawn amount. The Company has the option to pay interest in either cash or by the issue of additional bonds that are not taken into account in computing the maximum principal amount of bonds that may be issued as above. As at December 31, 2003, the aggregate face value of bonds issued under the Agreement was $55,274,000, including $6,249,000 in respect of accrued interest. In the year ended December 31, 2002, the Company also paid to Shurgard a commitment fee of 0.5% and a structuring fee of 1.5% of the initial commitment of $50,000,000.

The bonds will be redeemed on December 31, 2004 at 115% of the principal amount of the issued bonds together with accrued interest. The Company has two one year options to extend the redemption date, subject to certain conditions, and may also redeem all or any part of the outstanding bonds at any time. Any bonds so redeemed will be cancelled and may not be re-issued. The Company is accruing the redemption premium payable on the effective interest method assuming the bond will be redeemed on December 31, 2006, taking into account the options to extend the redemption date.

Under the Subscription Agreement, subject to the condition, inter alia, that the Company has already launched an Initial Public Offering on a regulated stock market, Shurgard has undertaken, if so requested, to subscribe to any capital increase in the Company prior to the redemption date to be effected by a contribution in kind of receivables arising from the outstanding bonds held by Shurgard at a price equal to 80% of the trading price of the shares at the time.

F-113

SHURGARD SELF STORAGE S.C.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note I Line of Credit

This comprises:

	Amount of facility	Amount drawn	Interest rate at December 31, 2003
Bridge credit agreement end 2003	310,000,000	$ 376,553,000	3.8%
Bridge credit agreement end 2002	300,000,000	$ 270,936,000	4.8%

This facility, which was drawn down on 29 December 2003 in order to refinance the Group s existing revolving credit agreement, bears interest at a margin over EURIBOR +2%, is secured by mortgages and other charges on substantially all of the storage centers and certain other assets of group companies. It is subject to customary banking covenants and is repayable on December 31, 2004. The Group is examining proposals for longer term financing.

Note J Derivative instruments and hedging activities

The Group has used interest rate swaps and caps to manage its variable rate debt and forward contracts for the sale of foreign currencies in order to manage its foreign currency investments as described below. These transactions have been accounted for in accordance with SFAS 133 as described in Note B.

Foreign currency risk

In order to minimize the risk of changes in the fair value of assets attributable to fluctuating exchange rates, the Company entered into contracts for the hedging of that proportion of investments made in currencies outside the euro zone and financed by euro denominated debt, through the forward sale of such currencies as at December 31, 2003, the maturity date of the related financing (See note I). Credit risk was minimized through the placing of such contracts only with highly rated banks in major European financial markets. In accordance with SFAS 133, at maturity of the contracts at December 31, 2003, the Company received proceeds of $2,283,000 in respect of the market value of the contracts at that date (2002: liability of $37,000; 2001: liability of $990,000), which was recorded by a credit of $2,327,000 (2002: credit of $1,135,000; 2001: charge of $990,000) to Foreign Currency Translation in OCI.

Interest rate risk

In 2001, the Company entered into an interest rate cap agreement at 6.75% for a notional amount of 64,000,000 ($80,331,000 at December 31, 2003) and an interest rate swap fixing the interest rate at 5.24% for a notional amount of 191,000,000 ($239,739,000 at December 31, 2003), both contracts maturing on December 31, 2003. During 2002, the Company purchased two further interest rate caps at 6.75% for notional amounts of 25,000,000 ($31,379,000 at December 31, 2003) and 20,000,000 ($25,104,000 at December 31, 2003) respectively maturing also on December 31, 2003, for a total cost of 36,000 ($45,000 at December 31, 2003). Although these transactions were designated as cash flow hedges of the interest rate risk attributable to changes in the variable rate interest on the Group s Line of Credit (Note I), the terms differed from the underlying debt in that, at December 31, 2002, the notional value of the contracts exceeded the amount drawn under the Line of Credit by 41,500,000 ($43,496,000 at December 31, 2002) (2001: 58,000,000; $51,377,000 at December 31, 2001). Accordingly, in the years ended December 31, 2001 and 2002, the Company used the hypothetical derivative method to test hedge effectiveness as well as the amount of ineffectiveness to be recorded in earnings. This method compares changes in the value of a hypothetical at market swap for a notional amount

SHURGARD SELF STORAGE S.C.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

matching the hedged debt to changes in value of the actual swap. Amounts are recorded in net interest expense (see below) to the extent changes in value of the actual swap exceed changes in the value of the hypothetically perfect swap.

The Group adopted SFAS 133 on January 1, 2001 and initially recorded a charge of $1,106,000 in respect of a cumulative effect of a change in accounting principle relating to the adjustment from its book value of $1,421,000 to market value of $315,000 of the Company s interest rate cap at that date. As the above contracts matured at December 31, 2003, their fair market value was reduced to $Nil at that date (2002: A liability of $1,524,000; 2001: An asset of $996,000) by a credit to OCI of $2,017,000 (2002: debit of $2,739,000; 2001: credit of $891,000) and a debit to interest expense of $192,000 (2002: credit of $950; 2001: debit of $761,000).

Note K Subordinated Loan Payable

At December 31, 2002, the Company had drawn 121,763,000, including accrued interest at annual rate of 8.25%, under a 206,000,000 ($258,567,000 at December 31, 2003) Loan Facility Agreement with Recom & Co SNC (Recom), a Belgian holding company with a partnership interest then of 53.83% in the Company. The outstanding loan of 128,766,000 ($142,892,000 at September 8, 2003), including accrued interest, was repaid in full on September 8, 2003 by payment of cash of 6,618,000 ($7,344,000 at September 8, 2003) together with the contribution in kind by Recom of the balance of 122,148,000 ($135,548,000 at 8 September 2003) in consideration for its subscription for shares issued under certain warrants (See Note L).

Note L Shareholders Equity

The registered capital of the Company amounts to 15,695,000 (equivalent to $17,779,000 at historical rates) which is represented by 97,789 Partner Interests, each representing an equal part of the capital. The participants comprise General Partners, who commit themselves with unlimited liability, jointly and severally, to the obligations of the Company and Classes A, B and C Limited Liability Partners, whose liability is limited up to the amount of their contribution, provided that they do not engage in the management of the Company. No Class B or C Partner Interests have yet been issued. The three classes of Partner Interests have in certain circumstances (i) varying preference rights with respect to distributions made by the Company to its partners and (ii) varying rights to give effect to a transfer or sale of their interest.

On October 8, 1999, the Company entered into a Joint Venture Agreement with new partners in order to provide capital to finance the ongoing development of the Group s business. Under this Agreement, the partners subscribed to additional General Partner Interests in the Company for a total amount of $8,500. In addition to the partner interests representing the registered capital of the Company, the Company also issued to the new partners 178,306 Profit Certificates against a commitment to contribute in cash an amount of 684.13 (equivalent to $859 at December 31, 2003) per certificate. At December 31, 2003 and 2002, the Profit Certificates were fully subscribed, amounting in total to 121,984,000 ($113,665,000 at historical rates). Each Profit Certificate entitles its holder to certain voting rights as set out in the Joint Venture Agreement and otherwise to the same rights and obligations as a limited liability partner interest. Each Profit Certificate may be converted into one Class B limited liability partner interest at any time provided that it has been paid up in accordance with the terms of the Joint Venture Agreement.

The Company also issued free of charge to certain of its partners, a total of 136,111 warrants, each to acquire one Class A limited liability partner interest through a capital increase at a predetermined price. These warrants were exercised on September 8, 2003 for a total consideration of 128,740,000 ($142,863,000 at September 8, 2003) of which 6,592,000 ($7,315,000 at September 8, 2003) was paid in cash and 122,148,000

F-115

Table of Contents

SHURGARD SELF STORAGE S.C.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

($135,548,000 at September 8, 2003) was settled by way of contribution in kind of the Subordinated Loan Payable (Note K). This contribution in kind has not been recorded in the Consolidated Statement of Cash Flow as it represents a non cash transaction.

On February 27, 2001, as part of arrangements for additional financing, the Company and its partners entered into a further agreement under which the partners agreed to subscribe for a further 40,928 New Profit Certificates at 684.13 (equivalent to $859 at December 31, 2003) per New Profit Certificate, amounting in total to 28,000,000 ($35,145,000 at December 31, 2003). Subsequent to December 31, 2002, the partners are only required at the discretion of the Company to pay up the New Profit Certificates in the event the Company defaults (or threatens to default) on the terms of any material indebtedness or in the event of bankruptcy, insolvency or liquidation, irrespective of other conditions. When it is fully paid, each New Profit Certificate may be converted into one Class C limited liability partner interest at any time.

Note M Compensation and Benefit Plans

On 6 December 2001, the Group adopted the Shurgard Self Storage SCA European Share Plan that provides for the granting of options to eligible employees of Group companies to acquire limited liability Class A Partner Interests in the Company up to a maximum of 7% of the issued ordinary share capital. The options vest after three years. Under the Plan, option holders irrevocably grant to Shurgard a call option with right of first refusal to purchase shares and Shurgard grants option holders a put option to sell to Shurgard any shares acquired under the Plan at a price based upon an independent valuation of the Group. The following table summarizes the number of options issued, none of which are yet exercisable:

	Number of options	Weighted average exercise price	$ equivalent as at Dec 31, 2003
Granted in 2002	1,836	950	$ 1,192
Forfeit or refused	(78)	950	$ 1,192
Outstanding at December 31, 2002	1,758	950	$ 1,192
Granted in 2003	955	1,010	$ 1,268
Forfeit or refused	(430)	991	$ 1,244
Outstanding at December 31, 2003	2,283	967	$ 1,214

Exercise price	Options outstanding at December 31, 2003	Weighted average remaining life
950	1,624	1.9 years
1,010	659	2.9 years
	2,283	

In 1999, the Group established a Phantom Share Incentive Plan in which certain employees are eligible to participate. Under this Plan, annual awards are made to eligible employees of rights to receive a compensation benefit calculated according to a predetermined formula based upon the increase in value of the business of the Group between the date of the award and the date of exercise of the rights. Under the terms of the Plan, rights generally vest on the third anniversary of the date of grant only if the employee has remained with the Group and may only be exercised thereafter either (i) on the date of an initial public offering, (ii) if any participant ceases to be an employee or (iii) otherwise on December 31, 2005. In the year ended December 31, 2003, payments of

SHURGARD SELF STORAGE S.C.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

$27,000 were made under the Plan. A provision was recorded for the estimated cost of the benefit payable under the Plan for awards granted prior to the balance sheet date based upon the estimated increase in value of the business up to that date, calculated according to the predetermined formula, on the assumption that all awards that have not otherwise lapsed will vest in due course. This provision amounted to $768,000 and $419,000 as at December 31, 2003 and 2002 respectively.

Certain group companies make defined contributions to pension plans according to local employment law and practice. The cost of contributions to such plans, which is expensed as incurred, was $750,000, $450,000 and $335,000 in the years ended December 31, 2003, 2002 and 2001 respectively.

Note N Commitments and Contingent liabilities

There are no material contingencies or litigation known to the Group. Commitments are disclosed in Notes C and G.

Note O Segment Reporting

The Group has adopted two reportable segments: Same and New Stores. The definition of Same Stores includes existing stores acquired prior to January 1st of the previous year as well as developed properties that have been operating for a full two years as of January 1st of the current year. All other facilities are defined as New Stores.

The performance of properties is evaluated based upon Net Operating Income (NOI), which is defined as rental revenue less direct operating expenses and real estate taxes. These segments allow management to focus separately on increasing NOI from existing properties and renting up new facilities. The accounting policies applicable to segments are as described in Note B above. There are no inter-segment sales and transfers. Depreciation and amortization, other operating expenses and net interest expense are not allocated to segments.

The following table illustrates the results for these segments for the years ended December 31, 2003 and 2002 using the Same Store and New Store data for the 47 stores meeting the above criteria as at December 31, 2003.

	Same Stores	New Stores (in thousands)	TOTAL
Year ended December 31, 2003			
Rental revenue	42,930	24,388	67,318
Direct store operating expenses(1)	(15,747)	(17,563)	(33,310)
NOI	27,183	6,825	34,008
Total land, buildings & equipment	216,745	318,374	535,119
Year ended December 31, 2002			
Rental revenue	34,372	9,140	43,512
Direct store operating expenses(1)	(12,525)	(9,730)	(22,255)
NOI	21,847	(590)	21,257
Total land, buildings & equipment	192,179	168,363	360,542

Table of Contents

SHURGARD SELF STORAGE S.C.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table illustrates the results for these segments for the years ended December 31, 2002 and 2001 using the Same Store and New Store data for the 28 stores meeting the above criteria as at December 31, 2002.

	Same Stores	New Stores (in thousands)	TOTAL
Year ended December 31, 2002			
Rental revenue	23,153	20,359	43,512
Direct store operating expenses(1)	(7,734)	(14,521)	(22,255)
NOI	15,419	5,838	21,257
Total land, buildings & equipment	105,161	255,381	360,542
Year ended December 31, 2001			
Rental revenue	17,849	8,677	26,526
Direct store operating expenses(1)	(7,012)	(8,466)	(15,478)
NOI	10,837	211	11,048
Total land, buildings & equipment	92,957	130,503	223,460

(1) Including real estate taxes and leasehold expense

The following table reconciles the reported segments revenue to consolidated total revenue for the years ended December 31, 2003, 2002 and 2001:

	2003	2002 (in thousands)	2001
Total segment revenue	67,318	43,512	26,526
Other income	11,376		
Total revenue	78,694	43,512	26,526

Of the total segment revenue, $10,829,000 (2002: $8,550,000) was attributed to Belgium and $56,489,000 (2002: $34,962,000) to other European markets.

The following table reconciles the reported segments NOI to consolidated net loss for the years ended December 31, 2003, 2002 and 2001:

	2003	2002 (in thousands)	2001
Total segment NOI	34,008	21,251	11,048

Other income	11,376		
Depreciation and amortization	(19,433)	(12,959)	(9,044)
Other operating expenses	(30,794)	(16,966)	(14,020)
Effect of change in accounting principle			(1,106)
Net financial expense	(34,651)	(23,527)	(16,474)
Exch. transl. gain on bonds payable	9,830	2,357	
Provision for taxes	(202)	13	
Net loss	(29,866)	(29,831)	(29,596)

Table of Contents

SHURGARD SELF STORAGE S.C.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table reconciles the reported segments assets to consolidated assets as at December 31, 2003, 2002 and 2001:

	2003	2002	2001
		(in thousands)	
Total segment assets	535,119	360,542	223,460
Construction in progress	12,766	87,225	68,839
Other fixed assets	2,893	2,325	1,485
Other assets	73,691	91,509	59,387
Consolidated total assets	624,469	541,601	353,171

Of the total segment assets, $68,409,000 (2002: $55,822,000) was attributed to Belgium and $466,710,000 (2002: $304,720,000) to other European markets.

Note P Related Party Transactions

Related Party Transactions are disclosed in Notes D, H and K. Additionally (i) on October 8, 1999, the Company entered into a license agreement with Shurgard whereby the Company was granted an exclusive license for the use of proprietary marks and know-how for establishing, owning and operating self-storage facilities in countries within Western Europe. As from October 8, 1999, the Company pays the costs in connection with registering proprietary marks within its territory, and (ii) the Group also reimburses Shurgard and two partners for the services of certain key executives. These charges amounted to $838,000, $1,293,000 and $1,064,000 in the years ended December 31, 2003, 2002 and 2001 respectively. Finally, (iii), in Other Revenue, the amount of $11.4 million in 2003 is comprised of development fees, management fees and other initial financing fees invoiced to First Shurgard less our share of losses in the joint venture of $1.1 million.

Table of Contents

SHURGARD STORAGE CENTERS, INC.,

PUBLIC STORAGE, INC.

and

ASKL SUB LLC

AGREEMENT AND PLAN OF MERGER

Dated as of March 6, 2006

Table of Contents

TABLE OF CONTENTS

Table of Contents

Table of Contents

Table of Contents

CONTENTS OF COMPANY DISCLOSURE SCHEDULE

Table of Contents

CONTENTS OF PARENT DISCLOSURE SCHEDULE

Table of Contents

AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER, dated as of March 6, 2006 (the *Agreement*), by and among SHURGARD STORAGE CENTERS, INC., a Washington corporation (the *Company*), PUBLIC STORAGE, INC., a California corporation (*Parent*) and ASKL SUB LLC, a Delaware limited liability company and an indirect Subsidiary of Parent (*Merger Sub*).

W I T N E S S E T H:

WHEREAS, the Board of Directors of the Company (the *Company Board*), the Board of Directors of Parent and the managing member of Merger Sub have each determined that it is advisable and in the best interests of their respective shareholders and interest holders for the Company to merge with and into Merger Sub (the *Merger*) in accordance with the Washington Business Corporation Act (as in effect from time to time, the *WBCA*) and the Delaware Limited Liability Company Act (as in effect from time to time, the *LLC Act*) and upon the terms and subject to the conditions set forth herein;

WHEREAS, the respective Boards of Directors of Parent, Merger Sub and the Company have each approved the Merger upon the terms and subject to the conditions set forth in this Agreement;

WHEREAS, the Company Board has adopted resolutions approving the Merger and recommending that the Company s shareholders approve and adopt this Agreement and the Merger;

WHEREAS, the Board of Directors of Parent has adopted resolutions approving the Merger and recommending that Parent s shareholders approve the Share Issuance;

WHEREAS, Parent, Merger Sub and the Company desire to make certain representations, warranties, covenants and agreements in connection with the Merger and also to prescribe various conditions to the Merger;

WHEREAS, simultaneously with the execution and delivery of this Agreement, the Company is entering into a Voting Agreement with certain shareholders of Parent, in the form of *Exhibit A*, pursuant to which, among other things, such shareholders have agreed to vote the shares owned by such shareholders in favor of the Share Issuance;

WHEREAS, simultaneously with the execution and delivery of this Agreement, Parent is entering into a Voting Agreement with a director and shareholder of the Company, in the form of *Exhibit B*, pursuant to which, among other things, such director has agreed to vote the shares owned by such director in favor of the approval and adoption of this Agreement and the Merger; and

WHEREAS, Parent, the Company and Merger Sub intend that for U.S. federal, and applicable state, income tax purposes the Merger shall be treated as a taxable disposition by the Company of all of the Company s assets to Merger Sub in exchange for the Merger Consideration, the cash paid pursuant to Section 3.7, the Parent Preferred Stock, if any, and the assumption of the Company s liabilities, followed by a liquidating distribution of such Merger Consideration, cash paid pursuant to Section 3.7 and Parent Preferred Stock, if any, to the holders of the Company Common Stock and Company Preferred Stock, respectively, pursuant to Section 331 and Section 562 of the Code.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants and agreements herein contained, and intending to be legally bound hereby, the Company, Parent and Merger Sub hereby agree as follows:

ARTICLE I.

DEFINITIONS

Acquisition Proposal means any proposal or offer from a Third Party for or with respect to the acquisition, directly or indirectly, of beneficial ownership (as defined under Rule 13(d) of the Exchange Act) of assets, securities or ownership interests of or in the Company or any of its Subsidiaries representing 10% or more of the consolidated assets of the Company and its Subsidiaries or of an equity interest representing a 10% or greater economic interest in the Company and such Subsidiaries taken as whole, pursuant to a merger, consolidation or other business combination, sale of shares of capital stock, sale of assets, share exchange, liquidation, dissolution, recapitalization, tender offer, exchange offer or similar transaction with respect to either the Company or any of such Subsidiaries.

Affiliate means, with respect to any specified Person, any other Person that, directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with such specified Person. For the purposes of this definition, control (including, with correlative meanings, the terms controlled by and under common control with), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by Contract or otherwise.

Agreement has the meaning specified in the preamble hereof.

Articles of Merger has the meaning specified in Section 2.3.

Assumed Indentures has the meaning specified in Section 8.6.

Benefits Continuation Period has the meaning specified in Section 7.6(a)(i).

Book Entry Share means a share of Company Common Stock or Company Preferred Stock, as applicable, that is held in book-entry form.

Business shall mean all businesses operated by the Company and its Subsidiaries.

Business Day means any day that is not a Saturday, a Sunday or other day on which banks are required or authorized by law to be closed in the City of New York.

Certificate has the meaning specified in Section 3.1(d).

Closing has the meaning specified in Section 2.2.

Closing Date has the meaning specified in Section 2.2.

Code means the Internal Revenue Code of 1986, as amended from time to time.

Company has the meaning specified in the preamble hereof.

Company Affiliate Letter has the meaning specified in Section 8.4.

Company Board has the meaning specified in the preamble hereof.

Company Common Stock means the validly issued, fully paid and non-assessable shares of Class A common stock, par value $0.001, of the Company.

Company Disclosure Schedule has the meaning specified in Article IV.

Company Insiders has the meaning specified in Section 8.5.

Company Material Adverse Effect means any change, event, circumstance or development which, individually or in the aggregate, is or is reasonably expected to have a material adverse effect on the business, operations, financial condition, results of operations, properties, assets or liabilities of the Company and its

A-2

Subsidiaries taken as a whole or on the ability of the Company to timely consummate the transactions contemplated hereby; *provided, however*, that this definition shall exclude any such change, event, circumstance or development to the extent arising out of, attributable to or resulting from (a) conditions generally affecting the self-storage or real estate industry (including economic, legal and regulatory changes); (b) changes in general international, national or regional economic or financial conditions or changes in the securities markets in general; (c) changes in any laws or regulations or accounting regulations or principles applicable to the Company and its Subsidiaries; (d) any outbreak or escalation of hostilities (including any declaration of war by the United States) or act of terrorism; or (e) the announcement, execution or consummation of this Agreement and the transactions contemplated hereby; other than, in each of cases (a) through (d), any change, event, circumstance or development which, individually or in the aggregate, has or is reasonably expected to have a materially disproportionate effect on the Company and its Subsidiaries taken as a whole relative to other industry participants in the United States or Europe as the case may be.

Company Material Contracts has the meaning specified in Section 4.18(a).

Company Multiemployer Plan has the meaning specified in Section 4.9(a)(vi).

Company Non-U.S. Employment Agreement shall have the meaning specified in 4.9(b)(ii).

Company Option Plans means Shurgard Storage Centers, Inc. 1995 Long Term Incentive Compensation Plan, Shurgard Storage Centers, Inc. 2000 Long Term Incentive Plan and Shurgard Storage Centers, Inc. 2004 Long Term Incentive Plan.

Company Preferred Stock means the Series C Preferred Stock and the Series D Preferred Stock.

Company Properties has the meaning specified in Section 4.15.

Company Property Owner has the meaning specified in Section 4.15.

Company REIT Opinion has the meaning specified in Section 6.5(c).

Company SEC Documents has the meaning specified in Section 4.5(a).

Company Section 16 Information has the meaning specified in Section 8.5.

Company Shareholders Meeting has the meaning specified in Section 8.1(d).

Company U.S. Employee has the meaning specified in Section 7.6(a)(i).

Company U.S. Employment Agreements has the meaning specified in Section 4.9(a)(ii).

Company U.S. Pension Plans has the meaning specified in Section 4.9(a)(i).

Confidentiality Agreement means the Confidentiality Agreement entered into between the Company and Parent on November 28, 2005.

Consent means any consent, approval, permit, notice, action, authorization or giving of notice to any Person not a party to this Agreement.

Contract means, with respect to any Person, any written contract, agreement, understanding or other instrument or obligation to which such Person is a party or by which such Person or such Person s properties or assets are or may be bound.

Table of Contents

Damages means all losses, liabilities, obligations, demands, claims, damages, payments, Taxes, Liens, deficiencies, costs and expenses (including costs and expenses of actions, amounts paid in connection with any assessments, judgments or settlements relating thereto, interest, fines and penalties recovered by a Third Party with respect thereto and out-of-pocket expenses and reasonable attorneys fees and expenses reasonably incurred in defending against any such actions).

Director Incentive Plan means the Shurgard Storage Centers, Inc. Amended and Restated Stock Incentive Plan for Nonemployee Directors.

Dissenting Shares has the meaning specified in Section 3.5.

DOJ has the meaning specified in Section 8.2(b).

Effective Time means the date and time at which the Merger becomes effective as provided in Section 2.3.

Employment Agreements has the meaning specified in Section 7.6(c).

Environmental Laws means any Legal Requirement relating to the protection of the environment or of health and human safety.

ERISA means the Employee Retirement Income Security Act of 1974, as amended.

ERISA Affiliate means any trade or business (whether or not incorporated) under common control with a Person or any of its Subsidiaries and which, together with such Person or any of its Subsidiaries, is treated as a single employer within the meaning of Section 414(b), (c), (m) or (o) of the Code.

ESPP means the Shurgard Storage Centers, Inc. Employee Stock Purchase Plan.

Excess Shares has the meaning specified in Section 3.2(f).

Exchange Act means the Securities Exchange Act of 1934, as amended and the rules promulgated thereunder.

Exchange Agent has the meaning specified in Section 3.2(a).

Exchange Fund has the meaning specified in section 3.2(a).

Exchange Ratio has the meaning specified in Section 3.1(b).

Financial Advisors has the meaning specified in Section 4.19.

FTC has the meaning specified in Section 8.2(b).

GAAP means generally accepted United States accounting principles, consistently applied on a basis consistent with the basis on which the financial statements of the Company or Parent as the case may be, were prepared as of December 31, 2004.

Gain Sharing Plan has the meaning specified in Section 7.6(b).

Governmental Entity means any United States federal, state or local or foreign government, arbitration panel, court or governmental department, commission, board, bureau, agency or instrumentality or self regulatory organization.

Hazardous Material means (i) any petroleum or petroleum products, microbial matter (including mold), radioactive materials, friable asbestos materials, urea formaldehyde foam insulation and polychlorinated biphenyls, or (ii) any chemicals, materials, substances or wastes which are defined as, regulated as or included in the definition of hazardous substances, hazardous wastes, hazardous materials, extremely hazardous wastes, restricted hazardous wastes, toxic substances, toxic pollutants, pollutant, contaminant or words of similar import, or regulated as su under any Environmental Law or for which a Person may be subject to liability under any Environmental Law.

Holders has the meaning specified in Section 3.2(b)(i).

HSR Act means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

Indebtedness means, with respect to any Person, all obligations, contingent or otherwise in respect of borrowed money (other than preferred stock), letters of credit, purchase money indebtedness, guarantees, keep well arrangements, capital leases and any other indebtedness for borrowed money whether or not evidenced by a note, mortgage, bond, indenture or similar instrument.

Indemnified Parties has the meaning specified in Section 7.5(a).

Intellectual Property Rights has the meaning specified in Section 4.17.

IRS means the United States Internal Revenue Service.

Knowledge means with respect to the Company, the actual knowledge of the executive officers and directors of the Company, and with respect to Parent or Merger Sub, the actual knowledge of the executive officers and directors of Parent or Merger Sub.

Leased Properties has the meaning specified in Section 4.15.

Legal Requirement means any law, statute, rule, ordinance or regulation of any Governmental Entity or any decision, judgment, order, writ, injunction, decree, award or determination of any Governmental Entity.

Lien means, with respect to any properties or assets, any mortgage, deed of trust, deed to secure debt, pledge, hypothecation, assignment, security interest, lien, Tax lien, assessment, adverse claim, levy, charge, liability or encumbrance in respect of such properties or assets.

LLC Act has the meaning specified in the Recitals hereto.

Merger has the meaning specified in the recitals hereof.

Merger Consideration has the meaning specified in Section 3.1(b).

Merger Sub has the meaning specified in the preamble hereof.

Non-U.S. Employee Benefit Plans has the meaning specified in Section 4.9(b).

Options means options to purchase shares of Company Common Stock, as granted pursuant to the Company Option Plans or the Directors Incentive Plan.

Outside Date has the meaning specified in Section 10.1(d)(iii).

Parent has the meaning specified in the preamble hereof.

Parent 8.7% Preferred Stock has the meaning specified in Section 3.1(c).

Parent 8.75% Preferred Stock has the meaning specified in Section 3.1(c).

Parent Common Stock means the validly issued, fully paid and non-assessable shares of common stock, par value $0.10, of Parent.

Parent Disclosure Schedule has the meaning specified in Article V.

Parent Leased Properties has the meaning specified in Section 5.13.

Parent Material Adverse Effect means any change, event, circumstance or development which, individually or in the aggregate, is or is reasonably expected to have a material adverse effect on the business, operations, financial condition, results of operations, properties, assets or liabilities of Parent and its Subsidiaries taken as a whole or on the ability of Parent to timely consummate the transactions contemplated hereby; *provided, however*, that this definition shall exclude any such change, event, circumstance or development to the extent arising out of, attributable to or resulting from (a) conditions generally affecting the self-storage or real estate industry (including economic, legal and regulatory changes); (b) changes in general international, national or regional economic or financial conditions or changes in the securities markets in general; (c) changes in any laws or regulations or accounting regulations or principles applicable to Parent and its Subsidiaries; (d) any outbreak or escalation of hostilities (including any declaration of war by the United States) or act of terrorism; or (e) the announcement, execution or consummation of this Agreement and the transactions contemplated hereby; other than, in each of cases (a) through (d), any change, event, circumstance or development which, individually or in the aggregate, has or is reasonably expected to have a materially disproportionate effect on Parent and its Subsidiaries taken as a whole relative to other industry participants in the United States.

Parent Plan has the meaning specified in Section 7.6(a)(ii).

Parent Preferred Stock has the meaning specified in Section 3.1(c).

Parent Properties has the meaning specified in Section 5.13.

Parent Property Owner has the meaning specified in Section 5.13.

Parent REIT Opinion has the meaning specified in Section 7.7(c).

Parent Restricted Stock Unit has the meaning specified in Section 3.6(c).

Parent SEC Documents has the meaning specified in Section 5.5(a).

Parent Shareholders Meeting has the meaning specified in Section 8.1(e).

Parent Termination Costs has the meaning specified in Section 10.2(e).

Permits has the meaning specified in Section 4.12.

Permitted Liens means (a) liens for utilities and current Taxes not yet due and payable, (b) mechanics , carriers , workers , repairers , materialmen s, warehousemen s, lessor s, landlord s and other similar liens arising or incurred in the ordinary course of business not yet due and payable, (c) liens for Taxes being contested in good faith by appropriate proceedings and for which appropriate reserves have been included on the balance sheet of the applicable Person, (d) easements, restrictive covenants and similar encumbrances or impediments against any assets or properties of an entity and which individually or in the aggregate do not materially interfere with the business of such entity or the operation of the property to which they apply, (e) minor irregularities and defects of

Table of Contents

title which individually or in the aggregate do not materially interfere with an entity s business or the operation of the property to which they apply, (f) Liens related to indebtedness incurred in the ordinary course of business, and (g) Liens disclosed on the existing title policies, title commitments and/or surveys which have been previously provided or made available to Parent before 12:00 noon EST on February 25, 2006, none of which materially interfere with the business of the Company or its Subsidiaries or the operation of the property to which they apply.

Person means any corporation, association, partnership, limited liability company, joint venture, organization, individual, business, trust or any other entity or organization of any kind or character, including a Governmental Entity.

Proxy Statement has the meaning specified in Section 8.1(a).

Qualified REIT Subsidiary has the meaning specified in Section 4.14(k).

Qualifying Income has the meaning specified in Section 10.2(d).

Qualifying Amendment has the meaning specified in Section 8.1(b).

Recent Company SEC Documents has the meaning specified in Section 4.6.

Recent Parent SEC Documents has the meaning specified in Section 5.6.

Registration Statement has the meaning specified in Section 4.11.

REIT has the meaning specified in Section 4.14(f).

REIT Requirements has the meaning specified in Section 10.2(d).

Release means any past or present release, spilling, leaking, pumping, pouring, emitting, emptying, discharging, escaping, injecting, leaching, dispersing, migrating, dumping or disposing into the indoor or outdoor environment (including ambient air, surface water, groundwater, and surface or subsurface strata) or into or out of any property, including the movement of Hazardous Material through or into the air, soil, surface water, or groundwater.

Representative has the meaning specified in Section 6.4(a).

Restricted Stock means a restricted award of Company Common Stock granted pursuant to the Company Option Plans.

Restricted Stock Unit means restricted stock units based on the value of the Company Common Stock, as granted pursuant to the Company Option Plans.

Rights has the meaning specified in Section 4.2(a).

Rights Agreement has the meaning specified in Section 4.2(a).

Rule 145 has the meaning specified in Section 8.4.

SEC means the United States Securities and Exchange Commission.

Second Quarter Record Date has the meaning specified in Section 6.6.

Section 754 Election has the meaning specified in Section 4.14(p).

Securities Act means the Securities Act of 1933, as amended and the rules promulgated thereunder.

Series C Preferred Stock means the 8.7% Series C Cumulative Redeemable Preferred Stock, par value $0.001 per share, of the Company.

Series D Preferred Stock means the 8.75% Series D Cumulative Redeemable Preferred Stock, par value $0.001 per share, of the Company.

Share Issuance has the meaning specified in Section 8.3.

Subsequent Determination has the meaning specified in Section 6.4(b).

Subsidiaries means (a) the joint venture established pursuant to the Joint Venture Agreement, dated as of December 20, 2002, between Shurgard Self Storage SCA and Crescent Euro Self Storage Investments Sarl, (b) the joint venture established pursuant to the Second Joint Venture Agreement, dated as of May 11, 2004, between Shurgard Self Storage SCA and Crescent Euro Self Storage Investments II Sarl, and (c) any corporation, association, partnership, limited liability company, joint venture, trust or any other entity or organization of which a Person (either directly or through or together with any other Subsidiary) owns, directly or indirectly, more than 50% of the stock or other equity interests or has the ability to elect a majority of the board of directors or other governing body of such corporation or other legal entity or which such Person otherwise controls.

Superior Proposal means an unsolicited *bona fide* written Acquisition Proposal by a Third Party, (i) on terms which the Company Board determines in good faith, and in consultation with its legal and financial advisors, to be more favorable from a financial point of view to the Company s shareholders than the Merger, taking into account any amendments to this Agreement proposed by Parent, (ii) for which financing, to the extent required, is then committed subject to customary conditions and which in the good faith judgment of the Company Board is reasonably capable of being obtained by such Third Party, and (iii) which, in the good faith reasonable judgment of the Company Board, is reasonably likely to be consummated on the timetable and terms proposed; provided that for purposes of this definition the references in the definition of Acquisition Proposal to 10% shall be deemed to be references to 50% .

Superior Proposal Notice has the meaning specified in Section 10.1(e).

Surviving Company has the meaning specified in Section 2.1.

Takeover Statutes has the meaning specified in Section 4.21.

Tax or *Taxes* means (i) any and all taxes, charges, fees, levies or other assessments imposed by any United States Federal, state, or local taxing authority or by any non-U.S. taxing authority, including income, gross receipts, excise, property, sales, use, transfer, payroll, license, ad valorem, value added, withholding (including dividend withholding or withholding required pursuant to Sections 1441 through 1446 of the Code), social security, national insurance (or other similar contributions or payments), franchise, estimated, severance, stamp, and other taxes (including any interest, fines, penalties or additions attributable to or imposed on or with respect to any such taxes, charges, fees, levies or other assessments) (whether disputed or not) and (ii) any obligation with respect to Taxes payable by reason of Treasury Regulation Section 1.1.502-6 (or any analogous or similar provision under state, local or foreign law).

Tax Protection Agreement means a Contract that (a) relates to the deferral of U.S. federal taxable income that otherwise might have been recognized upon a transfer of property to the Company or any of its Subsidiaries or the recognition of income relating to a negative capital account and that prohibits or restricts in any manner the disposition of any assets of the Company or any of its Subsidiaries, (b) requires that the Company or its Subsidiaries maintain, put in place, or replace, indebtedness whether or not secured by one or more properties,

(c) requires that the Company or any of its Subsidiaries offer to any Person at any time the opportunity to guarantee or otherwise assume, directly or indirectly (including through a deficit restoration obligation, guarantee (including a bottom guarantee), indemnification or other similar arrangement), the risk of loss for U.S. federal income Tax purposes of indebtedness or other liabilities of the Company or any of its Subsidiaries, or (d) requires the Company to make or refrain from making Tax elections, operate (or refrain from operating) in a particular manner, use (or refrain from using) a specified method of taking into account book-tax disparities under Section 704(c) of the Code with respect to one or more assets of the Company or any Subsidiary, or use (or refrain from using) a particular method for allocating one or more liabilities of the Company or any Subsidiary under Section 752 of the Code.

Tax Return means any return, report, information return or other document (including any related or supporting information, schedule or amendment thereto) and, where applicable, profit and loss accounts and balance sheets) with respect to Taxes, including any documents accompanying payments of estimated Taxes, or accompanying requests for the extension of time in which to file any such return, report, information return or other document.

Taxable REIT Subsidiary has the meaning specified in Section 4.14(k).

Termination Fee has the meaning specified in Section 10.2(d).

Termination Fee Tax Opinion has the meaning specified in Section 10.2(d).

Third Party means any Person or group (as defined in Section 13(d)(3) under the Exchange Act) other than Parent, Merger Sub or any Affiliate thereof.

Transfer Taxes has the meaning set forth in Section 6.5(b).

Unpaid Base Amount has the meaning specified in Section 10.2(d).

Unvested Parent Restricted Stock Units has the meaning specified in Section 3.6(c).

U.S. Employee Benefit Plans has the meanings specified in Section 4.9(a)(i).

Vested Parent Restricted Stock Units has the meaning specified in Section 3.6(c).

Voting Debt means, with respect to the Company, any Indebtedness having the right to vote on any matters on which shareholders of the Company may vote, and with respect to Parent, any Indebtedness having the right to vote on any matters on which shareholders of Parent may vote.

WBCA has the meaning specified in the Recitals hereto.

ARTICLE II.

THE MERGER

SECTION 2.1. *The Merger*. At the Effective Time and subject to and upon the terms and conditions of this Agreement, the WBCA and the LLC Act, the Company shall be merged with and into Merger Sub, the separate corporate existence of the Company shall cease, and Merger Sub shall continue as the surviving entity. Merger Sub as the surviving entity after the Merger hereinafter sometimes is referred to as the *Surviving Company*. The parties hereto intend that for U.S. federal, and applicable state, income tax purposes the Merger shall be treated as a taxable disposition by the Company of all of its assets to Merger Sub in exchange for the Merger Consideration, the cash paid pursuant to Section 3.7, the Parent Preferred Stock, if any, and the assumption of all

Table of Contents

of the Company s liabilities, followed by a liquidating distribution of such Merger Consideration, cash paid pursuant to Section 3.7 and Parent Preferred Stock, if any, to the holders of the Company Common Stock and Company Preferred Stock, respectively, pursuant to Section 331 and Section 562 of the Code.

SECTION 2.2. *Closing*. The closing of the Merger (the *Closing*) shall take place at the offices of Wachtell, Lipton, Rosen & Katz, 51 West 52nd Street, New York, NY 10019 at 10:00 am on the second Business Day following the satisfaction (or, to the extent permitted by law, waiver by all parties) of the conditions set forth in Section 9.1, or, if on such day any condition set forth in Section 9.2 or 9.3 has not been satisfied (or, to the extent permitted by law, waived by the party entitled to the benefits thereof), as soon as practicable after all the conditions set forth in Article IX have been satisfied (other than those conditions that by their nature are to be satisfied at the Closing), but subject to the fulfillment or, to the extent permitted by law, waiver of those conditions by the parties entitled to the benefits thereof), or at such other place, time and date as shall be agreed in writing between Parent, Merger Sub and the Company. The date on which the Closing occurs is referred to in this Agreement as the *Closing Date*.

SECTION 2.3. *Effective Time*. Prior to the Closing, the parties shall prepare, and on the Closing Date the parties shall file, articles of merger or other appropriate documents (the *Articles of Merger*) with the Secretary of State of the State of Washington and with the Secretary of State of the State of Delaware, in such form as required by, and executed in accordance with, the relevant provisions of the WBCA and the LLC Act. The Merger shall become effective at such time on the Closing Date as Merger Sub and the Company shall agree and specify in the Articles of Merger (the time the Merger becomes effective being the *Effective Time*).

SECTION 2.4. *Effect of the Merger*. At the Effective Time, the effect of the Merger shall be as provided in the applicable provisions of WBCA and the LLC Act. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time all the property, rights, privileges, powers and franchises of the Company and Merger Sub shall vest in the Surviving Company, and all debts, liabilities and duties of the Company and Merger Sub shall become the debts, liabilities and duties of the Surviving Company.

SECTION 2.5. *Subsequent Actions*. If, at any time after the Effective Time, the Surviving Company shall consider or be advised that any deeds, bills of sale, assignments, assurances or any other actions or things are necessary or desirable to vest, perfect or confirm of record or otherwise in the Surviving Company its right, title or interest in, to or under any of the rights, properties or assets of either of the Company or Merger Sub acquired or to be acquired by the Surviving Company as a result of, or in connection with, the Merger or otherwise to carry out this Agreement, the officers and directors of the Surviving Company shall be authorized to execute and deliver, in the name and on behalf of either the Company or Merger Sub, all such deeds, bills of sale, assignments and assurances and to take and do, in the name and on behalf of each of such corporations or otherwise, all such other actions and things as may be necessary or desirable to vest, perfect or confirm any and all right, title and interest in, to and under such rights, properties or assets in the Surviving Company or otherwise to carry out this Agreement.

SECTION 2.6. *Certificate of Formation; Limited Liability Company Agreement; Managing Member and Officers*.

(a) Unless otherwise determined by Merger Sub, the Certificate of Formation and the Limited Liability Company Agreement of Merger Sub, as in effect immediately before the Effective Time, shall be the Certificate of Formation and the Limited Liability Company Agreement of the Surviving Company at the Effective Time until thereafter amended as provided by law and such Certificate of Formation and Limited Liability Company Agreement.

(b) The managing member of Merger Sub immediately before the Effective Time will be the initial managing member of the Surviving Company, and, except as Merger Sub may otherwise notify the Company in writing prior to the Effective Time, the officers of the Company immediately before the Effective Time will be the initial officers of the Surviving Company, in each case until their respective successors are elected or appointed and qualified or until their death, resignation or removal in accordance with the Certificate of Formation of the Surviving Company and the Limited Liability Company Agreement of the Surviving Company.

SECTION 2.7. *Further Assurances*. At and after the Effective Time, the officers and directors of the Surviving Company will be authorized to execute and deliver, in the name and on behalf of the Company or Merger Sub, any deeds, bills of sale, assignments or assurances and to take and do, in the name and on behalf of the Company or Merger Sub, any other actions and things to vest, perfect or confirm of record or otherwise in the Surviving Company any and all right, title and interest in, to and under any of the rights, properties or assets acquired or to be acquired by the Surviving Company as a result of, or in connection with, the Merger.

SECTION 2.8. *Structure*. Notwithstanding anything in this Agreement otherwise to the contrary, the Company shall cooperate with and agree to any reasonable changes requested by Parent regarding the structure of the transactions contemplated herein (such cooperation shall include entering into appropriate amendments to this Agreement); provided that any such changes do not have an adverse effect on either the holders of the Company Common Stock or the holders of the Company Preferred Stock, including if such changes are reasonably likely to require a recirculation of the Proxy Statement.

ARTICLE III.

CONVERSION OF THE COMPANY S CAPITAL STOCK

SECTION 3.1. *Conversion of the Company s Capital Stock*. Subject to the terms and conditions of this Agreement:

(a) *Cancellation of Parent-Owned Stock*. At the Effective Time, each share of Company Common Stock and each share of Company Preferred Stock, if any, owned by Parent, Merger Sub, any other subsidiary of Parent or the Company immediately prior to the Effective Time shall be canceled and retired without payment of any consideration therefor.

(b) *Conversion of Company Common Stock*. Subject to Section 3.3, each issued and outstanding share of Company Common Stock (other than shares of Company Common Stock to be retired in accordance with Section 3.1(a)), including each Right attached thereto, shall be converted into the right to receive 0.82 (the *Exchange Ratio*) of a fully paid and nonassessable share of Parent Common Stock (subject to Section 3.2(f)) (the *Merger Consideration*).

(c) *Company Preferred Stock*. Subject to Section 3.7, each share of Series C Preferred Stock, if any, which is issued and outstanding and has not been redeemed immediately prior to the Effective Time in accordance with its terms (other than shares of Series C Preferred Stock owned or held by Parent, Merger Sub, the Company or any of their respective direct or indirect wholly owned Subsidiaries, all of which shall be canceled as provided in Section 3.1(a)), shall be converted into the right to receive one fully paid and nonassessable share of Parent 8.7% cumulative redeemable preferred stock (the *Parent 8.7% Preferred Stock*). Subject to Section 3.7, each share of Series D Preferred Stock if any, which is issued and outstanding and has not been redeemed immediately prior to the Effective Time in accordance with its terms (other than shares of Series D Preferred Stock owned or held by Parent, Merger Sub, the Company or any of their respective direct or indirect wholly owned Subsidiaries, all of which shall be canceled as provided in Section 3.1(a)), shall be converted into the right to receive one fully paid and nonassessable share of Parent 8.75% cumulative redeemable preferred stock (the *Parent 8.75% Preferred Stock* and together with the Parent 8.7% Preferred Stock, the *Parent Preferred Stock*). Immediately prior to the Effective Time, unless all shares of Series C Preferred Stock and Series D Preferred Stock have been redeemed prior to the Effective Time in accordance with the respective terms thereof, the articles of incorporation or other equivalent organizational documents of Parent shall be modified in accordance with applicable Legal Requirements in order to create the Parent 8.7% Preferred Stock and the Parent 8.75% Preferred Stock, as the case may be, having preferences, conversion and other rights, privileges, voting powers, restrictions, limitations as to distributions, qualifications and terms or conditions of redemption hereof identical to that of shares of the Series C Preferred Stock and the Series D Preferred Stock, respectively, including with respect to distribution and rights upon liquidation, dissolution or winding up, and shall be pari passu with all issued and outstanding preferred stock of Parent at the Closing Date as to distributions and rights upon liquidation, dissolution or winding up.

(d) As of the Effective Time, each share of Company Common Stock and each share of Company Preferred Stock (to the extent not previously redeemed in accordance with its terms) shall no longer be outstanding and shall automatically be retired and shall cease to be outstanding, and each holder of a certificate representing any such share(s) (a *Certificate*) shall cease to have any rights with respect to Company Common Stock or Company Preferred Stock (as the case may be), except (i) the right to receive the Merger Consideration or Parent Preferred Stock, as the case may be, (ii) any cash in lieu of fractional shares of Parent Common Stock to be paid in consideration for shares of Company Common Stock, and (iii) any dividends or other distributions to which holders become entitled, all in accordance with Section 3.2 upon the surrender of such Certificate.

(e) At the Effective Time, each limited liability company interest of Merger Sub shall remain outstanding and represent a limited liability company interest of the Surviving Company.

SECTION 3.2. *Exchange of Share Certificates*.

(a) *Exchange Agent*. Prior to the Effective Time, Parent shall designate a bank, trust company or other Third Party entity reasonably acceptable to the Company to act as agent (the *Exchange Agent*) for (i) the holders of shares of Company Common Stock to receive the Merger Consideration to which such holders shall become entitled with respect to such holder s shares of Company Common Stock pursuant to Section 3.1(b) and (ii) the holders of shares of Company Preferred Stock to receive the shares of Parent Preferred Stock, as applicable, to which such holders shall become entitled with respect to such holder s shares of Company Preferred Stock pursuant to Section 3.1(c); *provided*, *however*, that if all shares of Company Preferred Stock are redeemed prior to the Effective Time in accordance with the terms thereof, this Section 3.2 shall be inapplicable to the Company Preferred Stock. Prior to the Effective Time, Parent shall cause Merger Sub to deposit with the Exchange Agent: (x) that number of Parent Common Stock certificates in any denominations as the Exchange Agent shall specify, (y) that number of Parent Preferred Stock certificates in any denominations as the Exchange Agent shall specify and (z) the cash in respect of fractional shares, if any, in each case as are issuable or payable pursuant to this Article III in respect of shares of Company Common Stock and Company Preferred Stock for which Certificates or Book Entry Shares have been properly delivered to the Exchange Agent. The deposit made by Merger Sub or the Surviving Company, as the case may be, pursuant to this Section 3.2(a) is hereinafter referred to as the *Exchange Fund*. The Exchange Agent shall cause the Exchange Fund to be held for the benefit of the holders of Company Common Stock and Company Preferred Stock to be applied promptly to making the payments provided for in Section 3.2(b); provided that any interest earned on any cash in the Exchange Fund shall be for the benefit of Merger Sub. The Exchange Fund shall not be used for any purpose that is not expressly provided for in this Agreement.

(b) *Payment Procedures*.

(i) As soon as practicable after the Effective Time, but in no event later than three Business Days after the Effective Time, the Surviving Company shall cause the Exchange Agent to mail to each record holder, as of the Effective Time (the *Holders*), (A) a letter of transmittal specifying that delivery shall be effected, and risk of loss and title to the Certificates held by any Holder representing Company Common Stock or Company Preferred Stock shall pass only upon delivery of such Certificates (or affidavits of loss in lieu thereof) to the Exchange Agent or, in the case of Book Entry Shares, upon adherence to the procedures set forth in the letter of transmittal, such letter of transmittal to be in such form and have such other provisions as Parent and the Company may reasonably agree and (B) instructions for use in effecting the surrender of the Certificates in exchange for the Merger

Consideration or the applicable Parent Preferred Stock, as the case may be, or, in the case of Book Entry Shares, the surrender of such shares, for payment of the Merger Consideration or the applicable Parent Preferred Stock therefor.

(ii) Upon surrender by a Holder of the Company Common Stock to the Exchange Agent of any Certificate (or evidence of loss in lieu thereof) or Book Entry Shares, as applicable, for cancellation together with a duly executed letter of transmittal, the Holder shall be entitled to receive in exchange therefor the Merger Consideration that such holder is entitled to receive pursuant to this Article III (and the amount of cash in respect of any dividends or other distributions to which such holder is entitled pursuant to Section 3.2(b)(iv), if any) and the Certificate or Book Entry Shares so surrendered shall forthwith be cancelled. No interest will be paid or accrued on any amount payable upon due surrender of the Certificates or Book Entry Shares. In the event of a transfer of ownership of shares of Company Common Stock that is not registered in the transfer records of the Company, payment may be issued to such a transferee if the Certificate formerly representing such shares of Company Common Stock is presented to the Exchange Agent, accompanied by all documents required to evidence and effect such transfer, and the Person requesting such issuance pays any transfer or other Taxes required by reason of such payment to a Person other than the registered holder of such Certificate or establishes to the satisfaction of Parent and the Company that such Tax has been paid or is not applicable.

(iii) Each holder of Series C Preferred Stock upon surrender of any Certificate or Book Entry Shares, as applicable, to the Exchange Agent together with such letter of transmittal, duly executed, and such other documents as may reasonably be required by the Exchange Agent, shall be entitled to receive in exchange therefor a certificate or certificates representing the number of shares of Parent 8.7% Preferred Stock into which the aggregate number of shares of Series C Preferred Stock previously represented by such Certificate or Book Entry Shares shall have been converted pursuant to this Agreement and the amount of cash in respect of any dividends or other distributions to which such holder is entitled pursuant to Section 3.2(b)(iv), if any. Each holder of Series D Preferred Stock upon surrender of any Certificate or Book Entry Shares, as applicable, to the Exchange Agent together with such letter of transmittal, duly executed, and such other documents as may reasonably be required by the Exchange Agent, shall be entitled to receive in exchange therefor a certificate or certificates representing the number of shares of Parent 8.75% Preferred Stock into which the aggregate number of shares of Series D Preferred Stock previously represented by such Certificate or Book Entry Shares shall have been converted pursuant to this Agreement and the amount of cash in respect of any dividends or other distributions to which such holder is entitled pursuant to Section 3.2(b)(iv), if any.

(iv) No dividends or other distributions with respect to securities of the Parent Common Stock or the Parent Preferred Stock with a record date after the Closing Date shall be paid to the holder of any Certificates or Book Entry Shares not surrendered until such Certificates or Book Entry Shares, as applicable, are surrendered as provided in this Section 3.2. Following such surrender, there shall be paid, without interest, to the Person in whose name the Parent Common Stock or Parent Preferred Stock, as applicable, has been registered, (A) at the time of surrender, the amount of all dividends or other distributions with a record date after the Closing Date previously paid or payable on the date of such surrender with respect to such Parent Common Stock or Parent Preferred Stock, as applicable, and (B) at the appropriate payment date, the amount of dividends or other distributions with a record date after the Closing Date and prior to surrender and with a payment date subsequent to surrender payable with respect to such Parent Common Stock or Parent Preferred Stock, as applicable.

(c) *Transfers*. After the Effective Time, there shall be no registration of transfers on the stock transfer books of the Company of shares of Company Common Stock or Company Preferred Stock that were outstanding immediately prior to the Effective Time.

(d) *Termination of Exchange Fund*. Any portion of the Exchange Fund relating to the Merger Consideration or the Parent Preferred Stock that remains unclaimed by the holders of Company Common Stock or Company Preferred Stock, as the case may be, six months after the Effective Time shall be returned to Parent, the Surviving Company or another affiliate of Parent, as may be designated by Parent or the Surviving Company. Any holders of Company Common Stock or Company Preferred Stock who have not theretofore complied with this Article III shall thereafter look only to Parent for payment of the Merger Consideration or Parent Preferred Stock, as the case may be, upon due surrender of their Certificates (or affidavits of loss in lieu thereof), without any interest thereon. Notwithstanding the foregoing, none of Parent, the Surviving Company, the Exchange Agent or any other Person shall be liable to any former holder of shares of Company Common Stock or Company Preferred Stock for any amount properly delivered to a public official pursuant to applicable abandoned property, escheat or similar Legal Requirements. Any amounts remaining unclaimed by such holders three years after the Effective Time (or such earlier date immediately prior to such time when the amounts would otherwise escheat to or become property of any Government Entity) shall become, to the extent permitted by applicable law, the property of the Surviving Company free and clear of any claims or interest of any Person previously entitled thereto.

(e) *Lost, Stolen or Destroyed Certificates*. In the event that any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed and, if required by Parent, the posting by such Person of a bond in customary amount as indemnity against any claim that may be made against it or the Surviving Company with respect to such Certificate, the Exchange Agent will issue in exchange for such lost, stolen or destroyed Certificate the Merger Consideration or the applicable Parent Preferred Stock.

(f) *Fractional Shares*. Notwithstanding any other provision of this Agreement to the contrary, no fractional shares of Parent Common Stock will be issued and any holder of shares of Company Common Stock entitled to receive a fractional share of Parent Common Stock but for this Section 3.2(f) shall be entitled to receive a cash payment in lieu thereof, in an amount equal to such holder s proportionate interest in the net proceeds from the sale or sales in the open market by the Exchange Agent, on behalf of all such holders, of the shares of Parent Common Stock constituting the excess of (i) the number of whole shares of Parent Common Stock delivered to the Exchange Agent by Parent over (ii) the aggregate number of whole shares of Parent Common Stock to be distributed to holders of Company Common Stock (such excess being herein called the *Excess Shares*). As soon as practicable following the Effective Time, the Exchange Agent shall determine the number of Excess Shares and, as agent for the former holders of Company Common Stock, shall sell the Excess Shares at the prevailing prices on the New York Stock Exchange. The Exchange Agent shall deduct from the proceeds of the sale of the Excess Shares all commissions, transfer Taxes and other out-of-pocket transaction costs, including the expenses and compensation of the Exchange Agent, incurred in connection with such sale of Excess Shares. Until the net proceeds of such sale have been distributed to the former holders of Company Common Stock, the Exchange Agent will hold such proceeds in trust for such former holders. As soon as practicable after the determination of the amount of cash to be paid to such former holders in lieu of any fractional interests, the Exchange Agent shall make available in accordance with this Agreement such amounts to such former holders.

(g) *Withholding Rights*. Each of Parent, the Surviving Company and the Exchange Agent, as applicable, shall be entitled to deduct and withhold from the consideration otherwise payable to any Person pursuant to this Agreement such amounts as it is required to deduct and withhold with respect to the making of such payment under any provision of any Legal Requirement applicable to Taxes. If Parent or the Surviving Company or the Exchange Agent, as the case may be, so withholds amounts, such amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the shares of Company Common Stock or Options, as applicable, in respect of which Parent or the Surviving Company or the Exchange Agent, as the case may be, made such deduction and withholding.

SECTION 3.3. *Adjustments to Prevent Dilution*. Notwithstanding anything to the contrary in this Agreement, if, after the date hereof, and prior to the Effective Time, the issued and outstanding shares of Company Common Stock or Parent Common Stock shall have been changed into a different number of shares or a different class by reason of any stock split, reverse stock split, stock dividend, reclassification, recapitalization, split-up, combination, exchange of shares or other similar transaction, then the Merger Consideration and Exchange Ratio and any other similarly dependent items, as the case may be, shall be appropriately adjusted to provide to Parent, Merger Sub and the holders of Company Common Stock the same economic effect as contemplated by this Agreement prior to such action, and as so adjusted shall, from and after the date of such event, be the Merger Consideration, the Exchange Ratio or other dependent item, as applicable, subject to further adjustment in accordance with this sentence.

SECTION 3.4. *No Further Rights*. From and after the Effective Time, holders of Certificates shall cease to have any rights as shareholders of the Company, except as expressly provided herein or by applicable Legal Requirements.

SECTION 3.5. *Dissenting Shares*. Notwithstanding Section 3.1(a), shares of Company Common Stock outstanding immediately prior to the Effective Time and held by a holder who has complied with the provisions of Chapter 23B.13 of the WBCA that are applicable prior to the Effective Time (*Dissenting Shares*) shall not be converted into or represent the right to receive the Merger Consideration, unless such holder withdraws or otherwise loses (through failure to perfect or otherwise) his, her or its right to obtain payment of the fair value of his or its Dissenting Shares, but shall instead be entitled only to such rights with respect to such Dissenting Shares as may be granted to such holder pursuant to Chapter 23B.13 of the WBCA. If after the Effective Time such holder withdraws or loses (through failure to perfect or otherwise) his, her or its right to obtain payment of the fair value of his, her or its Dissenting Shares under Chapter 23B.13 of the WBCA, such Dissenting Shares shall be treated as if they had been converted as of the Effective Time into a right to receive the Merger Consideration payable with respect thereto. The Company shall use reasonable best efforts to give Parent notice of any notice of intent to demand payment under Section 23B.13.210, demand for payment under Section 23B.13.230 or withdrawal of any such demands received by the Company and involve Parent in the negotiations and proceedings with respect to such demands. Prior to the Effective Time, the Company shall not, except with the prior written consent of Parent, make any payment with respect to, or settle or offer to settle, any such demands, or agree to do any of the foregoing.

SECTION 3.6. *Stock Options, Restricted Stock and Restricted Stock Units*.

(a) The Company shall not grant Options after the date of this Agreement under the Company Option Plans, or otherwise.

(b) The Company shall take such actions as are necessary to cause all outstanding Options to become fully vested and exercisable at the Effective Time and to cause all shares of Restricted Stock to become fully vested immediately after the Effective Time. For purposes of vesting under the Company Option Plans, any holder of Restricted Stock whose employment is terminated by the Company or Parent as of the Effective Time shall be deemed to have been terminated immediately after the Effective Time. At the Effective Time, each holder of a then-outstanding and unexercised Option shall receive, by virtue of the Merger and without any action on the part of the holder thereof, options exercisable for shares of Parent Common Stock having the same terms and conditions as the Options (including such terms and conditions as may be incorporated by reference into the agreements evidencing the Options pursuant to the plans or arrangements pursuant to which such Options were granted), except that (i) the number of shares issuable upon exercise of each Option shall be multiplied by the Exchange Ratio (and rounded down to the nearest share), and (ii) the exercise price of each outstanding Option shall be divided by the Exchange Ratio (and rounded up to the nearest cent). Parent and Merger Sub shall use all reasonable efforts to ensure that the Options (i) shall be converted in a manner consistent with Section 424(a) of the Code, and (ii) shall be converted in a manner consistent with the requirements of Section 409A of the Code.

(c) As of the Effective Time, each holder of a Restricted Stock Unit shall have such Restricted Stock Unit converted, by virtue of the Merger and without any action on the part of the holder thereof, into a restricted stock unit settleable in Parent Common Stock or cash (based on the fair market value of Parent Common Stock), having the same terms and conditions as the Restricted Stock Unit (including such terms and conditions as may be incorporated by reference into the agreement evidencing the Restricted Stock Unit pursuant to the Company Option Plan pursuant to which such Restricted Stock Unit was granted) (a *Parent Restricted Stock Unit*), provided that (i) the number of Parent Restricted Stock Units into which the

Restricted Stock Units are converted shall equal the number of Restricted Stock Units multiplied by the Exchange Ratio, (ii) 25% of the Parent Restricted Stock Units shall be vested as of immediately after the Effective Time notwithstanding any termination of employment by the Company or Parent occurring as of the Effective Time (the *Vested Parent Restricted Stock Units*) and the remaining 75% of the Parent Restricted Stock Units (the *Unvested Parent Restricted Stock Units*) shall vest ratably thereafter on each of the first five anniversaries of the Closing Date, subject to the holder of such Parent Restricted Stock Units continuing to be employed by the Parent or its Subsidiaries on the applicable vesting date, and (iii) notwithstanding anything to the contrary herein, in the terms of the applicable Company Option Plan or otherwise, (x) the Vested Parent Restricted Stock Units shall be settled on the 90-day anniversary of the Effective Time and (y) for purposes of vesting of the Restricted Stock Units and the Unvested Parent Restricted Stock Units only, this Agreement and the transactions contemplated hereby (including the Merger) shall not be deemed to constitute a Corporate Transaction under the applicable Company Option Plan or otherwise be deemed an initial vesting trigger under (nor be considered in any way in connection with any subsequent vesting trigger) any applicable agreement, arrangement or plan.

(d) As of the Effective Time, each share of Restricted Stock shall receive, by virtue of the Merger and without any action on the part of the holder thereof, a restricted share of Parent Common Stock having the same terms and conditions of the Restricted Stock (including such terms and conditions as may be incorporated by reference into the agreement evidencing the Restricted Stock pursuant to the Company Option Plan to which such Restricted Stock was granted) except that the number of shares of Restricted Stock shall be multiplied by the Exchange Ratio.

(e) Parent shall take all corporate action necessary to reserve for issuance a sufficient number of shares of Parent Common Stock for delivery upon the exercise of Options and the vesting of Restricted Stock Units after the Effective Time. The Company shall take all corporate action necessary to authorize the matters set forth in this Section 3.6 to occur as of the Effective Time. Within two Business Days following the Effective Time, Parent and Merger Sub shall file or cause to be filed all registration statements on Form S-8 or other appropriate form as may be necessary in connection with the purchase and sale of Parent Common Stock contemplated by such Options or Restricted Stock Units subsequent to the Effective Time, and shall maintain the effectiveness of such registration statements (and maintain the current status of the prospectus or prospectuses contained therein) for so long as any of the Options or Restricted Stock Units registered thereunder remain outstanding. As soon as reasonably possible after the Effective Time, Parent shall qualify under applicable state securities laws the issuance of such shares of Parent Common Stock issuable upon exercise of Options and the vesting of the Restricted Stock Units.

(f) As of the date hereof, the ESPP shall be terminated. The rights of participants in the ESPP with respect to any offering period then underway under the ESPP shall be determined by treating the last Business Day prior to the date hereof as the last day of such offering period and by making such other pro-rata adjustments as may be necessary to reflect the shortened offering period but otherwise treating such shortened offering period as a fully effective and completed offering period for all purposes under the ESPP.

SECTION 3.7. *Redemption of Preferred Stock*. On the Closing Date, Merger Sub will purchase shares of Company Common Stock for cash at a price per share equal to then fair market value of such Company Common Stock and in an amount sufficient to redeem each outstanding share of Series C Preferred Stock and Series D Preferred Stock in accordance with its respective terms, and the Company will use such cash proceeds to redeem such Company Preferred Stock on the Closing Date prior to the Effective Time.

Table of Contents

ARTICLE IV.

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

Simultaneously with the execution and delivery of this Agreement, the Company shall deliver to Parent and Merger Sub a disclosure schedule with numbered sections corresponding to the relevant sections in this Agreement (the *Company Disclosure Schedule*). Any exception or qualification set forth in the Company Disclosure Schedule with respect to a particular representation, warranty or covenant contained in this Agreement shall be deemed to be an exception or qualification with respect to all other applicable representations, warranties and covenants contained in this Agreement to the extent any description of facts regarding the event, item or matter disclosed is adequate so as to make readily apparent or otherwise make Parent and Merger Sub reasonably aware that such exception or qualification is applicable to such other representations, warranties or covenants whether or not such exception or qualification is so numbered. Except as otherwise set forth in the Company Disclosure Schedule, the Company hereby represents and warrants to Parent and Merger Sub as follows:

SECTION 4.1. *Organization and Qualification; Subsidiaries*.

(a) The Company is (i) a corporation duly organized and validly existing under the laws of the State of Washington and has the requisite corporate power and authority and any necessary governmental authority to own, operate or lease the properties that it purports to own, operate or lease and to carry on its business as it is now being conducted, and (ii) is duly qualified as a foreign corporation to do business, and is in good standing, in each jurisdiction where the character of its properties owned, operated or leased or the nature of its activities makes such qualification necessary, except in the case of (ii) for such failure which, when taken together with all other such failures, would not, individually or in the aggregate, be reasonably expected to have a Company Material Adverse Effect.

(b) Each Subsidiary of the Company is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization and has the requisite corporate or similar power and authority and any necessary governmental authority to own, operate or lease the properties that it purports to own, operate or lease and to carry on its business as it is now being conducted, and is duly qualified as a foreign corporation to do business, and is in good standing, in each jurisdiction where the character of its properties owned, operated or leased or the nature of its activities makes such qualification necessary, except for such failure which, when taken together with all other such failures, would not, individually or in the aggregate, be reasonably expected to have a Company Material Adverse Effect.

(c) The Company has heretofore made available to Parent complete and correct copies of the charter, by-laws, partnership agreements, operating agreements and other organizational documents of each of the Company Subsidiaries, each as amended to date, and each such agreement or instrument is in full force and effect as of the date hereof.

SECTION 4.2. *Capitalization*.

(a) The authorized capital stock of the Company consists of: (i) 120,000,000 shares of Company Common Stock and (ii) 40,000,000 shares of Company Preferred Stock, of which, 2,800,000 shares have been designated as Series A Junior Participating Preferred Stock, 2,000,000 shares have been designated as Series C Preferred Stock and 3,450,000 shares have been designated as Series D Preferred Stock. As of the date hereof: (A) 47,073,810 shares of Company Common Stock were issued and outstanding, all of which were validly issued, fully paid and nonassessable, which includes 300,627 shares of Restricted Stock; (B) 5,450,000 shares of Company Preferred Stock were issued and outstanding; (C) 2,789,717 shares of Company Common Stock were reserved for issuance upon exercise of outstanding Options under the Company Option Plans or the Director Incentive Plan listed in *Schedule 4.2(a)* of the Company Disclosure Schedule; and (D) 2,800,000 shares of Series A Junior Participating Preferred Stock were reserved for issuance upon the exercise of outstanding rights to purchase Series A Junior Participating Preferred Stock (the *Rights*) issued under the Company s Rights Agreement, dated as of March 12, 2004 (the *Rights Agreement*).

(b) The issuance and sale of all the shares of capital stock described in this Section 4.2 have been made in compliance in all material respects with United States federal and state securities laws, rules and regulations. *Schedule 4.2(b)* of the Company Disclosure Schedule accurately sets forth as of the date hereof the names of all holders of options to purchase the Company s capital stock (including but not limited to Company Options) and the number and type of shares issuable upon exercise of such options, the exercise price and vesting schedule with respect thereto. Except as set forth in *Schedule 4.2(b)* of the Company Disclosure Schedule, neither the Company nor any Company Subsidiary has agreed to register any securities under the Securities Act or under any state securities law or granted registration rights to any Person, and complete and correct copies of any such agreements have previously been made available to Parent. Except as set forth in *Schedule 4.2(b)* of the Company Disclosure Schedule, there are no (A) outstanding stock-appreciation rights, security-based performance units, phantom stock or other security rights (other than in the case of clause (A) pursuant to the joint venture Contracts set forth on *Schedule 4.18* of the Company Disclosure Schedule) or (B) other Contracts pursuant to which any Person is or may be entitled to receive any payment or other value based on the revenues, earnings or financial performance, stock price performance of the Company or any of its Subsidiaries or assets (other than in the case of clause (B) as set forth in the U.S. Employee Benefit Plans and Non-U.S. Employee Benefit Plans set forth on *Schedule 4.9* of the Company Disclosure Schedule, the Employment Agreements or distributions pursuant to the joint venture Contracts set forth on *Schedule 4.18* of the Company Disclosure Schedule, ordinary course payments, compensation or bonus arrangements or commissions to officers or employees of the Company).

(c) All outstanding shares of Company Common Stock are, and all shares of Company Common Stock that may be issued pursuant to the Company Option Plans or the Director Incentive Plan will be, when issued in accordance with the terms thereof, duly authorized, validly issued, fully paid and nonassessable and not subject to or issued in violation of any purchase option, call option, right of first refusal, right of first offer, preemptive right, subscription right or any similar right. Except as set forth above or on *Schedule 4.2(c)* of the Company Disclosure Schedule or in the joint venture Contracts set forth on *Schedule 4.18* of the Company Disclosure Schedules, (i) there are no other options, warrants or other Contracts obligating the Company or any Subsidiary of the Company to issue or sell any shares of capital stock of or other equity interests in the Company or any Subsidiary of the Company or any Voting Debt of the Company or any Subsidiary of the Company to any Person other than the Company and its Subsidiaries and (ii) there is no Voting Debt of the Company or any Subsidiary of the Company.

(d) *Schedule 4.2(d)* of the Company Disclosure Schedule sets forth the name of each Subsidiary of the Company (whether owned, directly or indirectly, through one or more intermediaries). All of the outstanding shares of capital stock of, or other equity interest in, to the extent owned directly or indirectly by the Company, each such Subsidiary are duly authorized, validly issued, fully paid and nonassessable, and are owned, directly or indirectly, by the Company, as applicable, free and clear of all Liens. The following information for each Subsidiary is set forth on *Schedule 4.2(d)* of the Company Disclosure Schedule, if applicable: (i) its name and jurisdiction of incorporation or organization and (ii) the type of and percentage interest held by the Company in the Subsidiary and the names of and percentage interest held by the other interest holders, if any, in the Subsidiary Except for interests in Subsidiaries of the Company, neither the Company nor any of its Subsidiaries owns directly or indirectly any interest or investment (whether equity or debt) in any Person (other than investments in investment securities).

(e) Except as set forth in *Schedule 4.2(e)* of the Company Disclosure Schedule, all dividends or distributions on securities of the Company or any Company Subsidiary that have been declared or authorized prior to the date of this Agreement have been paid in full (except to the extent such dividends have been publicly announced and are not yet due and payable).

(f) Except for the Transaction Documents and except as set forth in *Schedule 4.2(f)* of the Company Disclosure Schedule, to the Company s Knowledge there are not any voting trusts, proxies or other Contracts relating to the voting of any shares of stock of the Company or any Company Subsidiary, to which the Company or any Company Subsidiary is a party or by which it is bound. Except as set forth in *Schedule*

4.2(f) of the Company Disclosure Schedule, there are no restrictions on the Company s ability to vote the equity interests of any of the Company Subsidiaries.

(g) Except as set forth in *Schedule 4.2(g)* of the Company Disclosure Schedule, there are not any Company Subsidiaries in which any officer or director of the Company or any Company Subsidiary owns any stock or other securities. There are no Contracts between the Company or any Company Subsidiary and any Person that could cause such Person to be treated as holding any stock or security in the Company or any Company Subsidiary as an agent for, or nominee of, the Company or any Company Subsidiary.

SECTION 4.3. *Authorization and Execution*. The execution and delivery of this Agreement and, subject to obtaining the requisite shareholders approval, the performance by the Company of this Agreement and the consummation by it of the transactions contemplated hereby have been duly and validly authorized by all necessary corporate action on the part of the Company. This Agreement has been duly and validly executed and delivered by the Company and constitutes a legal, valid and binding agreement of the Company enforceable against the Company in accordance with its terms, assuming this Agreement is enforceable against Parent and Merger Sub, except to the extent that enforceability may be limited by applicable bankruptcy, insolvency, rearrangement, reorganization, fraudulent conveyance, fraudulent transfer, moratorium, liquidation, conservatorship or similar laws or by general principles of equity.

SECTION 4.4. *Absence of Conflicts; Governmental Authorizations*.

(a) The execution and delivery by the Company of this Agreement, the performance by the Company of its obligations hereunder and the consummation by the Company of the transactions contemplated hereby will not, (i) conflict with or result in any violation of any provision of the Articles of Incorporation or Restated By-Laws or equivalent organizational document, each as amended to date, of the Company or any of its Subsidiaries; (ii) subject to obtaining the Consents listed in *Schedule 4.4* of the Company Disclosure Schedule, conflict with, result in any violation or breach of, constitute a default under, give rise to any right of termination or acceleration (with or without notice or the lapse of time or both), right of purchase, first offer or forced sale, or increase in any cost or obligation of the Company or any of its Subsidiaries or the loss of any benefit of the Company or any of its Subsidiaries pursuant to, or result in being declared void or voidable, any term or provision of any Company Material Contract as to which the Company or any of its Subsidiaries is a party or by which any of their respective properties or assets are or may be bound; or (iii) violate in any respect any term of any Legal Requirement applicable to the Company or any of its Subsidiaries or by which any of their respective properties or assets are bound or affected, except, in the case of clauses (ii) and (iii) immediately above, for any such conflicts, violations, breaches, defaults, terminations, cancellations or Liens which would not, individually or in the aggregate, be reasonably expected to have a Company Material Adverse Effect.

(b) Without limiting the generality of Section 4.4(b), and except as set forth on *Schedule 4.4* of the Company Disclosure Schedule, the transactions contemplated herein do not (a) violate any provision regarding direct or indirect transfers of interests in any Company Subsidiary that are set forth in any Contract relating to the operation of, or the ownership of interests in, any Company Subsidiary, even if such transactions result in a termination under Section 708 of the Code of any Company Subsidiary or (b) trigger any termination, buy-sell, transfer, option, right of first refusal, right of first offer, tag-along or any similar right by any party under any joint venture Contract or require the consent of any joint venture partner.

(c) Except for applicable requirements, if any, of the Exchange Act (including the filing with the SEC of the Proxy Statement relating to any required approval by the Company s shareholders of this Agreement), the Securities Act, the filing and recordation of appropriate merger documents as required by the WBCA and the LLC Act, filings required pursuant to any state securities or blue sky laws and such other notices, reports or other filings the failure of which to be made would not, individually or in the aggregate, be reasonably expected to have a Company Material Adverse Effect or prevent or materially impair the consummation of the transactions contemplated hereby, the Company is not required to submit any notice, report or other filing to any Governmental Entity or obtain any Consent of any Governmental Entity in connection with the execution, delivery or performance of this Agreement or the consummation of the transactions contemplated hereby.

SECTION 4.5. *SEC Reports and Financial Statements*.

(a) The Company has filed all forms, reports, schedules, statements and other documents required to be filed by it with the SEC, and has made available to Parent true and complete copies of all such forms, reports, schedules, statements and other documents filed by it since January 1, 2002, under the Exchange Act or the Securities Act (such forms, reports, schedules, statements and other documents, including any financial statements or schedules included therein, are referred to as the *Company SEC Documents*). Except as set forth in *Schedule 4.5* of the Company Disclosure Schedule each of the Company SEC Documents, at the time filed, (i) did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by such Company SEC Document and (ii) complied in all material respects with the applicable requirements of the Exchange Act and the Securities Act, as the case may be, and the applicable rules and regulations of the SEC thereunder. No Subsidiary of the Company is required to file any form, report or other document with the SEC. To the Company s Knowledge, the Company does not have any comments from the SEC with respect to any of the Company SEC Documents filed since December 2003 which are outstanding or have not been adequately addressed, nor has it received letters from the SEC requesting information or otherwise inquiring as to any matters affecting the Company which has not been adequately addressed. None of the Company SEC Documents is the subject of any confidential treatment request by the Company.

(b) Except as set forth in *Schedule 4.5* of the Company Disclosure Schedule, the consolidated financial statements included in the Company SEC Documents comply in all material respects with applicable accounting requirements and with the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with GAAP (except as may be indicated in the notes thereto or, in the case of the unaudited statements of the Company, as permitted by SEC Forms 10-Q and 8-K) and fairly present in all material respects (subject, in the case of the unaudited statements, to normal, recurring audit adjustments) the consolidated financial position, results of operations and cash flows of the Company for the periods presented in the Company SEC Documents.

(c) Each of the principal executive officer of the Company and the principal financial officer of the Company (or each former principal executive officer of the Company and each former principal financial officer of the Company, as applicable) has made the certifications required by Sections 302 and 906 of the Sarbanes-Oxley Act and the rules and regulations of the SEC promulgated thereunder with respect to the Company s filings pursuant to the Exchange Act. For purposes of the preceding sentence, *principal executive officer* and *principal financial officer* shall have the meanings given to such terms in the Sarbanes-Oxley Act.

(d) Except as otherwise permitted by this Agreement, there are no off balance sheet arrangements (as defined by item 303(a)(4) of Regulation S-K promulgated by the SEC) in respect of the Company and its Subsidiaries.

(e) *Schedule 4.5(d)* of the Company Disclosure Schedule sets forth all loans between the Company and the Company s European Subsidiaries as of the date hereof.

SECTION 4.6. *Absence of Certain Changes or Events*. Since September 30, 2005, except as contemplated by this Agreement or as set forth in the Company s Annual Report on Form 10-K for the year ended December 31, 2004 or the Company s Quarterly Reports on Form 10-Q or the Company s Current Reports on Form 8-K or the Company s proxy statement on Schedule 14A, in each case as amended, filed subsequent thereto and prior to the date hereof (excluding any disclosures set forth in any risk factor section, in any section relating to forward looking statements and any other disclosures included therein that are cautionary, predictive or

Table of Contents

forward-looking in nature) (the *Recent Company SEC Documents*), or on *Schedule 4.6* of the Company Disclosure Schedule, there has not been:

(a) any event that has had or is, individually or in the aggregate, reasonably expected to have a Company Material Adverse Effect;

(b) any damage, destruction or loss (whether or not covered by insurance) with respect to any of the assets of the Company or its Subsidiaries, exceeding $500,000 individually or $5,000,000 in the aggregate;

(c) any acquisition (by merger, consolidation, purchase of assets or otherwise) of any Person or business, or any sale of all or any portion of the Company s or its Subsidiaries assets, in each case exceeding $500,000 individually or $5,000,000 in the aggregate;

(d) any pledge of any assets of the Company or any of its Subsidiaries or the granting of any Lien on any of the assets of the Company or any of the Subsidiaries, in each case to secure indebtedness for borrowed money;

(e) any incurrence of Indebtedness other than in the ordinary course of business and consistent with past practice or any issuance of any debt securities by the Company or any of its Subsidiaries;

(f) any material change in the Company s accounting principles, except insofar as may have been required by a change in GAAP; or

(g) except as set forth on *Schedule 4.6* of the Company Disclosure Schedule, any action by the Company or its Subsidiaries that would not be permitted by (1) Section 6.3(ix)(capital expenditures) or (2) Section 6.3(xix)(facilities) if such action had been taken after the date hereof, provided that as to clause (1) such representation as to the Company s U.S. operations is only made through February 28, 2006 and as to the Company European operations such representation is only made through December 31, 2005; provided further that neither the Company nor its Subsidiaries has made or committed to make any capital expenditures since such dates outside of the ordinary course of business or inconsistent with past practice.

SECTION 4.7. *Litigation*. Except for environmental matters, which are exclusively addressed in Section 4.16, or as disclosed in the Recent Company SEC Documents, or as set forth on *Schedule 4.7* of the Company Disclosure Schedule, there are no claims, actions, suits, arbitrations, inquiries, proceedings or investigations pending or, to the Knowledge (after reasonable inquiry) of the Company, threatened against the Company or any of its Subsidiaries or any properties or rights of the Company or any of the Subsidiaries, before any Governmental Entity or other Person, which, individually or in the aggregate, has had or would, individually or in the aggregate, be reasonably expected to have a Company Material Adverse Effect or would materially impair or delay the ability of the Company to perform its obligations hereunder or prevent the consummation of the transactions contemplated hereby. Neither the Company, nor any of its Subsidiaries, nor any of the Company s or any of its Subsidiaries respective properties is subject to any order, judgment, writ, injunction or decree, which, individually or in the aggregate, has had or would, individually or in the aggregate, be reasonably expected to have a Company Material Adverse Effect.

SECTION 4.8. *No Undisclosed Liabilities*. Neither the Company nor any of its Subsidiaries has any liabilities of a nature required by GAAP to be reflected in a consolidated balance sheet or the notes thereto, except liabilities that (a) are accrued or reserved against in the most recent financial statements included in the Company SEC Documents filed prior to the date hereof or are reflected in the notes thereto, (b) were incurred in the ordinary course of business since September 30, 2005, (c) are incurred pursuant to the transactions contemplated by this Agreement, (d) have been discharged or paid in full prior to the date of this Agreement in the ordinary course of business or (e) would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

Table of Contents

SECTION 4.9. *Employee Benefit Plans; ERISA*.

(a) *U.S. Employee Benefit Plans; ERISA*.

(i) *Schedule 4.9(a)(i)* of the Company Disclosure Schedule sets forth (i) a list of all employee benefit plans (as defined in Section 3(3) of ERISA) and all other employee compensation and benefit policies, arrangements or payroll practices, including sick leave, vacation pay, salary continuation for disability, consulting or other compensation agreements, retirement, bonus (including any retention bonus plan), stock option, stock purchase, restricted stock, incentive, deferred compensation, retiree medical or life insurance, hospitalization, medical insurance, life insurance, scholarship programs, retirement, supplemental retirement, severance or other benefit plans, programs or arrangements, that are maintained, contributed to or sponsored by the Company or any of its Subsidiaries in the United States for the benefit of any current or former employee, officer or director of the Company or any of the Subsidiaries in the United States, and (ii) all employee pension benefit plans, as defined in Section 3(2) of ERISA, maintained or contributed to by the Company or any ERISA Affiliate or as to which the Company or any ERISA Affiliate is liable to contribute (the *Company U.S. Pension Plans*) (all such plans and arrangements listed in clauses (i) and (ii), (collectively, the *U.S. Employee Benefit Plans*). The Company has made available to Parent and Merger Sub (A) a true and complete copy of each written U.S. Employee Benefit Plan, (B) all current summary plan descriptions and all determination letters from the IRS with respect to any such U.S. Employee Benefit Plan, (C) all administrative service agreements and Form 5500s with respect to any such U.S. Employee Benefit Plan, (D) any related trust (or other funding or financing arrangement) with respect to a U.S. Employee Benefit Plan, and (E) all amendments to any such U.S. Employee Benefit Plan.

(ii) *Schedule 4.9(a)(ii)* of the Company Disclosure Schedule sets forth a list of all (x) material individual employment, consulting, termination, severance, change in control, retention, post-employment and other compensation agreements, arrangements and plans existing prior to the execution of this Agreement or which will exist prior to the Closing, which are currently in effect (or with respect to which there may be liability) between the Company or any of its Subsidiaries located in the United States and any current or former director, officer or employee thereof, including the name of such current or former director, officer or employee and (y) all such agreements, arrangements and plans under which the annual compensation or severance obligation exceeds $100,000 (collectively, the *Company U.S. Employment Agreements*). Copies of the Company U.S. Employment Agreements have been made available to Parent and Merger Sub.

(iii) (i) Each U.S. Employee Benefit Plan has been maintained in all material respects in accordance with its terms and the requirements of ERISA and the Code and other applicable laws, (ii) each of the Company and its Subsidiaries has performed all material obligations required to be performed by it under any U.S. Employee Benefit Plan and is not in any material respect in default under or in violation of any U.S. Employee Benefit Plan, and (iii) no action or proceeding (other than claims for benefits in the ordinary course) is pending or threatened in writing with respect to any U.S. Employee Benefit Plan by any current or former employee, officer or director of the Company or any of its Subsidiaries located in the United States that would be reasonably expected to have a Company Material Adverse Effect.

(iv) Each U.S. Employee Benefit Plan that is intended to be qualified under Section 401(a) of the Code or Section 401(k) of the Code has received a favorable determination letter from the IRS that it is so qualified and each related trust that is intended to be exempt from federal income taxation under Section 501(a) of the Code has received a determination letter from the IRS that it is so exempt and, to the Knowledge of the Company, no fact or event has occurred since the date of such determination letter or letters from the IRS that could reasonably be expected adversely to affect the qualified status of any such U.S. Employee Benefit Plan or the exempt status of any such trust.

(v) The Company and its ERISA Affiliates have complied in all material respects with the requirements of Section 4980B of the Code and Parts 6 and 7 of Subtitle B of Title I of ERISA regarding health care coverage under the U.S. Employee Benefit Plans.

(vi) None of the U.S. Employee Benefit Plans is a multiemployer plan (within the meaning of Section 3(37) or 4001(a)(3) of ERISA) (*Company Multiemployer Plan*) and neither the Company nor any of its ERISA Affiliates has withdrawn in a complete or partial withdrawal from any Company Multiemployer Plan, nor has any of them incurred any present or contingent liability due to the termination or reorganization of any Company Multiemployer Plan, nor are any of them reasonably expected to incur liability under Section 4063 or 4064 of ERISA with respect to any such Company Multiemployer Plan.

(vii) Neither the Company nor any ERISA Affiliate has ever maintained, sponsored, contributed to or otherwise incurred any present or contingent liability with respect to any single-employer plan , as defined in Section 4001(a)(15) of ERISA, and neither the Company nor any ERISA Affiliate has any present or contingent liability under Title IV of ERISA to the Pension Benefit Guaranty Corporation or to a trustee appointed under Section 4042 of ERISA, and no events have occurred and no circumstances exist that could reasonably be expected to result in any such liability to the Company or any ERISA Affiliate.

(viii) To the Knowledge of the Company, there is no liability for breaches of fiduciary duty in connection with the U.S. Employee Benefit Plans, and neither the Company nor any of its Subsidiaries or any party in interest or disqualified person with respect to the U.S. Employee Benefit Plans has engaged in a non-exempt prohibited transaction within the meaning of Section 4975 of the Code or Section 406 of ERISA.

(ix) Any and all contributions, premiums and other payments with respect to compensation or service before and through the Closing Date, or otherwise with respect to periods before and through the Closing Date, due from any of the Company or its ERISA Affiliates to, under or on account of each U.S. Employee Benefit Plan shall have been paid prior to the Closing Date or shall have been fully reserved and provided for or accrued on the Company financial statements.

(x) Except as set forth in *Schedule 4.9(a)(x)* of the Company Disclosure Schedule, neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby, whether alone, or in connection with any other event, will (i) result in any payment (including any retention bonuses, parachute payments or non-competition payments) becoming due to any employee or former employee or group of employees or former employees of the Company or any of its Subsidiaries in the United States; (ii) increase any benefits otherwise payable under any U.S. Employee Benefit Plan or any Company U.S. Employment Agreement; or (iii) result in the acceleration of the time of payment or vesting of any Options, Restricted Stock Units or any other rights or benefits. The Company has provided Parent with a reasonable good-faith estimate of the amount of any estimated severance payment (including estimated gross-up, if applicable) owed under the Company U.S. Employment Agreements due to the transactions contemplated by this Agreement and any subsequent termination of employment.

(b) *Non-U.S. Employee Benefit Plans*.

(i) *Schedule 4.9.(b)(i)* of the Company Disclosure Schedule sets forth all material employee benefit plans and arrangements maintained for the benefit of employees of the Company located outside of the United States (the *Non-U.S. Employee Benefit Plans*). All Non-U.S. Employee Benefit Plans are in compliance with all applicable Legal Requirements and have been operated in compliance with the terms thereof, including funding requirements, except to the extent that any non-compliance could not reasonably be expected to have a Company Material Adverse Effect. There are no claims pending or, to the Knowledge of the Company, threatened by employees of the Company s Subsidiaries located outside of the United States, with respect to non-compliance with the terms of any Non-U.S. Employee Benefit Plans or any applicable requirements, which individually or in the aggregate could reasonably be expected to have a Company Material Adverse Effect. No other events or conditions have occurred relating to the maintenance or operation of a Non-U.S. Employee Benefit Plan or with respect to the employment of employees of any Company Subsidiary located outside of the United States, which individually or in the aggregate could reasonably be expected to have a Company Material Adverse Effect.

(ii) *Schedule 4.9(b)(ii)* of the Company Disclosure Schedule sets forth a list of all individual employment, consulting, termination, severance, change in control, retention, post-employment and other compensation agreements, arrangements and plans, (other than statutorily mandated agreements, arrangements and plans) existing prior to the execution of this Agreement or which will exist prior to Closing, which are currently in effect (or with respect to which there may be liability) between a non-US Subsidiary of the Company and any current or former director, officer or employee thereof and under which the annual compensation or severance obligation is at least $100,000 (collectively, the *Company Non-U.S. Employment Agreements*).

(iii) Each Non-U.S. Employee Benefit Plan that is intended to be registered for tax purposes has been registered with the applicable government agency, and, to the Knowledge of the Company, no fact or event has occurred since the date of such registration that could reasonably be expected adversely to affect such registration.

(iv) Any and all contributions, premiums and other payments with respect to compensation or service before and through the Closing Date, or otherwise with respect to periods before and through the Closing Date, due from the Company s Subsidiaries located outside of the United States under or on account of each Non-U.S. Employee Benefit Plan shall have been paid prior to the Closing Date or shall have been fully reserved and provided for or accrued on the Company financial statements.

(v) Except as set forth in *Schedule 4.9(b)(v)* of the Company Disclosure Schedule, neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby, whether alone, or in connection with any other event, will (i) result in any payment (including any retention bonuses, parachute payments or non-competition payments) becoming due to any employee or former employee or group of employees or former employees of the Company s Subsidiaries located outside of the United States; (ii) increase any benefits otherwise payable under any Non-U.S. Employee Benefit Plan or any Company Non-U.S. Employment Agreement; or (iii) result in the acceleration of the time of payment or vesting of any Options, Restricted Stock Units or any other rights or benefits.

SECTION 4.10. *Labor and Employment Matters*. Except as to clauses (b), (c), (e) and (f), which, individually or in the aggregate, would not reasonably be expected to have a Company Material Adverse Effect:

(a) Except as provided in *Schedule 4.10(a)* of the Company Disclosure Schedule and, with respect to any of the Company s Subsidiaries located outside of the United States, any industry-level collective bargaining agreement, neither the Company nor its Subsidiaries is a party to any collective bargaining agreement or other current labor agreement with any labor union or organization, and there is no question involving current union representation of employees of the Company or any of its Subsidiaries, nor does the Company or any of its Subsidiaries have any Knowledge of any activity or proceeding of any labor organization (or representative thereof) or employee group (or representative thereof) to organize any such employees.

(b) There is no unfair labor practice charge or grievance arising out of a collective bargaining agreement or other grievance procedure pending, or, to the Knowledge of the Company, threatened against the Company or any of its Subsidiaries located in the United States.

(c) Except as provided in *Schedule 4.10(c)* of the Company Disclosure Schedule, there is no complaint, lawsuit or proceeding in any forum by or on behalf of any present or former employee, any applicant for employment or any classes of the foregoing, alleging breach of any express or implied contract of employment, any law or regulation governing employment or the termination thereof or other discriminatory, wrongful or tortious conduct in connection with the employment relationship pending, or, to the Knowledge of the Company, threatened against the Company or any of its Subsidiaries.

(d) There is no strike, slowdown, work stoppage or lockout pending, or, to the Knowledge of the Company, threatened, against or involving the Company or any of its Subsidiaries.

(e) The Company and each its Subsidiaries are in compliance with all applicable Laws in respect of employment and employment practices, terms and conditions of employment, wages, hours of work and occupational safety and health.

(f) Except as provided in *Schedule 4.10(f)* of the Company Disclosure Schedule, as of the date of this Agreement, there is no proceeding, claim, suit, action or governmental investigation pending or, to the Knowledge of the Company, threatened, with respect to which any current or former director, officer, employee or agent of the Company or any of its Subsidiaries is claiming indemnification from the Company or any of its Subsidiaries.

SECTION 4.11. *Information Supplied*. None of the information supplied by the Company for inclusion or incorporation by reference in the registration statement on Form S-4 or any amendment or supplement thereto pursuant to which shares of Parent Common Stock issuable in the Merger will be registered with the SEC (the *Registration Statement*) shall (i) when filed with the SEC or other regulatory agency, (ii) when it is declared effective by the SEC, and (iii) at the Effective Time, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. None of the information to be supplied by the Company for inclusion or incorporation by reference in the Proxy Statement shall (i) when filed with the SEC or other regulatory agency, (ii) when it (or any amendment thereof or supplement thereto) is mailed to the holders of Company Common Stock, (iii) at the times of each of the Company Shareholders Meeting and the Parent Shareholders Meeting, and (iv) at the Effective Time, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. If at any time prior to the Effective Time, any event with respect to the Company, or with respect to information supplied by the Company specifically for inclusion in the Proxy Statement or Registration Statement, shall occur which is required to be described in an amendment of, or supplement to, the Proxy Statement or Registration Statement, such event shall be so described by the Company and promptly provided to Parent and Merger Sub. All documents that the Company is responsible for filing with the SEC in connection with the transactions contemplated herein, to the extent relating to the Company or other information supplied by the Company for inclusion therein, will comply as to form, in all material respects, with the provisions of the Exchange Act, and each such document required to be filed with any Governmental Entity (other than the SEC) will comply in all material respects with the provisions of any Legal Requirement as to the information required to be contained therein. Notwithstanding the foregoing the Company makes no representation or warranty with respect to the information supplied or to be supplied by Parent or Merger Sub or its Affiliates for inclusion or incorporation by reference in the Proxy Statement or the Registration Statement.

SECTION 4.12. *Permits*. Except for environmental matters which are addressed exclusively in Section 4.16, the permits, licenses, approvals, variances, exemptions, orders, franchises, certifications and authorizations from Governmental Entities and accreditation and certification agencies, bodies or other organizations, including building permits and certificates of occupancy (collectively, *Permits*), held by the Company and its Subsidiaries are valid and sufficient in all respects for all business presently conducted by the Company and its Subsidiaries and for the operation of the Company s properties, except as would not, individually or in the aggregate, be reasonably expected to have a Company Material Adverse Effect. All applications required to have been filed for the renewal of the Company Permits have been duly filed on a timely basis with the appropriate Governmental Entities, and all other filings required to have been made with respect to such Company Permits have been duly made on a timely basis with the appropriate Governmental Entities, except for failures to file which, individually or in the aggregate, have not constituted and would not reasonably be expected to constitute a Company Material Adverse Effect. Neither the Company nor any of its Subsidiaries has received any claim or notice nor has any Knowledge (after reasonable inquiry) indicating that the Company or any of its Subsidiaries is currently not in compliance with the terms of any such Permits, except where the failure to be in compliance would not, individually or in the aggregate, be reasonably expected to have a Company Material Adverse Effect.

Table of Contents

SECTION 4.13. *Compliance with Law*. Except for environmental matters, which are exclusively addressed in Section 4.16, to the Company s Knowledge (after reasonable inquiry), the Business is not being, and has not since January 1, 2004 been, conducted in violation of any Legal Requirement, except such violations which, individually or in the aggregate, would not be reasonably expected to have a Company Material Adverse Effect. To the Knowledge (after reasonable inquiry) of the Company, no investigation, review or inquiry by any Governmental Entity with respect to the Company or any of the Company Subsidiaries is pending or is threatened that would reasonably be expected to have a Company Material Adverse Effect.

SECTION 4.14. *Taxes*. Except as disclosed in *Schedule 4.14* of the Company Disclosure Schedule:

(a) The Company and each of its Subsidiaries has duly and timely filed (taking into account any extension of time within which to file) all material Tax Returns required to be filed by them in the manner provided by law and all such Tax Returns were correct and complete in all material respects.

(b) The Company and each of its Subsidiaries has (i) timely paid (or had paid on its behalf) all material Taxes (whether or not shown on any Tax Return) that are required to be paid by it and, with respect to any period ending on or prior to September 30, 2005 for which Tax Returns have not yet been filed or for which Taxes are not yet due or owing, has made accruals for the projected amount of such Taxes in its books and records and in the balance sheet dated September 30, 2005 contained in the Company SEC Documents filed prior to the date of this Agreement and (ii) has complied in all material respects with the applicable Legal Requirements relating to the payment and withholding of any material Taxes (including any Taxes required to have been withheld in connection with amounts paid or owing to any employee, independent contractor, creditor, shareholder or other Third Party and sales, use and gross receipts Taxes), has duly and timely withheld and paid over to the appropriate Governmental Entity all amounts so withheld and paid under all applicable Legal Requirements, and has duly and timely filed all material Tax Returns with respect to such withheld Taxes.

(c) There are no material Liens for Taxes upon the assets of the Company or any of its Subsidiaries, other than Permitted Liens.

(d) No deficiencies for material Taxes have been asserted or assessed or threatened in writing by any Governmental Entity against the Company or any of its Subsidiaries.

(e) No requests for waivers of the time to assess any material amount of Taxes against the Company and its Subsidiaries have been granted and remain in effect or are pending, and no claim has been asserted in writing by any Governmental Entity in any jurisdiction where the Company and its Subsidiaries does not file Tax Returns that the Company or any of its Subsidiaries is or may be subject to taxation by such jurisdiction, and none of the Company and its Subsidiaries has incurred any material liability for the excise tax on redetermined rents, redetermined deductions and excess interest described in section 857(b)(7) of the Code. Neither the Company nor any Subsidiary is a party to any litigation or administrative proceeding relating to Taxes (other than litigation dealing with property tax valuations).

(f) The Company, for all taxable years beginning with its date of formation has always been, and will be for the taxable year or portion thereof that will end with and include the Merger, a real estate investment trust within the meaning of Section 856 of the Code (a *REIT*) and has qualified as a REIT for all such years, and (ii) has not taken any action or omitted to take any action which would reasonably be expected to result in a successful challenge by the IRS to its status as a REIT, and no such challenge is pending, or is or has been threatened in writing.

(g) All Taxes that have been incurred since the date of the financial statements of the Company as set forth in the Recent Company SEC Documents have been incurred in the ordinary course of business in amounts consistent with prior periods (adjusted for changes in ordinary course operating results).

(h) True, correct and complete copies of all U.S. federal income Tax Returns for the Company and the Subsidiaries that are treated as corporations or partnerships for U.S. federal income tax purposes, with respect to the taxable years commencing on or after January 1, 2002 have been delivered or made available to Parent.

(i) The Company has not incurred, and, to the Company s Knowledge, no event has occurred, and no condition or circumstance exists, that will make it likely that the Company will at any time prior to, but not including the Effective Time of the Merger, incur, any liability for any material Taxes under Sections 857(b), 860(c) or 4981 of the Code. Except as disclosed on the Company s Tax Returns, neither the Company nor any Subsidiary (other than a Taxable REIT Subsidiary) has engaged at any time in any prohibited transactions within the meaning of Section 857(b)(6) of the Code.

(j) Other than regular quarterly dividends in amounts consistent with the amounts permitted under Sections 6.6(b) and (c) of this Agreement, the Company will not be required to make distributions to its shareholders in order to maintain its REIT status or to avoid the imposition of corporate level Tax or excise Tax under Section 4981 of the Code (determined without regard to the effects of the Merger).

(k) Each Subsidiary other than any such Subsidiary that is a taxable REIT subsidiary within the meaning of Section 856(l) of the Code (a *Taxable REIT Subsidiary*) or a qualified REIT subsidiary within the meaning of Section 856(i)(2) of the Code (a *Qualified REIT Subsidiary*), has since the date it became a subsidiary been, and will through the Effective Time of the Merger be, classified for U.S. federal income tax purposes as a partnership or disregarded entity, as the case may be, and not as a corporation or an association taxable as a corporation, or a publicly traded partnership within the meaning of Section 7704(b) of the Code. Each Company Subsidiary that is a corporation has always been a Qualified REIT Subsidiary or a Taxable REIT Subsidiary and each Subsidiary that is a Taxable REIT Subsidiary and will continue to be a Taxable REIT Subsidiary through the Closing Date.

(l) The Company is not a foreign person within the meaning of Section 1445(b)(2) of the Code, and to the Company s Knowledge the Company is a domestically-controlled REIT within the meaning of Section 897(h) of the Code and Treasury Regulation Section 1.897-1(c)(2)(i).

(m) The Company does not have any earnings and profits attributable to the Company or any other corporation in any non-REIT year within the meaning of Section 857 of the Code.

(n) None of the Company and its Subsidiaries (i) is a party to any Tax allocation or sharing agreement (other than such an agreement that is exclusively between or among the Company and its wholly owned Subsidiaries, either directly or indirectly) or (ii) has any liability for the Taxes of any Person other than the Company and its Subsidiaries (A) under Treasury Regulation Section 1.1502-6 (or any similar provision of state, local or foreign Legal Requirement) or (B) as a transferee or successor or (C) by Contract or otherwise (not including any gross-ups for withholding Taxes or tax indemnities for equipment leasing).

(o) Neither the Company nor any Subsidiary holds any asset the disposition of which would subject the Company to taxation under Section 337(d) of the Code, the Treasury Regulations thereunder or IRS Notice 88-19 (or any comparable provisions of state or local law). None of the Company and its Subsidiaries holds any asset the disposition of which would be subject to rules similar to Section 1374 of the Code.

(p) The Company has the right to make or to require, and, after the Effective Time of the Merger will continue to have the right to make or to require, each Subsidiary that is treated for U.S. federal income tax purposes as a partnership to make, in the manner provided in Section 1.754-1(b) of the Treasury Regulations, an election under Section 754 of the Code (and any corresponding elections under state or local tax law) (a *Section 754 Election*) to adjust the basis of its property as provided in Sections 734(b) and 743(b) of the Code. At no time prior to the Merger will there have been a revocation or attempted revocation of a Section 754 Election with respect to any Subsidiary that is treated for federal income tax purposes as a partnership.

(q) Neither the Company nor any of its Subsidiary has constituted either a distributing corporation or a controlled corporation (within the meaning of Section 355(a)(1)(A) of the Code) in a distribution of stock qualifying for tax-free treatment under Section 355 of the Code (i) in the two years prior to the date of this Agreement or (ii) in a distribution which could otherwise constitute part of a plan or series of related transactions (within the meaning of Section 355(e) of the Code) in conjunction with the transactions contemplated by this Agreement.

(r) Neither the Company nor any Subsidiary has (i) agreed to or is required to make any adjustments pursuant to Section 481(a) of the Code or any similar provision of Law or has any application pending with any Governmental Entity requesting permission for any changes in accounting methods, (ii) executed or entered into a closing agreement pursuant to Section 7121 of the Code or any similar Legal Requirement, (iii) requested any extension of time within which to file any material Tax Return, which Tax Return has since not been filed, (iv) granted any extension of the statute of limitations for the assessment or collection of Taxes, or otherwise entered into or filed any agreements, arrangements, waivers or objections extending the statutory period or providing for an extension of time with respect to the assessment or reassessment of Taxes or the filing of any Tax Return, or any payment of Taxes, (v) granted to any Person (other than to an employee of the Company) any power of attorney that is currently in force with respect to any material Tax matter, or (vi) received a ruling from any Governmental Entity in respect of Taxes.

(s) Neither the Company nor any of its Subsidiaries is subject to any Tax Protection Agreements.

(t) Except as set forth on *Schedule 4.14* of the Company Disclosure Schedule no amount has been paid by the Company or any of the Company s ERISA Affiliates, and no amount is expected to be paid by the Company or any of the Company s ERISA Affiliates, which would be subject to the provisions of Section 162(m) of the Code such that all or a part of such payments would not be deductible by the payor.

(u) The aggregate basis of the assets that will be sold to Merger Sub in the Merger exceeds the amount of the liabilities Merger Sub is assuming and taking the assets subject to by not less than $500 million, as determined for federal income tax purposes.

SECTION 4.15. *Properties*.

(a) The Company or one of its Subsidiaries (each a *Company Property Owner*) owns fee simple title to each of the real properties (or the applicable portion thereof) set forth on Schedule III entitled, Real Estate and Accumulated Depreciation , of the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2004 as being owned in fee (and which do not otherwise qualify as Leased Properties as defined below), as adjusted to reflect purchases and sales disclosed in the Company SEC Documents prior to the date hereof or on *Schedule 4.15(a)* or *Schedule 4.6* of the Company Disclosure Schedule (together with the land underlying such properties and all buildings, structures and other improvements and fixtures located on or under such land and all easements, rights and other appurtenances thereto, collectively, the *Company Properties*), and a valid leasehold estate to each of the real properties identified as being leased and set forth on *Schedule 4.15(a)(i)* or *Schedule 4.6* of the Company Disclosure Schedule (collectively, the *Leased Properties*) pursuant to leases, subleases or other agreements (together with any amendments or modifications thereto, collectively, the *Company Leases*). The Company has delivered or made available to Parent true and complete copies of the Company Leases, and except as would not have a Company Material Adverse Effect, each Company Lease is valid, binding and in full force and effect. The Company Properties and the Leased Properties are all of the real properties owned or leased by the Company and its Subsidiaries. Except as would not, individually or in the aggregate, be reasonably expected to have a Company Material Adverse Effect, the interests of the Company Property Owners in the Company Properties and the Leased Properties are good and marketable and the same are owned free and clear of Liens except for Permitted Liens. No written termination of or notice of default has been received by the Company or any of its Subsidiaries under a Company Lease, and to the Company s Knowledge no event has occurred which, with due notice or lapse of time or both, would constitute a default or violation thereunder or which might interfere with the quiet enjoyment of the tenant under any Company Lease, except as would not, individually or in the aggregate, be reasonably expected to have a Company Material Adverse Effect.

(b) American Land Title Association (or TLTA, CLTA or other similar local equivalent) policies of title insurance (or marked title insurance commitments having the same force and effect as title insurance policies) have been issued by national title insurance companies insuring the good and marketable fee simple or leasehold, as applicable, title of the Company or its Subsidiaries, as applicable, with respect to each of the Company Properties and the Leased Properties that are located in the United States, with the only exceptions or exclusions from such coverage being Permitted Liens, except as would not have a Company Material Adverse Effect. Except as would not have a Company Material Adverse Effect, each such policy is in full force and effect and no claims have been made or are pending or, to the Knowledge of the Company, threatened thereunder. The Company has delivered or made available to Parent true and complete copies of all such policies except where the failure to do so would not have a Company Material Adverse Effect.

(c) The Company and the Subsidiaries have good title to the personal properties and assets (i) reflected on the consolidated financial statements included in the Company SEC Documents or acquired since the date of such financial statements and (ii) sufficient for the conduct and operation of their respective businesses as currently conducted, except for properties and assets not material in the aggregate to the Business and disposed of in the ordinary course of business consistent with past practice and except for such defects in title which, individually or in the aggregate, would not have a Company Material Adverse Effect.

(d) Except as listed in *Schedule 4.15(d)* of the Company Disclosure Schedule or which, individually or in the aggregate, would not reasonably be expected to have a Company Material Adverse Effect, each Company Property and Leased Property (i) is in good operating condition and repair and is structurally sound and free of latent or patent structural, mechanical or other significant defects, with no alterations or repairs being required thereto under applicable Legal Requirements or insurance company requirements; (ii) has not suffered any casualty or other damage that has not been repaired; (iii) consists of sufficient land, parking areas, driveways and other improvements and lawful means of access to permit the use thereof in the manner and for the purposes to which it is presently devoted; and (iv) is otherwise suitable, sufficient, adequate and appropriate in all respects (whether physical, structural, legal, practical or otherwise) for its current use, operation and occupancy, except, in each such case, to the extent that failure to meet such standards does not impair or adversely affect the manner or extent of the current use, operation or occupancy of such property. Except as would not have a Company Material Adverse Effect, the Business will, at the Closing Date, include all right, title and interest in and to all assets that are used primarily in or that are being held primarily for use or are otherwise necessary in the operation of the Business as currently conducted.

(e) Except as set forth on *Schedule 4.15(e)* of the Company Disclosure Schedule or which, individually or in the aggregate, would not reasonably be expected to have a Company Material Adverse Effect, there are no (i) pending or, to the Knowledge of the Company, threatened (in writing) requirements by any insurance company which has issued an insurance policy covering any Company Property or Leased Property which require any repairs or work to be done on any Company Property or Leased Property, (ii) condemnation, eminent domain or rezoning or proceedings that are pending or, to the Knowledge of the Company, threatened (in writing) with respect to any portion of any of the Company Properties or Leased Properties; (iii) pending or, to the Knowledge of the Company (after reasonable inquiry), threatened (in writing) action or proceeding by any Governmental Entity for assessment or collection of taxes, impact fees or special assessments affecting any part of any Company Property or Leased Property; or (iv) zoning, building, land-use, fire, safety and signage or other applicable Laws (including to the Knowledge of the Company, Title III of the Americans with Disabilities Act, 42 U.S.C. §§ 12181-12213, as amended from time to time) or orders that are presently being violated or will be violated by the continued maintenance, operation or use of any buildings or other improvements on any of the Company Properties or Leased Properties or by the continued maintenance, operation or use of the parking areas related thereto.

(f) Except as set forth in *Schedule 4.15(f)*, *Schedule 4.18* or *Schedule 6.3* of the Company Disclosure Schedule, no Company Property or Leased Property is subject to any sales contract, option, right of first refusal or similar agreement or arrangement in favor of any Third Party the exercise of which would, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect.

(g) Except in the ordinary course of business consistent with past practice, neither the Company nor any of its Subsidiaries has distributed or authorized the distribution of any localized, mass or direct mailing which provides any coupons, discounts or any other rental concession, rebates or free rent for any new or existing tenants of any Company Property or any Leased Property which would be effective after the Closing Date.

SECTION 4.16. *Environmental*. Except as would not, individually or in the aggregate, be reasonably expected to have a Company Material Adverse Effect, or as disclosed in the Company SEC documents or on *Schedule 4.16* of the Company Disclosure Schedule:

(a) (i) each of the Company Properties, the Leased Properties and the Business is in compliance with all applicable Environmental Laws; (ii) there is no litigation, investigation, request for information or other proceeding pending, or, to the Knowledge of the Company (after reasonable inquiry), threatened against the Company or any Subsidiary under any applicable Environmental Laws; and (iii) the Company has not received any written notice (I) of violation or potential liability under any applicable Environmental Laws that remains unresolved, or (II) that any judicial, administrative or compliance order has been issued against the Company or any Subsidiary which remains unresolved.

(b) Neither the Company nor any Subsidiary has used, generated, stored, treated or handled any Hazardous Material on the Company Properties or Leased Properties, in a manner that would reasonably be expected to result in liability under Environmental Laws, and there are currently no underground storage tanks, active or abandoned, used for the storage of Hazardous Materials on, in or under any Company Properties or Leased Properties in violation of applicable Environmental Laws. Neither the Company nor any Subsidiary has caused a Release of Hazardous Materials on either the Company Properties or the Leased Properties and, to the Knowledge of the Company, no Third Party has caused a Release or threatened Release of Hazardous Materials on either the Company Properties or Leased Properties.

(c) To the Knowledge of the Company, all Hazardous Material which has been removed from any Company Properties or Leased Properties was handled, transported and disposed of at the time of removal in compliance with applicable Environmental Laws.

(d) No representation or warranty is made under this Section 4.16 with respect to the contents of individual storage units of the Company and its Subsidiaries unless the Company has Knowledge of a Release of Hazardous Materials from an individual storage unit on either the Company Properties or the Leased Properties.

SECTION 4.17. *Intellectual Property*. Except as would, individually or in the aggregate, be reasonably expected to have a Company Material Adverse Effect, (a) the Company and its Subsidiaries own, or are licensed or otherwise possess valid rights to use, all patents, trademarks, service marks, trade names, trade secrets, domain names, computer software, copyrights, inventions, processes, discoveries, formulas, research and development, and applications and registrations for any of the foregoing, in each case, which are material to the conduct of the business of the Company and its Subsidiaries taken as a whole, (collectively, the *Intellectual Property Rights*); (b) to the Company s Knowledge, there are no conflicts with or infringements of any Intellectual Property Rights by any Third Party, and the conduct of the business of the Company and its Subsidiaries does not conflict with or infringe any intellectual property or other proprietary right of any Third Party; and (c) there are neither any outstanding nor, to the Company s Knowledge, threatened disputes or disagreements with respect to any of the Intellectual Property Rights.

SECTION 4.18. *Material Contracts*.

(a) As of the date hereof, except as set forth on *Schedule 4.18* of the Company Disclosure Schedule or disclosed in the Recent Company SEC Documents, neither the Company nor any of its Subsidiaries is a party to or bound by:

(i) any Contract which contains restrictions with respect to payment of dividends or any other distribution in respect of the capital stock or other equity interests of the Company or any of its Subsidiaries;

Table of Contents

(ii) any Contract relating to development, construction, capital expenditures or purchases of material, supplies, equipment or other assets or properties (other than purchase orders for such items in the ordinary course of business) in each case requiring aggregate payments by the Company or any of its Subsidiaries in excess of $2,000,000 during their remaining term following the Closing Date;

(iii) any Contract relating to (A) Indebtedness of the Company or any of its Subsidiaries in excess of $1,500,000, (B) any guarantee or assumption of other obligations or reimbursement of any maker of a letter of credit except for agreements entered into in the ordinary course consistent with past practice which agreements relate to obligations which do not exceed $1,500,000 in the aggregate for all such agreements;

(iv) any Contract limiting in any material respect the ability of the Company or any of its Subsidiaries to engage in the Business or to compete in such Business with any Person;

(v) any confidentiality agreements entered into by the Company with a Third Party since January 1, 2004 relating to any actual or potential business combination, merger, sale of the Company, a sale or other divestiture in a single or series of related transactions of more than 25% of the Company s capital stock, assets or operations, or any other transaction that would reasonably be expected to result in a change of control of the Company (each a *Third Party Confidentiality Agreement*);

(vi) any hedging agreement or other financial agreement or arrangement designed to protect the Company or its Subsidiaries against fluctuations in commodities prices or exchange rates;

(vii) any Contract or executed binding letter of intent involving the future disposition or acquisition of assets or Properties, or any merger, consolidation or similar business combination transaction;

(viii) any Contract involving any joint venture, partnership, strategic alliance, shareholders agreement, co-marketing, co-promotion, joint development or similar arrangement (other than Contracts with respect to Indebtedness), in each case involving aggregate payments or obligations by the Company or any of its Subsidiaries in excess of $500,000;

(ix) any Contract involving any resolution or settlement of any actual or threatened litigation, arbitration, claim or other dispute which has not been fully performed, other than, in each case, any such Contracts concerning the routine collection of debts entered into in the ordinary course of business and other than, in each case, providing for payments under any such Contract by the Company or any of its Subsidiaries in an amount less than $75,000;

(x) other than the Articles of Incorporation, the By-Laws or applicable insurance policies, any Contract providing for continuing indemnification of any of the Company s directors, officers or employees (except, in each case, for reimbursement of employment related costs or expenses in the ordinary course);

(xi) any management agreement to which the Company or any of its Subsidiaries is a party as manager;

(xii) any guarantee of third party obligations by the Company or any of its Subsidiaries;

(xiii) any lease for real property in which the amount of payments which the Company is required to make on an annual basis exceeds $100,000;

(xiv) any Contract with an accounting firm, consultant or advisor related to compliance with any Legal Requirements of the Securities and Exchange Commission or other jurisdictional equivalents thereto;

(xv) any Contract entered into outside of the ordinary course of business (including any lease or sublease to which the Company or any of its Subsidiaries is party as lessor or tenant outside of the ordinary course of business) not disclosed pursuant to any other clause of this Section 4.18 or involving payments or obligations in excess of $200,000 by the Company or any of its Subsidiaries which are not terminable by the Company or its Subsidiaries without penalty or premium on sixty days prior notice;

The foregoing Contracts to which the Company or any of its Subsidiaries is a party or are bound are collectively referred to herein as the *Company Material Contracts*. Notwithstanding anything above, in the case of clauses (ii), (iii), (vi), (vii), (viii), (xi), and (xii), Company Material Contracts shall not include any Contract that (1) is terminable upon less than 60-days notice without penalty or premium, (2) will be fully satisfied at or prior to the Closing or (3) provides for aggregate payments by the Company or any of its Subsidiaries of less than $200,000 during the remaining term of such Contract following the Closing Date.

(b) Neither the Company nor any of its Subsidiaries are in breach or default and, to the Company s Knowledge, no other party to any of the Company Material Contracts is in breach or default (and no event has occurred which with notice or the lapse of time or both would constitute a default or violation) under any of the Company Material Contracts, except for such defaults which, individually or in the aggregate, would not be reasonably expected to have a Company Material Adverse Effect.

SECTION 4.19. *Brokers*. No broker, finder or investment banker (other than Banc of America Securities LLC and Citigroup Global Markets Inc. (collectively, the *Financial Advisors*)) is entitled to any brokerage, finder s or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by and on behalf of the Company. The Company has heretofore furnished to Parent and Merger Sub true and complete information concerning the financial arrangements between the Company and the Financial Advisors pursuant to which such firms would be entitled to any payment as a result of the transactions contemplated hereunder. The Financial Advisors are entitled to a fee in the amount set forth on *Schedule 4.19* of the Company Disclosure Schedule including amounts that have been previously paid and are not entitled to any other brokerage, finder s or other fee or commission in connection with the transactions contemplated by this Agreement.

SECTION 4.20. *Opinion of Financial Advisor*. Each Financial Advisor has rendered to the Company Board an opinion to the effect that, as of the date of the opinion and subject to the assumptions and limitations set forth therein, the Exchange Ratio is fair, from a financial point of view, to the holders of Company Common Stock (except Parent, Merger Sub and their respective Affiliates). A true and correct copy of such opinion will be delivered to Merger Sub solely for informational purposes after receipt thereof by the Company.

SECTION 4.21. *Anti-Takeover Legal Requirements*. Prior to the date of this Agreement, the Company has taken all actions necessary to exempt under or make not subject to the requirements of any moratorium , control share , fair price , affiliate transaction , business combination or othe takeover Legal Requirements and regulations of any state, including the provisions of Section 23B.19 of the WBCA and any other state takeover law or state law that purports to limit or restrict business combinations or the ability to acquire or vote shares (collectively, *Takeover Statutes*): (i) the execution and delivery of this Agreement; (ii) the Merger; and (iii) the transactions contemplated hereby.

(a) The Company and the Company Board have taken all appropriate and necessary actions to render any and all limitations on ownership of Company Common Stock as set forth in the Restated Articles of Incorporation, inapplicable to the Merger and the other transactions contemplated thereby.

SECTION 4.22. *Rights Agreement Amendment*. The Company and the Rights Agent under the Rights Agreement have duly executed and delivered an amendment to the Rights Agreement (without redeeming the Rights identified therein), and shall maintain in effect all necessary action (i) to render the Rights Agreement inapplicable with respect to the Merger, this Agreement and the transactions contemplated hereby; (ii) to ensure that (x) neither Parent nor Merger Sub nor any of their Affiliates (as such term is defined in the Rights Agreement) or Associates (as such term is defined in the Rights Agreement) is considered to be an Acquiring Person (as such term is defined in the Rights Agreement) and (y) the provisions of the Rights Agreement, including the occurrence of a Distribution Date (as such term is defined in the Rights Agreement), are not and shall not be triggered by reason of the announcement or consummation of the Merger, this Agreement or the consummation of any of the other transactions contemplated hereby; and (iii) to ensure that the Rights shall automatically terminate on and as of the Effective Time be void and of no further force or effect. The Company has made available to Merger Sub a true, complete and correct copy of the Rights Agreement, as amended, and the Rights Agreement has not been further modified or amended.

SECTION 4.23. *Insurance*. The Company and its Subsidiaries have obtained and maintained in full force and effect insurance in such amounts, on such terms and covering such risks as management of the Company believes is reasonable for its business. The Company or the applicable Company Subsidiary has paid, or caused to be paid, all premiums due under such policies and is not in default with respect to any obligations under such policies in any material respect. All such policies are valid, outstanding and enforceable and neither the Company nor any of its Subsidiaries has agreed to modify or cancel any of such insurance policies nor has the Company received any notice of any actual or threatened modification or cancellation of such insurance other than in the ordinary course of business and consistent with past practice or such as is normal and customary in the Company s industry. No such policy will terminate as a result of the Merger.

SECTION 4.24. *Voting Requirements*. Except as set forth on *Schedule 4.24* of the Company Disclosure Schedule, the only vote required of the holders of the Company s capital stock to adopt this Agreement and to approve the Merger is the affirmative majority vote of the outstanding shares of Company Common Stock.

SECTION 4.25. *Affiliate Transactions*. Since January 1, 2005, there have been no transactions or series of related transactions, or to the Knowledge of the Company (after reasonable inquiry), and except as set forth on *Schedule 6.3* of the Company Disclosure Schedule, currently proposed transactions or series of related transactions, entered or to be entered into by the Company or any of its Subsidiaries which are of the type required to be disclosed, or would be required to be disclosed if consummated, by the Company pursuant to Item 404 of Regulation S-K under the Securities Act that are not so disclosed or have not been disclosed to Parent. True and complete copies of any Contracts relating to any such consummated transactions have been delivered or made available to Parent prior to the date hereof.

SECTION 4.26. *Investment Company Act of 1940*. Neither the Company nor any of the Company Subsidiaries is, or on the Closing Date will be, required to be registered as an investment company under the Investment Company Act of 1940, as amended.

SECTION 4.27. *Disclaimer of Other Representations and Warranties*. No representation or warranty is made in this Article IV with respect to the contents of individual storage units of the Company and its Subsidiaries unless the Company has Knowledge of an event or circumstance related to an individual storage unit. The Company does not make, and has not made, any representations or warranties in connection with the Merger and the transactions contemplated hereby other than those expressly set forth in or made pursuant to this Agreement. Except as expressly set forth herein, no Person has been authorized by the Company to make any representation or warranty relating to the Company or any of its Subsidiaries or their respective businesses, or otherwise in connection with the Merger and the transactions contemplated hereby and, if made, such representation or warranty may not be relied upon as having been authorized by the Company.

ARTICLE V.

REPRESENTATIONS AND WARRANTIES

OF PARENT AND MERGER SUB

Simultaneously with the execution and delivery of this Agreement, Parent and Merger Sub shall deliver to the Company a disclosure schedule with numbered sections corresponding to the relevant sections in this Agreement (the *Parent Disclosure Schedule*). Any exception or qualification set forth in the Parent Disclosure Schedule with respect to a particular representation, warranty or covenant contained in this Agreement shall be deemed to be an exception or qualification with respect to all other applicable representations, warranties and covenants contained in this Agreement to the extent any description of facts regarding the event, item or matter disclosed is adequate so as to make readily apparent or otherwise make the Company reasonably aware that such exception or qualification is applicable to such other representations, warranties or covenants whether or not such exception or qualification is so numbered. Except as otherwise set forth in the Parent Disclosure Schedule, Parent and Merger Sub, jointly and severally, hereby represent and warrant to the Company as follows:

SECTION 5.1. *Organization and Qualification.*

(a) Parent is a corporation duly organized, validly existing, and in good standing under the laws of the State of California and has all requisite power and authority to own its assets and to carry on its business as presently conducted. Parent has all requisite power and authority to execute, deliver, and perform its obligations under this Agreement and to consummate the transactions contemplated hereby.

(b) Merger Sub is a limited liability company duly organized, validly existing with active status under the laws of the State of Delaware and has all requisite power and authority to own its assets and to carry on its business as presently conducted. Merger Sub has all requisite power and authority to execute and deliver, and perform its obligations under, this Agreement and to consummate the transactions contemplated hereby. Parent owns directly or indirectly substantially all of the issued and outstanding interests of Merger Sub.

SECTION 5.2. *Capitalization.*

(a) The authorized capital stock of Parent consists of: (i) 200,000,000 shares of Parent Common Stock, (ii) 200,000,000 shares of equity stock, par value $.01 per share, and (iii) 50,000,000 shares of preferred stock of Parent. As of March 1, 2006: (A) 129,786,793 shares of Parent Common Stock were issued and outstanding, all of which were validly issued, fully paid and nonassessable; (B) 8,744.193 shares of Equity Stock, Series A (represented by 8,774,193 depositary shares) which rank on parity with the Parent Common Stock; (C) 1,702,536 shares of preferred stock of the Parent (including preferred stock represented by 102,536,000 depositary shares were issued and outstanding and 9,000 shares were reserved for issuance upon the exchange of certain preferred units; (D) 1,784,145 shares of Parent Common Stock were reserved for issuance upon the exercise of outstanding stock options or vesting of outstanding restricted stock units under the Parent stock option and incentive plans listed in *Schedule 5.2* of the Parent Disclosure Schedule; and (E) 9,012,128 shares of common stock reserved for issuance upon conversion of the Equity Stock Depositary Shares and partnership units listed in *Schedule 5.2* of the Parent Disclosure Schedule.

(b) All outstanding shares of Parent Common Stock are duly authorized, validly issued, fully paid and nonassessable and not subject to or issued in violation of any purchase option, call option, right of first refusal, right of first offer, preemptive right, subscription right or any similar right. Except as set forth above in *Schedule 5.2* of the Parent Disclosure Schedule, (i) there are no other options, warrants or other rights, agreements, arrangements or commitments of any character obligating Parent or any Subsidiary of Parent to issue or sell any shares of capital stock of or other equity interests in Parent or any Subsidiary of Parent or any Voting Debt of Parent or any Subsidiary of Parent and (ii) there is no Voting Debt of Parent or any Subsidiary of Parent.

SECTION 5.3. *Authorization and Execution.* The execution and delivery of this Agreement and the performance of each of Parent and Merger Sub of this Agreement and the consummation by each of them of the transactions contemplated hereby have been duly and validly authorized by all necessary action on the part of Parent and Merger Sub. This Agreement has been duly and validly executed and delivered by each of Parent and Merger Sub and constitutes a legal, valid and binding agreement of each of Parent and Merger Sub enforceable against Parent and Merger Sub, as applicable, in accordance with its terms, assuming this Agreement is enforceable against the Company, except to the extent that enforceability may be limited by applicable bankruptcy, insolvency, rearrangement, reorganization, fraudulent conveyance, fraudulent transfer, moratorium, liquidation, conservatorship or similar laws or by general principles of equity.

SECTION 5.4. *Absence of Conflicts; Governmental Authorizations*.

(a) The execution and delivery by each of Parent and Merger Sub of this Agreement, the performance by each of them of their respective obligations hereunder and the consummation by each of them of the transactions contemplated hereby will not (i) conflict with or result in any violation of any provision of the Certificate of Incorporation or By-Laws or equivalent organizational documents, each as amended to date, of Parent or Merger Sub, (ii) materially conflict with, result in any violation or breach of, constitute a default under, give rise to any right of termination or acceleration (with or without notice or the lapse of time or both) or increase in any cost or obligation of the Company pursuant to, or result in being declared void or voidable, any term or provision of any note, bond, mortgage, indenture, lease, license, Contract or other instrument to which Parent or Merger Sub is a party or by which any of their respective properties or assets are or may be bound, (iii) violate in any material respect any term of any Legal Requirement applicable to Parent or Merger Sub or by which any their respective properties or assets are bound or affected, except in the case of clauses (ii) and (iii) immediately above, for any such conflicts, violations, breaches, defaults, terminations, cancellations or Liens which would not, individually or in the aggregate, have a Parent Material Adverse Effect.

(b) Except for applicable requirements, if any, of the Securities Act, the Exchange Act, the filing and recordation of appropriate merger documents as required by the WBCA and the LLC Act, filings required pursuant to any state securities or blue sky laws, and such other Consents, notices, reports or other filings the failure of which to be made would not, individually or in the aggregate, have a Parent Material Adverse Effect or prevent or materially impair the consummation of the transactions contemplated hereby, neither Parent nor Merger Sub is required to obtain any Consent from or submit any notice, report or other filing to any Governmental Entity in connection with the execution, delivery or performance of this Agreement or the consummation of the transactions contemplated hereby.

SECTION 5.5. *SEC Reports and Financial Statements*.

(a) Parent has filed all forms, reports, schedules, statements and other documents required to be filed by it with the SEC, and has made available to Company true and complete copies of all such forms, reports, schedules, statements and other documents filed by it since January 1, 2002, under the Exchange Act or the Securities Act (such forms, reports, schedules, statements and other documents, including any financial statements or schedules included therein, are referred to as the *Parent SEC Documents*). Except as set forth in *Schedule 5.5* of the Parent Disclosure Schedule, each of the Parent SEC Documents, at the time filed, (i) did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by such Parent SEC Document and (ii) complied in all material respects with the applicable requirements of the Exchange Act and the Securities Act, as the case may be, and the applicable rules and regulations of the SEC thereunder. Except for Public Storage Properties IV, Ltd. and Public Storage Properties V, Ltd., no Subsidiary of Parent is required to file any form, report or other document with the SEC.

(b) The consolidated financial statements included in the Parent SEC Documents comply in all material respects with applicable accounting requirements and with the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with GAAP (except as may be indicated in the notes thereto or, in the case of the unaudited statements of Parent, as permitted by SEC Forms 10-Q and 8-K) and fairly present in all material respects (subject, in the case of the unaudited statements, to normal, recurring audit adjustments) the consolidated financial position, results of operations and cash flows of Parent for the periods presented in the Parent SEC Documents.

(c) Each of the principal executive officer of Parent and the principal financial officer of Parent (or each former principal executive officer of Parent and each former principal financial officer of Parent, as applicable) has made the certifications required by Sections 302 and 906 of the Sarbanes-Oxley Act and the rules and regulations of the SEC promulgated thereunder with respect to the Company s filings pursuant to the Exchange Act. For purposes of the preceding sentence, *principal executive officer* and *principal financial officer* shall have the meanings given to such terms in the Sarbanes-Oxley Act.

(d) Except as otherwise permitted by this Agreement, there are no off balance sheet arrangements (as defined by item 303(a)(4) of Regulation S-K promulgated by the SEC) in respect of Parent and its Subsidiaries.

SECTION 5.6. *Absence of Certain Changes or Events*. Since September 30, 2005, except as contemplated by this Agreement or as set forth in Parent s Annual Report on Form 10-K for the year ended December 31, 2004 or Parent s Quarterly Reports on Form 10-Q or Parent s Current Reports on Form 8-K or Parent s proxy statement on Schedule 14A, in each case as amended, filed subsequent thereto and prior to the date hereof (excluding any disclosures set forth in any risk factor section, in any section relating to forward looking statements and any other disclosures included therein that are cautionary, predictive or forward-looking in nature) (the *Recent Parent SEC Documents*), there has not been any event that has had or is reasonably expected to have a Parent Material Adverse Effect.

SECTION 5.7. *Litigation*. Except for environmental matters, which are exclusively addressed in Section 5.14, or as disclosed in the Recent Parent SEC Documents, there are no claims, actions, suits, arbitrations, inquiries, proceedings or investigations pending or, to the Knowledge of Parent, threatened against Parent or any of its Subsidiaries or any properties or rights of Parent or any of its Subsidiaries, before any Governmental Entity, which, individually or in the aggregate, has had or would, individually or in the aggregate, be reasonably expected to have a Parent Material Adverse Effect or to materially impair or delay the ability of either of Parent or Merger Sub to perform its obligations hereunder or prevent the consummation of any of the transactions contemplated hereby. Neither Parent, Merger Sub, nor any of Parent s Subsidiaries, nor any of Parent s, Merger Sub s or any of Parent s Subsidiaries respective properties is subject to any order, judgment, writ, injunction or decree, which, individually or in the aggregate, has had or would, individually or in the aggregate, be reasonably expected to have a Parent Material Adverse Effect.

SECTION 5.8. *No Undisclosed Liabilities*. Neither Parent nor any of its Subsidiaries has any liabilities of a nature required by GAAP to be reflected in a consolidated balance sheet or the notes thereto, except liabilities that (a) are accrued or reserved against in the most recent financial statements included in the Parent SEC Documents filed prior to the date hereof or are reflected in the notes thereto, (b) were incurred in the ordinary course of business since September 30, 2005, (c) are incurred pursuant to the transactions contemplated by this Agreement, (d) have been discharged or paid in full prior to the date of this Agreement in the ordinary course of business, or (e) would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect.

SECTION 5.9. *Information Supplied*. None of the information supplied by Parent and Merger Sub for inclusion or incorporation by reference in the Registration Statement shall (i) when filed with the SEC or other regulatory agency, (ii) when it is declared effective by the SEC, and (iii) at the Effective Time, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. None of the information to be supplied by Parent and Merger Sub for inclusion or incorporation by reference in the Proxy Statement shall (i) when filed with the SEC or other regulatory agency, (ii) when it (or any amendment thereof or supplement thereto) is mailed to the holders of Company Common Stock, (iii) at the times of each of the Company Shareholders Meeting and the Parent Shareholders Meeting, and (iv) at the Effective Time, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. If at any time prior to the Effective Time, any event with respect to Parent or Merger Sub, or with respect to information supplied by Parent or Merger Sub specifically for inclusion in the Proxy Statement or Registration Statement, shall occur which is required to be described in an amendment of, or supplement to, the

Proxy Statement or Registration Statement, such event shall be so described by Parent or Merger Sub and promptly provided to the Company. All documents that Parent or Merger Sub is responsible for filing with the SEC in connection with the transactions contemplated herein will comply as to form, in all material respects, with the provisions of the Exchange Act, and each such document required to be filed with any Governmental Entity (other than the SEC) will comply in all material respects with the provisions of applicable Legal Requirements as to the information required to be contained therein. Notwithstanding the foregoing, Parent and Merger Sub make no representation or warranty with respect to the information supplied or to be supplied by the Company or any Affiliate (other than Parent or Merger Sub to the extent Parent or Merger Sub is determined to be an Affiliate of the Company) thereof for inclusion or incorporation by reference in the Proxy Statement or Registration Statement.

SECTION 5.10. *No Prior Activities*. Except for obligations or liabilities incurred in connection with its incorporation or organization or the negotiation and consummation of this Agreement and the transactions contemplated hereby (including any financing), Merger Sub has not incurred any obligations or liabilities, and has not engaged in any business or activities of any type or kind whatsoever or entered into any agreements or arrangements with any Person.

SECTION 5.11. *Compliance with Law*. Except for environmental matters, which are exclusively addressed in Section 5.14 or as disclosed in the Recent Parent SEC Documents, to the Knowledge of Parent, the business of Parent and Merger Sub is not being, and has not since January 1, 2004 been, conducted in violation of any Legal Requirement, except such violations which, individually or in the aggregate, would not be reasonably expected to have a Parent Material Adverse Effect. To the Knowledge of Parent, no investigation, review or inquiry by any Governmental Entity with respect to Parent or any Subsidiaries of Parent is pending or is threatened that would reasonably be expected to have a Parent Material Adverse Effect.

SECTION 5.12. *Taxes*.

Except as would not, individually or in the aggregate, be reasonably expected to have a Parent Material Adverse Effect:

(a) Parent and its Subsidiaries have timely filed (taking into account any extension of time within which to file) all Tax Returns required to be filed by any of them in the manner provided by law and all such Tax Returns were correct and complete,

(b) Parent and its Subsidiaries have paid (or had paid on their behalf) all Taxes due in respect of the periods covered by such Tax Returns as required to be paid by them,

(c) For all taxable years commencing with 2001 through the date hereof, Parent has been subject to taxation as a REIT within the meaning of Section 856 of the Code and has satisfied all requirements to qualify as a REIT.

SECTION 5.13. *Properties*. Parent or one of its Subsidiaries (each a *Parent Property Owner*) owns fee simple title to each of the real properties (or the applicable portion thereof) described in the Parent s Annual Report on Form 10-K for the fiscal year ended December 31, 2004 as being owned in fee, as adjusted to reflect purchases and sales disclosed in the Parent SEC Documents prior to the date hereof (or which were not required to be so disclosed) (collectively, the *Parent Properties*), and a valid leasehold estate to each of the real properties subject to a lease described in Parent s Annual Report on Form 10-K for the fiscal year ended December 31, 2004, as adjusted to reflect purchases and sales disclosed in the Parent SEC Documents prior to the date hereof (or which were not required to be so disclosed) (collectively, the *Parent Leased Properties*). Except as would not, individually or in the aggregate, be reasonably expected to have a Parent Material Adverse Effect, the interests of the Parent Property Owners in the Parent Properties and the Parent Leased Properties are good and marketable, and the same are owned free and clear of Liens except for Permitted Liens. No written termination of or notice of default has been received by Parent or any of its Subsidiaries under a lease pursuant to which Parent or one of its Subsidiaries holds its interest in a Parent Leased Property, except as would not, individually or in the aggregate, be reasonably expected to have a Parent Material Adverse Effect.

SECTION 5.14. *Environmental*. To Parent s Knowledge and except as would not, individually or in the aggregate, be reasonably expected to have a Parent Material Adverse Effect:

(a) (i) each of the Parent Properties and Parent Leased Properties and Parent s business are in material compliance with all applicable Environmental Laws; (ii) there is no litigation or other proceeding pending threatened against Parent under any Environmental Laws; and (iii) Parent has not received any written notice (I) of violation or potential liability under any Environmental Laws that remains unresolved, or (II) that any judicial, administrative or compliance order has been issued against Parent which remains unresolved.

(b) There has been no Release or threatened Release of Hazardous Material on the Parent Properties or Parent Leased Properties in material violation of any Environmental Law.

(c) All Hazardous Materials which has been removed from any Parent Properties or Parent Leased Properties has been handled, transported and disposed of at the time of removal in material compliance with Environmental Laws.

SECTION 5.15. *Brokers*. No broker, finder or investment banker (other than Goldman, Sachs & Co.) is entitled to any brokerage, finder s or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by and on behalf of Parent and Merger Sub.

SECTION 5.16. *Voting Requirements*. The only vote required of the holders of Parent s capital stock in connection with the transactions contemplated hereby is the approval of the Share Issuance by the affirmative majority vote of the outstanding shares of Parent Common Stock and the Equity Stock, Series A (represented by Depositary Shares Each Representing 1/1,000 of a Share of Equity Stock, Series A) voting together as one class. The Depositary Shares Each Representing 1/1,000 of a Share of Equity Stock, Series A vote at a rate of one-tenth of a vote per depositary share.

SECTION 5.17. *Disclaimer of Other Representations and Warranties*. No representation or warranty is made in this Article V with respect to the contents of individual storage units of Parent and its Subsidiaries unless Parent has Knowledge of an event or circumstance related to an individual storage unit. Parent and Merger Sub do not make, and have not made, any representations or warranties in connection with the Merger and the transactions contemplated hereby other than those expressly set forth in or made pursuant to this Agreement. Except as expressly set forth herein, no Person has been authorized by Parent or Merger Sub to make any representation or warranty relating to Parent or Merger Sub or their respective businesses, or otherwise in connection with the Merger and the transactions contemplated hereby and, if made, such representation or warranty may not be relied upon as having been authorized by Parent or Merger Sub.

ARTICLE VI.

COVENANTS OF THE COMPANY

SECTION 6.1. *Access to Information*.

(a) The Company will provide Parent and Parent s counsel, accountants and other representatives and agents with reasonable access, upon prior notice and during normal business hours, to the facilities, properties, officers, directors, district managers, senior MIS personnel, MIS consultants and vendors, accountants, assets, books and records of the Company and (i) Parent shall have the right, subject to the terms of this Section 6.1, to prepare or cause to be prepared surveys, inspections, engineering studies, environmental assessments and other tests, examinations or studies with respect to the Company Properties; provided that (A) Parent indemnifies the Company for any losses, costs or damages associated with any such items or caused during any period as a result of Parent s access, (B) the Company receives copies of all such items, and (C) Parent may not do any invasive or destructive testing of the Company Properties, (ii) Parent shall have the right, upon prior notice and during normal business hours, to provide employees of the Company with information; provided that (A) Parent first coordinates the distribution of such information to the Company employees with the Company, (B) provides the Company copies of all materials to be provided to employees of the Company, and (C) provides the Company with a reasonable opportunity to review such materials, (iii) the Company shall provide Parent with a monthly review of the unaudited revenues, capital spending and performance data of the Company and the Company Subsidiaries within 20 days after the end of each such month on a property by property basis, and (iv) the Company will furnish Parent with such financial and operating data and other information with respect to the business, personnel and properties of the Company or the transactions contemplated hereby as Parent shall from time to time reasonably request; *provided, however*, that such investigation (a) shall be conducted upon reasonable prior notice with a representative of the Company present, and in such manner as not to interfere unreasonably with the operation of the business of the Company, (b) shall not include speaking with employees (other than district managers in the manner provided above), customers or suppliers of the Company without the prior consent of the Company (other than to the extent such customers or suppliers are customers of or suppliers to Parent or any of its Subsidiaries); provided further that the Company shall provide reasonable assistance and cooperation to Parent in connection with integration planning and transition activities (including access to accounting, MIS, and other systems) and access to employees as reasonably necessary in connection therewith; provided that such access shall be coordinated with the Company and conducted in such manner as not to interfere unreasonably with the operation of the business of the Company, and (c) neither the Company nor any of its Subsidiaries shall be required to provide access to or to disclose information where such access or disclosure would violate the rights of any Person with which it has a business relationship, constitute a waiver of the attorney-client privilege or contravene any Legal Requirement.

(b) Each of Parent and Merger Sub will hold and treat and will cause their Representatives to hold and treat in confidence all documents and information concerning the Company or its Subsidiaries furnished or otherwise made available to such party in connection with the transactions contemplated by this Agreement in accordance with the Confidentiality Agreement, which Confidentiality Agreement shall remain in full force and effect in accordance with its terms.

SECTION 6.2. *Information for Registration Statement*. The Company will promptly furnish to Parent such data and information relating to it and its Subsidiaries as Parent may reasonably request for the purpose of including such data and information in the Registration Statement and any amendments or supplements.

SECTION 6.3. *Conduct of Business*. The Company covenants and agrees that prior to the Effective Time, except (i) as expressly provided in this Agreement, (ii) as set forth in *Schedule 6.3* of the Company Disclosure Schedule or (iii) as agreed in writing by Parent, after the date hereof:

(a) (1) Subject to the restrictions set forth in clause (a)(2), the Company will, and will cause each of its Subsidiaries to, conduct its business in the ordinary course consistent with past practice, use reasonable best efforts to preserve substantially intact in all material respects its present business organization, assets, properties, reputation and key relations, keep available in all material respects the services of its present officers, directors and employees (except that Parent agrees that it shall not be a breach of this provision if any Company employees choose to voluntarily terminate their employment with the Company after the date hereof), and (2) the Company will not, and will not, to the extent such Subsidiary is controlled by the Company or its Affiliates, permit any of its Subsidiaries, to

(i) authorize, issue or commit to issue, deliver, sell, grant, pledge or otherwise dispose of or encumber any shares of its capital stock of any class (whether or not from treasury stock) or other equity interests in the Company, any other voting securities or any securities convertible into or exchangeable for, or any rights, warrants or options to acquire, any such shares or securities, except for the issuance of shares of Company Common Stock upon the exercise of, and in accordance with, Options granted prior to the date hereof; *provided, however*, that nothing herein shall prohibit the Company from (A) making automatic option grants to directors of the Company pursuant to the Directors Incentive Plan, or (B) issuing shares of Company Common Stock pursuant to the terms of the ESPP;

(ii) split up, combine or reclassify any of its capital stock or other equity interests in the Company;

(iii) purchase, redeem or otherwise acquire any shares of its capital stock of any class or any equity interests in the Company, or any interest in or right to acquire any such shares or other equity interests in the Company;

(iv) (A) increase the compensation or benefits payable or to become payable to the directors, officers, consultants or employees of the Company, or any of its Subsidiaries, other than to employees at the level of store manager, district manager or below, in the ordinary course of business consistent with past practice; provided, that no such increases shall increase the number of weeks of severance, if any, that the Company is obligated to pay such employees or the terms of the Company s severance plans, (B) establish, adopt, enter into or amend any collective bargaining, bonus, profit sharing, thrift, compensation, employment, termination, severance, stock incentive or other plan, agreement, trust, fund, policy or arrangement for the benefit of any director, officer, consultant or employee, except as contemplated by this Agreement or to the extent required by applicable law or the terms of a collective bargaining agreement, (C) increase the benefits payable under any existing severance or termination pay policies or employment or other agreements, (D) take any affirmative action to accelerate the vesting of any stock-based compensation, (E) grant any awards under any bonus, incentive, performance or other compensation plan or arrangement or Company U.S. Employment Agreement, U.S. Employee Benefit Plan or Non-U.S. Employee Benefit Plan (including the grant of stock options, stock appreciation rights, stock based or stock related awards, performance units or restricted stock, or the removal of existing restrictions in any Company U.S. Employment Agreement, U.S. Employee Benefit Plan or Non-U.S. Employee Benefit Plan or agreements or awards made thereunder), other than contributions (whether in stock or cash) made to Company U.S. Pension Plans as required by the terms of such plans and consistent with past practice, (F) take any action to fund or in any other way secure the payment of compensation or benefits under any Company U.S. Employment Agreement, U.S. Employee Benefit Plan or Non-U.S. Employee Benefit Plan, (G) make any material determinations not in the ordinary course of business consistent with past practice under any collective bargaining agreement, Company U.S. Employment Agreement, U.S. Employee Benefit Plan or Non-U.S. Employee Benefit Plan, (H) amend or modify any Company Option Plan, (I) grant or promise any tax offset payment award under any Company Option Plan, (J) make any loan or cash advance to, or engage in any transaction with, any current or former director, officer or employee, except advances to employees in the ordinary course of business consistent with past practice, (K) make any loan or cash advance to any current or former consultant or independent contractor, (L) hire any officers, consultants or employees other than at the district manager level or below (including office personnel at such levels) in the ordinary course of business consistent with past practice and only to the extent such hires are reasonably necessary to replace employees no longer employed after the date hereof or to staff new facilities, or (M) terminate the employment of any holder of Restricted Stock or Restricted Stock Units as of the Effective Time;

(v) subject to the provisions of Section 6.4, adopt or effect a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization;

(vi) subject to the provisions of Section 6.4, except for the lease of self storage facilities and related assets in the ordinary course of business consistent with past practice and for transactions disclosed on *Schedule 6.3* of the Company Disclosure Schedule, transfer, sell, lease (other than as lessee pursuant to leases in effect as of the date hereof), license, sell and leaseback, mortgage (except as otherwise permitted pursuant to *Schedule 6.3* of the Company Disclosure Schedule), encumber or otherwise dispose of or assign any (i) Company Properties (ii) of the Company s or any Subsidiary s interest in the Leased Properties or (iii) or other material assets (including any contracts or stock (or equivalent thereof of the Company s Subsidiaries) or permit any (x) Company Properties, (y) of the Company s or any Subsidiary s interest in the Leased Properties or (z) or other material assets (including any contracts or stock (or equivalent thereof of the Company s Subsidiaries) to be subjected to any Liens, other than Permitted Liens, except (A) to the extent such Lien is made or incurred in the ordinary course of business consistent with past practice, or (B) in the case of involuntary Liens on Company Properties and/or Leased Properties, to the extent such Liens do not materially affect the value of, or interfere with the business or the operation of, the Company Properties and the Leased Properties taken as a whole;

(vii) amend, modify or repeal, or propose to do, or permit or consent to any amendment, modification or repeal of its Articles of Incorporation or Restated By-Laws (or equivalent organizational document) or take any action with respect to such action other than is contemplated in connection with the Merger;

(viii) enter into, or become obligated under, or change, amend, terminate or otherwise modify any Company Material Contract (other than as otherwise permitted by this Section 6.3, including construction or other Contracts contemplated by clause (ix) below), or fail to enforce any material rights or claims of the Company under any Contract in a materially adverse manner (including any write-off or other materially adverse compromise of any material accounts receivable of the Company or any of its Subsidiaries);

(ix) make or commit to make capital expenditures except for expenditures the Company reasonably deems necessary to address emergency situations, to ensure compliance with applicable law or to cure a default under a material agreement or as set forth in *Schedule 6.3* of the Company Disclosure Schedule;

(x) (A) incur any Indebtedness for borrowed money other than borrowings pursuant to the Company s and its Subsidiaries revolving credit arrangements in effect on the date hereof in the ordinary course, consistent with past practice, for working capital purposes, (B) issue, sell or amend any debt securities or other rights to acquire any debt securities of the Company or any of its Subsidiaries, guarantee any debt securities of another person, enter into any keep well or other agreement to maintain any financial statement condition of another person or enter into any arrangement having the economic effect of any of the foregoing, or (C) make any loans, advances or capital contributions to, or investment in, or repay any indebtedness owing to any Person other than the Company or any of its direct or indirect Subsidiaries in an amount in excess of $1,000,000 other than the repayment of Indebtedness existing as of the date hereof at maturity in accordance with its terms; provided that the Company may take any of the actions proscribed by this Section 6.3(a)(x) following reasonable consultation with Parent and with Parent s prior written consent (such consent not to be unreasonably withheld);

(xi) enter into any hedging agreement or other financial agreement or arrangement designed to protect the Company or its Subsidiaries against fluctuations in commodities prices or exchange rates (other than replacement of such existing hedging agreements or other financial agreements or arrangements required by the Company s Contracts related to Indebtedness, following reasonable consultation with Parent); provided that the Company may enter into such agreements following reasonable consultation with Parent and with Parent s prior written consent (such consent not to be unreasonably withheld);

(xii) acquire by merging or consolidating with, or by purchasing all or substantially all, or a portion of all, the assets, capital stock (or equivalent thereof) or other equity securities of any other Person, or any business division, assets or properties of any other Person or otherwise organize or acquire control or ownership of any other Person.

(xiii) make, amend or rescind any express or deemed material election relative to Taxes, unless such election or rescission is (i) required by any Legal Requirement, or (ii) necessary to preserve the status of the Company as a REIT or of any Subsidiary of the Company (other than any taxable REIT subsidiary or qualified REIT subsidiary) as a partnership or disregarded entity for federal income tax purposes, waive or extend the statute of limitations with respect to any Taxes, or settle or compromise any material liability for Taxes (other than settling appeals of property Tax valuations) or amend any

Tax Return; *provided*, that nothing in this Agreement shall preclude the Company from designating dividends paid by it as capital gains dividends within the meaning of Section 857 of the Code or electing to treat any entity as a taxable REIT subsidiary;

(xiv) enter into any Tax Protection Agreement;

(xv) make any changes in financial accounting methods, principles or practices, except insofar as may have been required by a change in GAAP or other Legal Requirement;

(xvi) take any action, or fail to take any action, which can reasonably be expected to cause (i) the Company to fail to qualify as a REIT, or (ii) any of its Subsidiaries to cease to be treated as a partnership or disregarded entity for federal income tax purposes, as a REIT, as a Qualified REIT Subsidiary, or as a Taxable REIT Subsidiary under Section 856(l) of the Code, as the case may be;

(xvii) make any payments or incur any liability or obligation to or for the benefit of any Third Party for the purpose of obtaining any consent from such Third Party to the Merger or the transactions contemplated hereunder;

(xviii) initiate, compromise or settle any litigation or arbitration proceeding (A) relating to this Agreement or the transactions contemplated hereby or (B) material to the Company and its Subsidiaries, taken as a whole;

(xix) open or close any facility or office material to the Company and its Subsidiaries, taken as a whole;

(xx) adopt or implement any shareholder rights plan or similar device or arrangement; or

(xxi) take, undertake, incur, authorize, commit or agree to take any of the foregoing actions.

(b) The Company will advise Parent as soon as reasonably practicable of (and, in the case of any written notice, provide to Parent a copy of):

(i) the commencement of or, to the Knowledge of the Company, the threat of any material claim, litigation, action, suit, inquiry or proceeding involving the Company, any of its Subsidiaries, their respective properties or assets, or, to the Knowledge of the Company, involving any of their respective directors, officers or agents (in their capacities as such);

(ii) any notice or other communication from any Person alleging that the consent of such Person is or may be required in connection with the transactions contemplated by this Agreement;

(iii) any notice or other communication from any Governmental Entity in connection with the transactions contemplated by this Agreement; and

(iv) in furtherance and not in limitation of Sections 7.2(a), 8.1 and 8.2, a copy of each report, schedule, form, statement and other document filed or received by it during such period pursuant to the requirements of domestic or foreign (whether national, federal, state, provincial, local or otherwise) laws in connection with this transaction or outside of the ordinary course of business which, in each case, would be reasonably likely to have a Company Material Adverse Effect.

(c) The Company will, and will cause each of its Subsidiaries to, comply, in all material respects, with all Legal Requirements applicable to the Business.

(d) The Company shall provide to Parent a summary of the amounts outstanding on its and its Subsidiaries revolving credit arrangements on a monthly basis.

(e) Nothing contained in this Agreement shall give Parent, directly or indirectly, the right to control or direct the Company s or its Subsidiaries operations prior to the Effective Time. Prior to the Effective Time, the Company shall exercise, consistent with the terms and conditions of this Agreement, complete control and supervision over its and its Subsidiaries operations.

SECTION 6.4. *No Solicitation*. (a) Except as provided in this Section 6.4(a) or in Section 6.4(b), the Company shall not, and it shall cause its Subsidiaries and its and their respective officers, directors, employees, agents and representatives (collectively, the *Representatives*) not to, directly or indirectly, (i) solicit, encourage, initiate or take any other action to facilitate any inquiries or the making of any inquiries regarding, or the submission of, any proposal or offer that constitutes, relates to, or could reasonably be expected to lead to, any Acquisition Proposal, (ii) enter into, continue or otherwise participate in any discussions or negotiations regarding, or furnish to any Person any information with respect to, assist or participate in any effort or attempt by, or otherwise cooperate in any way with, any Person relating to any Acquisition Proposal or with respect to, any proposal or offer that constitutes, or could reasonably be expected to lead to, any Acquisition Proposal, or (iii) enter into any agreement with respect to any Acquisition Proposal or approve or recommend any Acquisition Proposal; *provided, however*, that (without limiting the rights of Parent or Merger Sub hereunder) nothing contained in this Section 6.4 or any other provision of this Agreement shall prohibit the Company or the Company Board from (A) taking and disclosing to the Company s shareholders a position with respect to a tender or exchange offer by a Third Party pursuant to Rules 14d-9 and 14e-2 or Item 1012(a) of Regulation M-A promulgated under the Exchange Act (or any similar communication to shareholders in connection with the making or amendment of a tender offer or exchange offer) or (B) making any legally required disclosure to shareholders with regard to an Acquisition Proposal. Upon execution of this Agreement, the Company shall, and it shall cause the Representatives to, immediately cease any existing activities, discussions or negotiations with any parties conducted heretofore with respect to any of the foregoing and shall immediately request the return or destruction of all confidential information regarding the Company or its Subsidiaries provided to any Person or group prior to the date of this Agreement pursuant to the terms of any applicable Third Party Confidentiality Agreements, and the Company shall use its reasonable best efforts to enforce (to the extent the Company has Knowledge of a breach by the other party thereto), and shall not waive any of the provisions of, any such Third Party Confidentiality Agreement. Notwithstanding the foregoing, prior to the date of the Company Shareholders Meeting, the Company and the Representatives may furnish information concerning its and its Subsidiaries business, properties or assets to any Person or group (so long as such Person or group is not in breach of the standstill provisions of any Third Party Confidentiality Agreement), and may negotiate and participate in discussions and negotiations with such Person or group concerning an Acquisition Proposal if: (w) such Person or group has submitted an unsolicited Acquisition Proposal which did not result from a material breach by the Company, any of its Subsidiaries or any Representative of the terms and conditions set forth herein and which the Company Board believes in good faith (after consultation with its legal and financial advisors) is reasonably likely to lead to a Superior Proposal; (x) if the Company Board determines in good faith (after consultation with its legal advisors) that failing to do so would be a breach of its fiduciary duties, including the standards of conduct set forth in Section 23B.08.300 of the WBCA, (y) prior to providing any nonpublic information permitted to be provided pursuant to this sentence, the Company shall have entered into a confidentiality agreement with such Person or Group on terms no less favorable to it than the Confidentiality Agreement (without regard to any modification thereof pursuant hereto), and (z) the Company shall provide Parent a copy of any nonpublic information to be provided pursuant to this sentence prior to furnishing such information to such Person or group, *provided, however*, that the Company shall not be required to provide Parent any such non-public information that is already contained in the Intralinks data room as of the date hereof.

(b) Except as set forth in this Section 6.4(b), neither the Company Board nor any committee thereof shall (i) withdraw or modify, or propose to withdraw or modify, in a manner adverse to Parent or Merger Sub, the approval or recommendation by the Company Board or any such committee of this Agreement or the transactions contemplated hereby, including the Merger, (ii) approve or recommend, or propose to approve or recommend, any Acquisition Proposal or (iii) enter into any agreement with respect to any Acquisition Proposal. Notwithstanding anything in this Agreement to the contrary, prior to the date of the Company Shareholders Meeting, the Company Board may withdraw or modify its approval or recommendation of this Agreement or the transactions contemplated hereby, including the Merger, approve or recommend a Superior Proposal, or enter into an agreement with respect to a Superior Proposal (each, a

Subsequent Determination), in each case if (x) the Company shall not have violated its obligations under this Section 6.4 in any material respect and shall have received a Superior Proposal, (y) the Company Board shall have determined in good faith (after consultation with its legal advisors) that failing to take such action would be a breach of its fiduciary duties including the standards of conduct set forth in Section 23B.08.300 of the WBCA, and (z) prior to taking such action, the Company provides four Business Days written notice to Parent advising Parent that the Company Board has made the determination described in clause (y) immediately above and complies with Section 10.1(d)(i).

(c) From and after the date of this Agreement, the Company shall promptly (but in any event within 24 hours) advise Parent of the receipt of any inquiries, requests, proposals or offers relating to an Acquisition Proposal received by the Company and keep Parent informed as to the status of and any material developments regarding any such inquiries, requests, proposals or offers. Any such notice shall be made in writing and shall indicate the material terms and conditions thereof (including the identity of the party making the Acquisition Proposal and a copy of the Acquisition Proposal and any modifications thereto).

SECTION 6.5. *Tax Matters*.

(a) From the date of this Agreement until the Effective Time, each of the Company and its Subsidiaries will duly and timely file all Tax Returns and other documents required to be filed by it with federal, state, local and any non-U.S. Tax authorities, subject to extensions permitted by any Legal Requirement and properly granted by the appropriate authority, provided that the Company notifies Parent that it or any of its Subsidiaries is availing itself of such extensions, and provided, further, that such extensions do not adversely affect the Company s status as a REIT under the Code.

(b) The Company and its Subsidiaries shall cooperate in the preparation, execution, and filing of all returns, questionnaires, applications, or other documents regarding any real property transfer or gains, sales, use, transfer, value added, stock transfer and stamp taxes, any transfer, recording, registration and other fees and any similar Taxes (together with any related interest, penalties or additions to such Taxes, *Transfer Taxes*) which become payable in connection with the transactions contemplated by this Agreement, and shall cooperate in attempting to minimize the amount of such Transfer Taxes.

(c) The Company shall provide Parent an opinion of Perkins Coie LLP or other outside counsel reasonably satisfactory to Parent, dated as of the Closing Date, to the Company substantially in the form of *Exhibit C* and reasonably satisfactory to Parent (the *Company REIT Opinion*).

(d) For U.S. federal and applicable state income tax purposes, the Company shall report and treat the Merger as a taxable disposition by the Company of all of the Company s assets to Merger Sub in exchange for the Merger Consideration, the cash paid pursuant to Section 3.7, the Parent Preferred Stock, if any, and the assumption of all of the Company s liabilities, followed by a liquidating distribution of such Merger Consideration, cash paid pursuant to Section 3.7 and Parent Preferred Stock, if any, to the holders of Company Common Stock and Company Preferred Stock under Sections 331 and 562 of the Code. This Agreement constitutes a plan of liquidation of the Company for federal income tax purposes and the Company Board, prior to that date on which the Effective Time of the Merger occurs, will adopt this Agreement as such plan.

(e) Prior to the Effective Time, the Company shall use reasonable best efforts to merge or otherwise convert each Subsidiary of the Company that is a Qualified REIT Subsidiary into a limited liability company or entity that is treated, and will continue to be treated after the Effective Time, as a disregarded entity for U.S. federal income tax purposes, and the Company shall notify Parent prior to the Effective Time of the name of each Subsidiary that is a Qualified REIT Subsidiary that will not be so merged or converted prior to the Effective Time.

SECTION 6.6. *Dividends*. From and after the date of this Agreement, the Company shall not declare or pay any dividend or distribution to its shareholders without the prior written consent of Parent; provided, that the written consent of Parent shall not be required for the authorization and payment of (a) additional distributions required by the Code for the Company to maintain its REIT status or necessary to eliminate any federal Tax liability, after giving effect to any payments made pursuant to clauses (b), (c), (d) and (e) below, and provided that the Company shall consult with Parent prior to making any such dividend or distribution pursuant to this clause (a) as to the requirement or necessity thereof; (b) dividends or distributions of up to $2.175 per year per share to holders of the Series C Preferred Stock and dividends or distributions of up to $2.1875 per year per share to holders of the Series D Preferred Stock which are paid in accordance with past practices (including record and payment dates) and the terms of the Certificates of Designation of such series of Company Preferred Stock; (c) the previously declared quarterly distributions of $0.56 per share of Company Common Stock payable during the first quarter of 2006, with record and payment dates of March 3, 2006 and March 13, 2006, respectively; (d) distributions payable to holders of Company Common Stock, the record date of which shall be the earlier of June 3, 2006 or the last Business Day immediately preceding the Closing Date (the *Second Quarter Record Date*), which distributions shall be in an amount per share equal to (x) $0.56 less (y) the per share amount of any distributions paid or declared pursuant to clause (a) above during the period following March 6, 2006 to the Second Quarter Record Date; and (e) distributions to holders of Company Common Stock for each calendar quarter thereafter (commencing July 1, 2006) ending on or prior to the Closing Date in an amount per share equal to the (x) regular quarterly distribution per share then paid to holders of Parent Common Stock (which Parent presently intends, subject to declaration by Parent s board of directors, will be $0.50 per share of Parent Common Stock) multiplied by (y) the Exchange Ratio, and (z) in each case less the per share amount of any distributions pursuant to clause (a) above paid or declared following the date hereof and not previously deducted in computing the distributions payable pursuant to clause (d) or this clause (e) (any such excess being carried forward), provided, that the record and payment dates for each quarterly distribution with respect to the Company Common Stock pursuant to this clause (e) shall be the same as the record and payment dates for the applicable regular quarterly distribution for the Parent Common Stock, provided that each such record date shall be in the applicable calendar quarter, and that such record and payment dates shall be provided by Parent to the Company by written notice not less than twenty Business Days prior to the record date for such quarterly Parent distribution. In the event that a distribution with respect to the Company Common Stock or the Company Preferred Stock permitted by this Section 6.6 has (x) a record date prior to the Effective Time and (y) has not been paid as of the Effective Time, the holders of Company Common Stock or Company Preferred Stock, as applicable, shall be entitled to receive such distribution from the Company at the time such shares are exchanged pursuant to Article II and Article III of this Agreement. It is understood and agreed that Parent may set the record date for the regular quarterly distribution payable to holders of Parent Common Stock on the same date as the Second Quarter Record Date, which distribution shall be in an amount per share equal to the regular quarterly distribution per share then paid to holders of Parent Common Stock. It is the intention of the parties hereto that each holder of a share of Company Common Stock (assuming such holder owned such share prior to and as of March 2, 2006 and does not subsequently transfer such share during the remainder of 2006 except in connection with the conversion into Parent Common Stock in connection with the Merger) shall receive one quarterly distribution during each of the four calendar quarters of 2006, either as a Company shareholder in accordance with clauses (d) and (e) above or, after the Effective Time, as a Parent shareholder by receipt of a regular quarterly distribution.

SECTION 6.7. *Preferred Stock*. On or before the date the Proxy Statement is mailed to holders of Company Common Stock (but in no event more than 90 days prior to the anticipated Closing Date), the Company shall publish a notice of redemption in a publication of general circulation in the City of New York, once a week for two successive weeks, and mail a notice to each holder of record of shares of Series C Preferred Stock and Series D Preferred Stock, such notice to state that the Company will redeem all of the Series C Preferred Stock and Series D Preferred Stock immediately prior to and conditioned upon the Closing and otherwise containing such other information required by the terms of the Series C Preferred Stock and Series D Preferred Stock and shall, subject to compliance by Parent with Section 3.7, otherwise take such action as necessary to cause the redemption of all of the Series C Preferred Stock and Series D Preferred Stock immediately prior to and conditioned upon the Closing.

ARTICLE VII.

COVENANTS OF PARENT AND MERGER SUB

Parent covenants and agrees with the Company that, at all times before the Closing and to the extent specified, after the Closing, Parent at its expense will comply and will cause Merger Sub or the Surviving Company, as the case may be, to comply with all covenants and provisions of this Article VII, except to the extent otherwise expressly required or permitted by this Agreement.

SECTION 7.1. *Obligation of Parent to Make Merger Effective and Merger Sub s Stockholder Consent*. Parent shall cause Merger Sub to take all legally permitted actions necessary on its part to carry out the transactions contemplated hereby. Parent, as the sole stockholder of Merger Sub, will consent in writing to the approval of this Agreement and the Merger in accordance with applicable law.

SECTION 7.2. *Access to Information*.

(a) Parent and Merger Sub will provide the Company s counsel, accountants and other representatives and agents with reasonable access (in relation to the Company s status as a party to this Agreement), upon prior notice and during normal business hours, to the books and records of Parent and Merger Sub and will furnish the Company with such financial and operating data and other information with respect to the business, personnel and properties of Parent and Merger Sub or the transactions contemplated hereby as the Company shall from time to time reasonably request; *provided, however*, that such investigation (a) shall be conducted upon reasonably prior notice with a representative of Parent present, and in such manner as not to interfere unreasonably with the operation of the business of Parent or Merger Sub, (b) shall not include speaking with employees, customers or suppliers of Parent or Merger Sub without the prior consent of Parent, other than to the extent such customers or suppliers are customers of or suppliers to the Company or any of its Subsidiaries, and (c) neither Parent, Merger Sub nor any of Parent s Subsidiaries shall be required to provide access to or to disclose information where such access or disclosure would violate the rights of any Person with which it has a business relationship, constitute a waiver of the attorney-client privilege or contravene any Legal Requirement.

(b) The Company will hold and treat and will cause its Representatives to hold and treat in confidence all documents and information concerning Parent or Merger Sub or their Subsidiaries furnished or otherwise made available to such party in connection with the transactions contemplated by this Agreement in accordance with the confidentiality agreement, dated as of February 27, 2006, by and between Parent and the Company, which confidentiality agreement shall remain in full force and effect in accordance with its terms.

SECTION 7.3. *Information for Proxy Statement for the Company s Shareholders*. Parent will promptly furnish to the Company such data and information relating to it and Merger Sub as the Company may reasonably request for the purpose of including such data and information in the Proxy Statement and any amendments or supplements thereto used by the Company to obtain the necessary shareholder approval of the Merger.

SECTION 7.4. *Conduct of Business*. Parent and Merger Sub covenant and agree that prior to the Effective Time, except (i) as expressly provided in this Agreement, or (ii) as agreed in writing by Company, after the date hereof:

(a) Parent and Merger Sub will not, and will not permit any of Parent s Subsidiaries to:

(i) adopt or effect a plan of complete or partial liquidation, dissolution as to Parent or Merger Sub;

(ii) amend, modify or repeal, or propose to do, or permit or consent to any amendment, modification or repeal of its Articles of Incorporation or Restated By-Laws (or equivalent organizational document) in such a manner as would cause holders of Company Common Stock that receive Parent Common Stock pursuant to the Merger to be treated differently than other holders of Parent Common Stock;

(iii) take any action, or fail to take any action, which can reasonably be expected to cause Parent to fail to qualify as a REIT; or

(iv) take, undertake, incur, authorize, commit or agree to take any of the foregoing actions.

(b) Parent will advise the Company as soon as reasonably practicable of (and, in the case of any written notice, provide to the Company a copy of):

(i) the commencement of or, to the Knowledge of Parent, the threat of any material claim, litigation, action, suit, inquiry or proceeding involving Parent, any of its Subsidiaries, relating to this Agreement or the transactions contemplated hereby;

(ii) any notice or other communication from any Person alleging that the consent of such Person is or may be required in connection with the transactions contemplated by this Agreement; and

(iii) any notice or other communication from any Governmental Entity in connection with the transactions contemplated by this Agreement.

(c) Parent will, and will cause each of its Subsidiaries to, use commercially reasonable efforts to preserve substantially intact in all material respects its present business organization, assets, properties, reputation and key relations and keep available in all material respects the services of its present officers, directors and employees.

(d) Parent will, and will cause each of its Subsidiaries to, comply, in all material respects, with all Legal Requirements applicable to their business.

SECTION 7.5. *Indemnification Rights*.

(a) Parent and the Surviving Company agree that all rights to indemnification and advancement of expenses and exculpation and release now existing in favor of the officers and directors of the Company or any of its Subsidiaries (including any Person who was or becomes a director or officer prior to the Effective Time) (the *Indemnified Parties*) under the WBCA or as provided in the Company s or any of its Subsidiaries articles of incorporation, by-laws, resolutions or any other written agreement between them with respect to matters occurring at or prior to the Effective Time shall survive the Merger and shall continue in full force and effect for a period of not less than six years after the Effective Time (or, in the case of claims or other matters occurring on or prior to the expiration of such six-year period which have not been resolved prior to the expiration of such six-year period, until such matters are finally resolved), and Parent shall cause the Surviving Company and its Subsidiaries to, and the Surviving Company shall, honor all such rights. Parent shall cause to be maintained in effect for not less than six years from the Effective Time the current policies of the directors and officers liability insurance maintained by the Company (provided that Parent may substitute therefor policies of at least the same coverage containing terms and conditions which are no less advantageous) *provided,* that in no event shall Parent be required to pay aggregate premiums for insurance under this Section 7.5(a) in excess of 200% of the aggregate premiums paid by the Company in 2005 for such purpose and, if the annual premiums of such insurance coverage exceed such amount, Parent shall use its reasonable best efforts to obtain a policy with the greatest coverage available for a cost not exceeding such amount; and *provided*, *further*, that officers and directors of the Company or any Subsidiary may be required to make application and provide customary representations and warranties to Parent s insurance carrier for the purpose of obtaining such insurance. Until the sixth anniversary of the Effective Time, Parent and its Affiliates shall not amend, modify or repeal the provisions for indemnification of directors or officers contained in the articles of incorporation or by-laws (or comparable charter documents) of the Surviving Company or its Subsidiaries in such a manner as would adversely affect the rights of any individual who has served as a director or officer of the Company or its Subsidiaries prior to the Effective Time to be indemnified in respect of their serving in such capacities prior to the Effective Time.

(b) Notwithstanding anything herein to the contrary, if any claim, action, suit, proceeding or investigation (whether arising before, at or after the Effective Time) is made against or involves any Indemnified Party, on or prior to the sixth anniversary of the Effective Time, the provisions of this Section 7.5 shall continue in effect until the final disposition of such claim, action, suit, proceeding or investigation.

(c) This covenant is intended to be for the benefit of, and shall be enforceable by, each of the Indemnified Parties and their respective heirs and legal representatives. The indemnification provided for herein shall not be deemed exclusive of any other rights to which an Indemnified Party is entitled, whether pursuant to any Legal Requirement, contract or otherwise.

(d) In the event Parent or any of its successors or assigns (i) consolidates or merges into any other Person and shall not be the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers all or substantially all of its properties and assets to any Person, then and in either such case, proper provision shall be made so that the successors and assigns of Parent shall assume the obligations set forth in this Section 7.5.

SECTION 7.6. *Employee Benefits*.

(a) *Employee Benefits U.S. Employees*.

(i) Parent agrees that, during the period commencing at the Effective Time and ending on December 31, 2006 (the *Benefits Continuation Period*), the employees of the Company and any of its Subsidiaries located in the United States who are employed as of the Closing Date and continue employment (each a *Company U.S. Employee*) will continue to be provided with salary and benefits under employee benefit and commission or similar plans that are comparable in the aggregate to those currently provided by the Company or any of its Subsidiaries located in the United States to such employees under the U.S. Employee Benefit Plans listed in *Schedule 4.9(a)* of the Company Disclosure Schedule; provided that discretionary benefits shall remain discretionary.

(ii) For purposes of all employee benefit plans, programs and agreements maintained by or contributed to by Parent and its Subsidiaries (including, after Closing, the Surviving Company), Parent shall, or shall cause its Subsidiaries to cause each such plan, program or arrangement to treat the prior service with the Company or any of its Subsidiaries located in the United States of any Company U.S. Employee (to the same extent such service is recognized under analogous plans, programs or arrangements of the Company or any of its Subsidiaries located in the United States prior to the Effective Time) as service rendered to Parent or any of its Subsidiaries, as the case may be, for all purposes; *provided, however*, that such crediting of service shall not (i) operate to duplicate any benefit or the funding of such benefit under any plan, (ii) require the crediting of past service for benefit accrual purpose under any defined benefit pension plan or (iii) be credited if past service credit has not been or will not be provided to employees or Parent or its Subsidiaries participating in such plan. Company U.S. Employees shall also be given credit for any deductible or co-payment amounts paid in respect of the plan year in which the Closing occurs, to the extent that, following the Closing, they participate in any other plan for which deductibles or co-payments are required. Parent shall also cause each Parent Plan (as defined below) to waive any preexisting condition or waiting period limitation which would otherwise be applicable to a Company U.S. Employee on or after the Effective Time (to the extent such limitation would not apply under the corresponding U.S. Employee Benefit Plan). Parent shall recognize any accrued but unused vacation of the Company U.S. Employees as of the Effective Time, and Parent shall cause the Company and its Subsidiaries located in the United States to provide such paid vacation. For purposes of this Agreement, a *Parent Plan* shall mean such employee benefit plan, as defined in Section 3(3) of ERISA, or a nonqualified employee benefit or deferred compensation plan, stock option, bonus or incentive plan or other employee benefit or fringe benefit program, that may be in effect generally for employees of Company and its Subsidiaries located in the United States from time to time.

(iii) (A) During the Benefits Continuation Period, Parent shall satisfy or Parent shall cause the Company to satisfy any liability for all severance and similar obligations payable to any Company U.S. Employee, including for any Company U.S. Employee who is terminated by Parent or the Company, or any of their respective Subsidiaries located in the United States on terms no less favorable than those provided under the applicable Company severance plan set forth in *Schedule 7.6(a)(iii)(A)* of the Company Disclosure Schedule; *provided*, that all payment under such plans and programs that are

Table of Contents

discretionary shall remain discretionary, and (B) notwithstanding anything herein to the contrary, during the one year period following the Closing Date, Parent shall satisfy or Parent shall cause the Company to satisfy any liabilities incurred pursuant to the programs set forth on *Schedule 7.6(a)(iii)(B)* of the Company Disclosure Schedule.

(iv) Except as provided in this Section 7.6(a), nothing in this Agreement shall limit or restrict the rights of Parent or the Company to modify, amend, terminate or establish employee benefit plans or arrangements, in whole or in part, at any time after the Effective Time.

(v) No provision of this Section 7.6(a) shall create any third party beneficiary rights in any Company U.S. Employee or any current or former director or consultant of the Company or its Subsidiaries located in the United States in respect of continued employment (or resumed employment) or any other matter.

(b) *Employee Benefits Non-U.S. Employees*. Parent agrees that, at the Effective Time, Parent shall be responsible for and shall pay to any participant who holds gain sharing rights under the Shurgard Europe Gain Sharing Plan (the *Gain Sharing Plan*), any amounts due to such participant pursuant to Rule 7.1 of the Gain Sharing Plan. At the Effective Time, any gain sharing rights that were held by participants under the Gain Sharing Plan immediately prior to the Effective Time shall become fully matured pursuant to sub-Rule 5.1.5 of the Gain Sharing Plan.

(c) *Employment Agreements*. Parent agrees to cause the Company to honor all Contracts listed in *Schedule 7.6(c)* of the Company Disclosure Schedule in accordance with their terms (including any termination or amendment rights), which are applicable with respect to any employee, officer, director or executive or former employee, officer, director, or executive of the Company or any of its Subsidiaries (collectively, the *Employment Agreements*). Parent acknowledges that a Business Combination as that term is used in the Employment Agreements, shall occur at the Effective Time. Neither this Section 7.6(c) nor any other provision of this Agreement shall limit the ability or right of the Company and its Subsidiaries to terminate the employment of any of their respective employees after the Effective Time (subject to any rights of any such employees pursuant to any binding Contract, arrangement, policy, plan or commitment).

SECTION 7.7. *Tax Matters*.

(a) From the date of this Agreement until the Effective Time, Parent and its Subsidiaries will duly and timely file all Tax Returns and other documents required by it to be filed with federal, state and local Tax authorities, subject to extensions permitted by any Legal Requirement and properly granted by the appropriate authority, provided that such extensions do not adversely affect Parent s status as a REIT under the Code.

(b) Parent and its Subsidiaries shall cooperate in the preparation, execution, and filing of all returns, questionnaires, applications, or other documents regarding any Transfer Taxes which become payable in connection with the transactions contemplated by this Agreement, and shall cooperate in attempting to minimize the amount of such Transfer Taxes.

(c) For U.S. federal and applicable state income tax purposes, Parent and its Subsidiaries shall report and treat the Merger as a taxable disposition by the Company of all of the Company s assets to Merger Sub in exchange for the Merger Consideration, the cash paid pursuant to Section 3.7, the Parent Preferred Stock, if any, and the assumption of all of the Company s liabilities, followed by a liquidating distribution of such Merger Consideration, cash paid pursuant to Section 3.7 and the Parent Preferred Stock, if any, to the holders of the Company Common Stock and Company Preferred Stock pursuant to Sections 331 and 562 of the Code.

(d) Parent shall provide to the Company an opinion of Hogan & Hartson, L.L.P. or other outside counsel reasonably satisfactory to the Company, dated as of the Closing Date, to Parent substantially in the form of *Exhibit D* and reasonably satisfactory to the Company (the *Parent REIT Opinion*).

Table of Contents

ARTICLE VIII.

COVENANTS OF ALL PARTIES

SECTION 8.1. *Shareholder Approval; Preparation of Proxy Statement and Registration Statement*.

(a) As promptly as practicable following the date hereof, the Company and Parent shall cooperate in preparing and shall cause to be filed with the SEC mutually acceptable proxy materials that shall constitute the proxy statement/prospectus relating to the matters to be submitted to the Company common shareholders at the Company Shareholders Meeting (as defined below) and to Parent common shareholders at the Parent Shareholders Meeting (such joint proxy statement/prospectus, and any amendments or supplements thereto, the *Proxy Statement*), and Parent shall prepare and file with the SEC the Registration Statement (of which the Proxy Statement will be a part). Parent and the Company shall use their reasonable best efforts to cause the Registration Statement to become effective under the Securities Act as soon after such filing as practicable and to keep the Registration Statement effective as long as is necessary to consummate the Merger. The Company, acting through the Company Board shall, subject to its fiduciary duties under the WBCA, have included in the Proxy Statement the recommendation of the Company Board that the shareholders of the Company approve the Merger and adopt this Agreement. Parent, acting through its board of directors, shall have included in the Proxy Statement the recommendation of Parent s board of directors that the shareholders of Parent approve the Share Issuance. All correspondence and communications to the SEC made by the Company or Parent with respect to the transactions contemplated by this Agreement, will be provided to the other party with an opportunity to review and comment thereon, prior to such communication or correspondence being made to the SEC, and all other correspondence or communication made to the SEC by the Company shall be provided to Parent at the time of submission to the SEC.

(b) Parent and the Company shall make all necessary filings with respect to the Merger and the transactions contemplated thereby under the Securities Act and the Exchange Act and applicable blue sky laws and the rules and regulations thereunder. Each party will advise the other, promptly after it receives notice thereof, of the time when the Registration Statement has become effective or any supplement or amendment has been filed, the issuance of any stop order, the suspension of the qualification of the Parent Common Stock or the Parent Preferred Stock issuable in connection with the Merger for offering or sale in any jurisdiction, or any request by the SEC for amendment of the Proxy Statement or the Registration Statement or comments thereon and responses thereto or requests by the SEC for additional information. No amendment or supplement to the Proxy Statement or the Registration Statement shall be filed without the approval of both parties hereto, which approval shall not be unreasonably withheld or delayed; *provided* that, with respect to documents filed by a party which are incorporated by reference in the Proxy Statement or the Registration Statement, this right of approval shall apply only with respect to information relating to the other party and its Affiliates, their business, financial condition or results of operations or the transactions contemplated hereby; and *provided*, *further*, that the Company, in connection with a Subsequent Determination, may amend or supplement the Proxy Statement (including by incorporation by reference) pursuant to a Qualifying Amendment (as defined below) to effect such a Subsequent Determination, and in such event, this right of approval shall apply only with respect to information relating to Parent and its Affiliates or their business, financial condition or results of operations. *Qualifying Amendment* means an amendment or supplement to the Proxy Statement (including by incorporation by reference) to the extent it contains (i) a Subsequent Determination, (ii) a statement of the reasons of the Company Board for making such Subsequent Determination and (iii) additional information reasonably related to the foregoing.

(c) If at any time prior to the Effective Time, any information relating to Parent or the Company, or any of their respective Affiliates, officers or directors, should be discovered by Parent or the Company that should be set forth in an amendment or supplement to the Registration Statement or the Proxy Statement, so that such documents would not include any misstatement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, the party which discovers such information shall promptly notify the other parties hereto and an appropriate amendment or supplement describing such information shall be promptly filed with the SEC and, to the extent required by law, disseminated to the shareholders of the Company.

(d) The Company shall, following the execution of this Agreement, duly call, give notice of, convene and hold a meeting of its common shareholders for the purpose of adopting this Agreement and approving the Merger (the *Company Shareholders Meeting*). The Company shall, subject to the provisions of Section 6.4, (i) use its reasonable best efforts to solicit from common shareholders of the Company proxies in favor of adoption of this Agreement and approval of the Merger for the Company Shareholders Meeting and (ii) recommend to its common shareholders the adoption of this Agreement and approval of the Merger.

(e) Parent shall, following the execution of this Agreement, duly call, give notice of, convene and hold a meeting of its common shareholders (the *Parent Shareholders Meeting*) for the purpose of approving the Share Issuance. Parent shall (i) use its reasonable best efforts to solicit from common shareholders of Parent proxies in favor of approval of the Share Issuance for the Parent Shareholders Meeting and (ii) recommend to its common shareholders the approval of the Share Issuance. The Parent board of directors shall not withdraw or modify, or propose to withdraw or modify, in a manner adverse to the Company, its approval or recommendation of this Agreement, the Merger and the Share Issuance. Parent shall take all actions necessary or advisable to authorize and create the Parent Preferred Stock including amending its articles of incorporation and, if required, obtaining the approval of its shareholders in connection therewith.

(f) Notwithstanding anything to the contrary contained in this Agreement, if this Agreement is terminated, the Company shall not be required to hold the Company Shareholders Meeting and Parent shall not be required to hold the Parent Shareholders Meeting.

SECTION 8.2. *Reasonable Best Efforts*.

(a) Each of the parties agrees to use its reasonable best efforts to take, or cause to be taken, all actions, and to do, or cause to be done, and to assist and cooperate with the other parties in doing, all things necessary, proper or advisable under Legal Requirements applicable to such party and otherwise to consummate and make effective, in the most expeditious manner practicable, the Merger and the other transactions contemplated by this Agreement, including (i) the obtaining of all other necessary actions or non-actions, extensions, waivers, Permits or Consents from Persons, including Third Parties and the making of all other necessary registrations, notices and filings (including other filings with Governmental Entities, if any), (ii) the preparation of the Proxy Statement, (iii) the preparation of the Registration Statement and (iv) the execution and delivery of any additional instruments necessary to consummate the transactions contemplated by, and to fully carryout the purposes of, this Agreement.

(b) Each of Parent and the Company shall use its reasonable best efforts to cooperate in all respects with each other in connection with any filing or submission to or any investigation or proceeding by the Federal Trade Commission (the *FTC*), the Antitrust Division of the Department of Justice (the *DOJ*) or any other Governmental Entity.

(c) Each of Parent and the Company shall, in connection with the efforts referenced in Section 8.2(a) to obtain all required Permits and Consents under any applicable Legal Requirements, use its reasonable best efforts to (i) subject to applicable Legal Requirements and provided that parties may redact any discussion of the value of this or alternative transactions, permit the other party to review and discuss in advance, and consider in good faith the views of the other in connection with, any proposed written or material oral communication (or other correspondence or memoranda) between it and any Governmental Entity, and (ii) promptly inform each other of and supply to such other party any communication (or other correspondence or memoranda) received by such party from, or given by such party to, the DOJ, the FTC or any other Governmental Entity, in each case regarding the Merger contemplated hereby.

(d) In furtherance and not in limitation of the covenants of the parties contained in this Section 8.2, if any objections are asserted with respect to the Merger contemplated hereby under any antitrust or competition law, each of Parent and the Company agrees to use its reasonable best efforts (which under no circumstances shall involve divesting of material assets) to resolve any antitrust concerns, federal, state, foreign or private, obtain all Permits and Consents and obtain termination of the waiting period under the HSR Act or any other applicable law and the termination of any outstanding judicial or administrative orders prohibiting the Closing so as to permit consummation of the Merger as soon as practicable. In furtherance and not in limitation thereof, if any administrative or judicial action or proceeding, including any proceeding by a private party, is instituted (or threatened in writing to be instituted) challenging any transaction contemplated by this Agreement as violative of any law or regulation, or if any statute, rule, regulation, executive order, decree, injunction or administrative order is enacted, entered, promulgated or enforced by a Governmental Entity that would make the Merger illegal or would otherwise prohibit or materially impair or delay the consummation of the transactions contemplated hereby, the Company shall cooperate with Parent in all respects in responding thereto, and each shall use its respective reasonable best efforts to contest, resist and/or attempt to resolve any such action or proceeding and to have vacated, lifted, reversed or overturned any decree, judgment, injunction or other order, whether temporary, preliminary or permanent, that is in effect and that prohibits, prevents or restricts consummation of the transactions contemplated by this Agreement, and to have such statute, rule, regulation, executive order, decree, injunction or administrative order repealed, rescinded or made inapplicable so as to permit consummation of the Merger.

(e) In connection with the obtaining of Consents from Third Parties or obviating the need to obtain such Consents, if requested in writing by Parent, the Company shall or shall cause its Subsidiaries to execute any documents, agreements and instruments and take such other actions to the extent practicable, in accordance with applicable Legal Requirements and the Company s Articles of Incorporation and By-Laws and the applicable formation and governing Contracts of the Company s Subsidiaries (including forming Subsidiaries and transferring properties or assets of the Company to such Subsidiaries), all in such order, form and substance as reasonably requested by Parent; *provided, however*, that if the Closing is not consummated and this Agreement is terminated in accordance with its terms, Parent shall, promptly upon request by the Company, reimburse the Company for all out-of-pocket costs and expenses (including fees and expenses of counsel, accountants, appraisers and other advisors) incurred by the Company or its Subsidiaries in connection with any actions taken by the Company or its Subsidiaries at the direction of Parent in accordance with this Section 8.2(e). If the Closing is not consummated and this Agreement is terminated in accordance with its terms, Parent agrees to indemnify and hold harmless the Company and its Subsidiaries from and against any and all liabilities arising or resulting from, or suffered or incurred by any of them, in connection with any actions taken in good faith or at Parent s direction in connection with this Section 8.2(e).

SECTION 8.3. *Listing of Shares*. Parent shall use its reasonable best efforts to cause the shares of Parent Common Stock and the Parent Preferred Stock to be issued in the Merger and by the transactions contemplated by this Agreement and the shares of Parent Common Stock to be reserved for issuance upon exercise of Options (the *Share Issuance*) to be approved for listing, upon official notice of issuance, on the NYSE.

SECTION 8.4. *Affiliate Letter*. On or prior to the date of the Company Shareholders Meeting, the Company will deliver to Parent a letter (the *Company Affiliate Letter*) identifying all persons who are affiliates of the Company for purposes of Rule 145 under the Securities Act (*Rule 145*). On or prior to the Closing Date, the Company will use all reasonable efforts to cause each person identified as an affiliate in the Company Affiliate Letter to deliver a written agreement, in form and substance reasonably acceptable to Parent, in connection with restrictions on affiliates under Rule 145.

SECTION 8.5. *Section 16(b)*. Assuming that the Company delivers to Parent the Company Section 16 Information (as hereinafter defined) in a timely fashion prior to the Effective Time, the Board of Directors of Parent, or a committee of Non-Employee Directors thereof (as such term is defined for purposes of Rule 16b-3(d) under the Exchange Act), shall reasonably promptly thereafter and in any event prior to the Effective Time adopt a resolution providing in substance that the receipt by the Company Insiders (as hereinafter defined) of Parent Common Stock in exchange for shares of Company Common Stock pursuant to the transactions contemplated hereby and to the extent such securities are listed in the Company Section 16 Information, are intended to be exempt from liability pursuant to Section 16(b) under the Exchange Act in accordance with Rule 16b-3 and interpretations of the SEC thereunder. *Company Section 16 Information* shall mean information accurate in all material respects regarding Company Insiders, the number of shares of Company Common Stock held by each such Company Insider and expected to be exchanged for Parent Common Stock in the Merger and any other information that may be required under applicable interpretations of the SEC under Rule 16b-3. *Company Insiders* shall mean those officers and directors of the Company who are subject to the reporting requirements of Section 16(a) of the Exchange Act and who are listed in the Company Section 16 information.

SECTION 8.6. *Company Indebtedness*. With respect to the indentures set forth on *Schedule 8.6* of the Company Disclosure Schedule (collectively, the *Assumed Indentures*), Parent shall execute and deliver to the trustees or other representatives in accordance with the terms of the respective Assumed Indentures, supplemental indentures or other instruments, in form reasonably satisfactory to the respective trustees or other representatives, expressly assuming the obligations of the Company and/or any of its Subsidiaries under such indentures with respect to the due and punctual payment of the principal of (and premium, if any) and interest, if any, on, and conversion and redemption obligations, if any, under, all debt securities issued by the Company and/or any of its Subsidiaries under the Assumed Indentures and the due and punctual performance of all the terms, covenants and conditions of the Assumed Indentures to be kept or performed by the Company and/or any of its Subsidiaries and shall deliver such supplemental indentures or other instruments to the respective trustees or other representatives under the Assumed Indentures. The Company and its Subsidiaries shall provide, and shall cause their respective officers, employees and Representatives to provide, all cooperation reasonably requested by Parent in connection with the repayment, defeasance, modification, refinancing, or assumption, effective upon the Closing of all rights and obligations of the Company and its Subsidiaries in respect of Indebtedness and any debt or equity financing arrangements of Parent. Such cooperation shall include, but not be limited to, the preparation and delivery of any required certificates, supplemental indentures, notices, supplemental agreements and other customary documents and deliverables. If the Closing is not consummated, Parent shall, promptly upon request by the Company, reimburse the Company for all reasonable out-of-pocket costs and expenses (including fees and expenses of counsel) incurred by the Company or its Subsidiaries in connection with any actions taken by the Company or its Subsidiaries in accordance with this Section 8.6.

SECTION 8.7. *Parent Board of Directors*. At the Effective Time, Parent shall take all requisite action to cause one of the current independent members of the Company Board mutually selected by Parent and the Company to be appointed as a director to the Board of Directors of Parent.

SECTION 8.8. *Public Announcements*. The press release announcing the execution of this Agreement shall be issued only in such form as shall be mutually agreed upon by Merger Sub and the Company. Thereafter, Merger Sub and the Company shall consult with each other before issuing any press release or otherwise making any public statements with respect to the transactions contemplated by this Agreement, including the Merger and shall not issue any such press release or make any such public statement before such consultation, except as may be required by any applicable Legal Requirement.

ARTICLE IX.

CONDITIONS OF MERGER

SECTION 9.1. *General Conditions*. Notwithstanding any other provisions of this Agreement, the obligations of all of the parties hereto to effect the Merger shall be subject to satisfaction of the following conditions:

(a) *The Company s Shareholder Approval*. The shareholders of the Company shall have approved the Merger as provided for in Section 8.1.

(b) *Parent s Shareholder Approval*. The shareholders of Parent shall have approved the Share Issuance as provided for in Section 8.1.

(c) *Restraints*. No temporary restraining order, preliminary or permanent injunction or other order preventing the consummation of the Merger shall have been issued since the date of this Agreement by any Governmental Entity and shall remain in effect; and no U.S. federal or state Legal Requirement that makes consummation of the Merger illegal shall be in effect or shall have been enacted or adopted since the date of this Agreement and shall remain in effect.

(d) *NYSE Listing*. The shares of Parent Common Stock and Parent Preferred Stock to be issued in the Merger and the shares of Parent Common Stock to be reserved for issuance upon exercise of Options shall have been approved for listing on the NYSE, subject to official notice of issuance.

(e) *Effectiveness of the Registration Statement*. The Registration Statement shall have been declared effective by the SEC under the Securities Act. No stop order suspending the effectiveness of the Registration Statement shall have been issued by the SEC and no proceedings for that purpose shall have been initiated and not concluded or withdrawn.

SECTION 9.2. *Conditions to Obligations of Parent and Merger Sub*. Notwithstanding any other provisions of this Agreement, the obligations of Parent and Merger Sub to effect the Merger shall be subject to satisfaction of the following conditions:

(a) *Representations and Warranties*. The representations and warranties of the Company contained in (i) Sections 4.2(a) (Capitalization), 4.3 (Authorization and Execution), 4.19 (Brokers), 4.20 (Opinion of Financial Advisors), 4.21 (Anti-takeover Legal Requirements), 4.22 (Rights Agreement Amendment), and 4.24 (Voting Requirements) of this Agreement shall be true and correct in all material respects on and as of the date hereof and on and as of Closing Date as if made at and as of the Closing Date (except for any representations and warranties made as of a specified date, which shall be true and correct in all material respects as of the specified date) and (ii) in all other sections of this Agreement shall be true and correct (without regard to any materiality or Company Material Adverse Effect qualifier contained therein), on and as of the date hereof and on and as of the Closing Date as if made at and as of the Closing Date (except for any representations and warranties made as of a specified date, which shall be true and correct as of the specified date), except where the failure of such representations and warranties to be true and correct would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

(b) *Agreements and Covenants*. The Company shall have performed or complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by it at or prior to the Effective Time.

(c) *No Material Adverse Effect*. After the date of this Agreement, there shall not have occurred or been discovered any Company Material Adverse Effect or events, developments or circumstances that would reasonably be expected to, individually or in the aggregate, have a Company Material Adverse Effect, except for events, developments or circumstances associated with or related to Parent waiving the condition in Section 9.2(f).

(d) *Tax Opinion*. The Company shall have delivered to Parent and Merger Sub the Company REIT Opinion.

(e) *Officer s Certificate*. The Company shall have delivered to Parent an officer s certificate reasonably satisfactory to Parent certifying that the conditions set forth in Section 9.2(a), (b) and (c) have been satisfied.

(f) *Consents and Approvals*. All Permits and Consents legally required to be obtained to consummate the Merger shall have been obtained from all Governmental Entities, whether domestic or foreign, except where the failure to obtain any such Permit or Consent, or for any such Permit or Consent to be in full force and effect, would not be reasonably likely to, individually or in the aggregate, have a Company Material Adverse Effect or Parent Material Adverse Effect.

SECTION 9.3. *Conditions to Obligations of the Company*. Notwithstanding any other provisions of this Agreement, the obligations of the Company to effect the Merger shall be subject to satisfaction of the following conditions:

(a) *Representations and Warranties*. The representations and warranties of Parent and Merger Sub contained in (i) Sections 5.3 (Authorization and Execution) and 5.16 (Voting Requirements) of this Agreement shall be true and correct in all material respects on and as of the date hereof and on and as of Closing Date as if made at and as of the Closing Date (except for any representations and warranties made as of a specified date, which shall be true and correct in all material respects as of the specified date) and (ii) in all other sections of this Agreement shall be true and correct (without regard to any materiality or Parent Material Adverse Effect qualifier contained therein), on and as of the date hereof and on and as of the Closing Date as if made at and as of the Closing Date (except for any representations and warranties made as of a specified date, which shall be true and correct as of the specified date), except where the failure of such representations and warranties to be true and correct would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect.

(b) *Agreements and Covenants*. Each of Parent and Merger Sub shall have performed or complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by it at or prior to the Effective Time.

(c) *No Material Adverse Effect*. After the date of this Agreement, there shall not have occurred or been discovered any Parent Material Adverse Effect or events, developments or circumstances that would reasonably be expected to, individually or in the aggregate, have a Parent Material Adverse Effect.

(d) *Tax Opinion*. Parent shall have delivered to the Company the Parent REIT Opinion.

(e) *Officers Certificates*. Each of Parent and Merger Sub shall have delivered to the Company an officers certificate reasonably satisfactory to the Company certifying that the conditions set forth in Section 9.3(a), (b) and (c) have been satisfied.

ARTICLE X.

TERMINATION, AMENDMENT AND WAIVER

SECTION 10.1. *Termination*. This Agreement may be terminated at any time before the Effective Time:

(a) By mutual written consent of the Board of Directors of Merger Sub and the Company Board; or

(b) By either Parent, Merger Sub or the Company, if any Governmental Entity shall have issued an order, decree or ruling or taken any other action (which order, decree or ruling the parties hereto shall use their best efforts to lift), in each case permanently restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement; or

(c) By either Parent, Merger Sub or the Company, if (i) the shareholders of the Company fail to approve the Merger upon the taking of a vote at a duly held meeting of the shareholders or at any adjournment thereof or (ii) the shareholders of Parent fail to approve the Share Issuance upon the taking of a vote at a duly held meeting of the shareholders or at any adjournment thereof; or

(d) By the Company:

(i) if the Company has approved a Superior Proposal in accordance with Section 6.4(b); *provided, however*, that this Agreement may be terminated by the Company pursuant to this Section 10.1(d)(i) only after the fourth Business Day following the Company s delivery of written notice to Parent advising Parent and Merger Sub that the Company Board is prepared to accept a Superior Proposal setting forth the material terms and conditions of any such Superior Proposal, including the amount of consideration per share of Company Common Stock the shareholders of the Company will receive and the definitive agreements pursuant to which such Superior Proposal would be implemented (the

Superior Proposal Notice) only if (i) during such four Business Day period, if requested by Parent or Merger Sub, the Company has caused its financial and legal advisors to negotiate with Parent in good faith to propose adjustments in the terms and conditions of this Agreement and (ii) the Company Board has considered such proposed adjustments in the terms and conditions of this Agreement and has concluded in good faith, after consultation with its financial and legal advisors, that the Acquisition Proposal as set forth in the Superior Proposal Notice remains a Superior Proposal even after giving effect to the adjustments proposed by Parent and Merger Sub and provided that, immediately prior to and as a condition of such termination, the Company shall comply with its obligations under the terms of Section 10.2(b); or

(ii) if there shall have been a material breach of any representation, warranty, covenant or agreement on the part of Parent or Merger Sub contained in this Agreement such that the condition set forth in either Section 9.3(a) or 9.3(b) would not be satisfied and which, if curable, shall not have been cured prior to the earlier of thirty Business Days after the giving of written notice by the Company to Parent and the Outside Date (as defined below); provided, that the Company shall not have the right to terminate this Agreement pursuant to this clause (ii) if the Company is then in material breach of any of its representations, warranties, covenants or agreements set forth in this Agreement such that the condition set forth in either Section 9.3(a) or 9.3(b) would not be satisfied; or

(iii) if the Closing shall not have occurred on or before December 31, 2006 (the Outside Date); provided that the Company may not terminate this Agreement pursuant to this Section 10.1(d)(iii) if the Company is in material breach of this Agreement; or

(e) By Parent or Merger Sub:

(i) the Company Board shall have (w) withdrawn, or modified or changed in a manner adverse to Parent or Merger Sub its approval or recommendation of this Agreement or the transactions contemplated hereby, including the Merger, (x) recommended or approved an Acquisition Proposal, (y) adopted any resolution to effect any of the foregoing, or (z) failed to reconfirm its recommendation of this Agreement within five Business Days after being requested in writing by Parent to do so (except as permitted by Section 6.4(b)); or

(ii) if there shall have been a material breach of any representation, warranty, covenant or agreement on the part of the Company contained in this Agreement such that the condition set forth in either Section 9.2(a) or 9.2(b) would not be satisfied and which, if curable, shall not have been cured prior to the earlier of thirty Business Days after the giving of written notice by Parent to the Company and the Outside Date; provided, that Parent or Merger Sub shall not have the right to terminate this Agreement pursuant to this clause (ii) if Parent or Merger Sub is then in material breach of any of its representations, warranties, covenants or agreements set forth in this Agreement such that the condition set forth in either Section 9.2(a) or 9.2(b) would not be satisfied; or

(iii) if the Closing shall not have occurred on or before the Outside Date; provided that Parent and Merger Sub may not terminate this Agreement pursuant to this Section 10.1(e)(iii) if Parent or Merger Sub is in material breach of this Agreement.

SECTION 10.2. *Effect of Termination*. (a) In the event of termination of this Agreement by either the Company or Parent or Merger Sub as provided in Section 10.1, this Agreement shall forthwith become void and have no effect, without any liability or obligation on the part of Parent, Merger Sub or the Company, except (i) that the terms and conditions set forth in this Article X shall continue to remain in full force and effect notwithstanding any such termination, (ii) as otherwise provided in Section 11.1, and (iii) that nothing contained herein shall relieve any party for willful breach of any of its representations, warranties, covenants or agreements set forth in this Agreement.

(b) In the event this Agreement is terminated (x) by the Company pursuant to Section 10.1(d)(i) or (y) by Parent pursuant to Section 10.1(e)(i), then the Company shall pay, or cause to be paid, to Parent

(A) in the case of clause (x) above, on the date of such termination and immediately prior to and as a condition to the termination and (B) in the case of clause (y) above, within two Business Days after such termination, an amount equal to the Termination Fee (as defined below) by wire transfer of immediately available funds to an account designated by Parent.

(c) In the event that this Agreement is terminated by any party pursuant to Section 10.1(c)(i) or by the Company pursuant to Section 10.1(d)(iii) or by Parent pursuant to Section 10.1(e)(ii) and, in each case, an Acquisition Proposal shall at the time of such termination have been publicly proposed or publicly announced and within 12 months of the termination of this Agreement, the Company or any of its Subsidiaries consummates a transaction included in the definition of Acquisition Proposal (or enters into an agreement with respect to such a transaction which subsequently closes), then the Company shall pay Parent an amount equal to the Termination Fee, by wire transfer of immediately available funds to an account designated by Parent, within two Business Days after the consummation of such Acquisition Proposal. For purposes of this Section 10.2(c), the definition of Acquisition Proposal contained in this Agreement shall be applied by substituting 25% for 10% in such definition.

(d) As used in this Agreement, the *Termination Fee* shall be an amount equal to the lesser of (x) $125 million (the *Base Amount*) less the amount of any Parent Termination Costs which have previously been paid pursuant to Section 10.2(e) and (y) the sum of (A) the maximum amount that can be paid to Parent without causing Parent to fail to meet the requirements of Sections 856(c)(2) and (3) of the Code determined as if the payment of such amount did not constitute income described in Sections 856(c)(2)(A)-(H) and 856(c)(3)(A)-(I) of the Code (*Qualifying Income*), as determined by independent accountants to Parent, and (B) in the event Parent receives and, prior to the date the Termination Fee is due to be paid to Parent as described above, provides a copy to the Company of an opinion or a letter from outside counsel (the *Termination Fee Tax Opinion*) indicating that Parent has received an opinion of counsel or a ruling from the IRS holding that Parent s receipt of the Base Amount would either constitute Qualifying Income or would be excluded from gross income of Parent within the meaning of Sections 856(c)(2) and (3) of the Code (the *REIT Requirements*), the Base Amount less the amount payable under clause (A) above. In the event that Parent is not able to receive the full Base Amount on the date the Termination Fee is due as described above, the Company shall place the amount by which the Base Amount exceeds the amount paid under clause (y)(A) of the preceding sentence above (the *Unpaid Base Amount*) with an escrow agent selected by Parent which shall not release any portion thereof to Parent unless and until Parent provides the escrow agent (with a copy to the Company) with either one of the following: (A) a letter from Parent s independent accountants indicating the maximum portion of the Unpaid Base Amount that can be paid at that time to Parent without causing Parent to fail to meet the REIT Requirements or (B) a Termination Fee Tax Opinion, in either of which events the escrow agent shall pay to Parent from the escrow the lesser of the Unpaid Base Amount and, if applicable, the maximum amount stated in the accountants letter referred to in clause (A) of this sentence. The escrow agent s obligation to pay any portion of the Unpaid Base Amount shall terminate three years from the Effective Time. Amounts remaining in escrow after such obligation terminates shall be released to the Company.

(e) If this Agreement is terminated pursuant to Section 10.1(c)(i) and an Acquisition Proposal shall at the time of such termination have been publicly proposed or publicly announced, the Company shall pay to Parent all of the costs and expenses incurred by Parent or its Affiliates in connection with this Agreement and the transactions contemplated by this Agreement up to a maximum amount of $10,000,000 (collectively, *Parent Termination Costs*), such payment to be made by wire transfer of immediately available funds to an account designated by Parent not later than two Business Days after being notified by Parent of the amount of such costs and expenses. Parent may reduce the amount of such Parent Termination Costs to be paid by the Company as not to adversely affect Parent s ability to meet the requirements of either or both of Sections 856(c)(2) or (3) of the Code and the amount of such reduction shall be placed in escrow by the Company and shall not be released unless Parent provides the Company with a Termination Fee Tax Opinion, and at such time any Termination Fee Tax Opinion is delivered, shall promptly release the amount referred to in such Termination Fee Tax Opinion to Parent. Such escrow arrangement shall expire, and remaining funds returned to the Company, on the date that is three years after the date of this Agreement. Nothing herein shall be construed to limit the number of distributions pursuant to this escrow prior to the date of the expiration of such escrow.

(f) The Company and Parent agree that the agreements contained in this Section 10.2 are an integral part of the transactions contemplated by this Agreement, and that the payments to be made thereunder shall be compensation for the loss suffered by the applicable party as a result of the failure of the Merger to be consummated and constitute liquidated damages and not a penalty.

ARTICLE XI.

GENERAL PROVISIONS

SECTION 11.1. *Non-Survival of Representations, Warranties and Agreements*. The representations, warranties and agreements in this Agreement shall terminate at the Effective Time or the termination of this Agreement pursuant to Section 10.1, as the case may be, except that the agreements set forth in Article II, Article III and Section 7.5, Section 7.6 and (to the extent applicable to any of the foregoing) Article XI shall survive the Effective Time indefinitely and those set forth in Section 6.1(b), Section 7.2(b), Section 10.2 and (to the extent applicable to any of the foregoing) Article XI shall survive termination indefinitely.

SECTION 11.2. *Notices*. All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed to have been duly given or made (i) as of the date delivered or sent by facsimile if delivered personally or by facsimile, and (ii) on the third Business Day after deposit in the U.S. mail, if mailed by registered or certified mail (postage prepaid, return receipt requested), in each case to the parties at the following addresses (or at such other address for a party as shall be specified by like notice, except that notices of changes of address shall be effective upon receipt):

(a) if to Parent or Merger Sub:

Public Storage, Inc.

701 Western Avenue

Glendale, California 91201

Attention: John S. Baumann, Esq.

Facsimile: 818-548-9288

With a copy to:

Wachtell, Lipton, Rosen & Katz

51 West 52nd Street

New York, New York 10019

Attention: Adam O. Emmerich, Esq.

David E. Shapiro, Esq.

Facsimile: 212-403-2000

(b) if to the Company:

Shurgard Storage Centers, Inc.

1155 Valley Street, Suite 400

Seattle, Washington 98109

Attention: Jane A. Orenstein, Esq.

Facsimile: (206) 652-3710

With a copy to:

Willkie Farr & Gallagher LLP

787 Seventh Avenue

New York, New York 10019

Attention: Richard L. Posen, Esq.

Facsimile: (212) 728-9255

A-58

SECTION 11.3. *Expenses*. Whether or not the transactions contemplated by this Agreement are consummated, and except as otherwise expressly set forth herein, all legal and other costs and expenses incurred in connection with the transactions contemplated by this Agreement shall be paid by the party incurring such expenses.

SECTION 11.4. *Headings*. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

SECTION 11.5. *Severability*. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the maximum extent possible.

SECTION 11.6. *Effectiveness; Entire Agreement*. This Agreement shall not be effective until, and shall become effective and binding upon the parties hereto upon, the execution and delivery hereof by the Company, Parent and Merger Sub. This Agreement shall constitute the entire agreement among the parties hereto with respect to the subject matter hereof and shall supersede all prior agreements and understandings, both written and oral, among such parties or any of them with respect to the subject matter hereof (other than the Confidentiality Agreement).

SECTION 11.7. *Parent Guarantee*. Parent agrees to take all action necessary to cause Merger Sub or the Surviving Company, as applicable, to perform all of its respective agreements, covenants and obligations under this Agreement. Parent unconditionally guarantees to the Company the full and complete performance by Merger Sub or the Surviving Company, as applicable, of its respective obligations under this Agreement and shall be liable for any breach of any agreement, covenant or obligation of Merger Sub or the Surviving Company, as applicable, under this Agreement. Merger Sub shall at all times prior to the Effective Time be a direct or indirect wholly owned Subsidiary of Parent.

SECTION 11.8. *Assignment*. Neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned or delegated, in whole or in part, by operation of law or otherwise by any of the parties without the prior written consent of the other parties and any assignment in violation of this Agreement shall be void; provided that Parent may substitute one or more of its wholly owned Subsidiaries for Merger Sub without consent of the other parties hereto.

SECTION 11.9. *No Third Party Beneficiaries*. This Agreement shall be binding upon and inure solely to the benefit of each party hereto and their respective successors and assigns except for (i) the rights of the Company s shareholders to receive the Merger Consideration and the Parent Preferred Stock, as applicable, at the Effective Time (of which the Company s shareholders are the intended beneficiaries), (ii) the rights of the holders of Options to secure the consideration contemplated by Section 3.6 (of which such holders are the intended beneficiaries), and (iii) the rights to continued indemnification and insurance pursuant to Section 7.5 (of which the Persons entitled to indemnification are the intended beneficiaries). Nothing in this Agreement, express or implied, is intended to or shall confer upon any other Person any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement. The Company shall be entitled to pursue damages on behalf of its shareholders arising from the willful and material breach of this Agreement by Parent or Merger Sub.

SECTION 11.10. *Governing Law*. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, regardless of the laws that might otherwise govern under applicable principles of conflict or choice of law, except that the Merger shall be effected in accordance with the WBCA and the LLC Act.

SECTION 11.11. *Specific Performance*. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement exclusively in any state or federal court in the State of New York, this being in addition to any other remedy to which such party is entitled at law or in equity. In addition, each of the parties hereto (a) consents to submit itself to the personal jurisdiction of any court of the United States located in the State and City of New York or any New York state or New York City court in the event of any action, suit or proceeding to enforce this Agreement, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court (c) agrees that it will not bring any action relating to this Agreement or any Transaction in any court other than any court of the United States located in the State and City of New York or any New York state or New York City court and (d) waives any right to trial by jury with respect to any action related to or arising out of this Agreement or any Transaction.

SECTION 11.12. *Amendment*. This Agreement may be amended by the parties hereto by action taken by Merger Sub and by action taken by or on behalf of the Company Board at any time before the Effective Time; *provided, however*, that, after approval of the Merger by the shareholders of the Company, no amendment may be made which would reduce the amount or change the type of consideration into which each share of Company Common Stock will be converted upon consummation of the Merger, without further approval of the shareholders of the Company. This Agreement may not be amended except by an instrument in writing signed by the parties hereto.

SECTION 11.13. *Waiver*. At any time before the Effective Time, any party hereto may (a) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (b) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto and (c) waive compliance with any of the agreements or conditions contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only as against such party and only if set forth in an instrument in writing signed by such party.

SECTION 11.14. *Counterparts*. This Agreement may be executed in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original but all of which shall constitute one and the same agreement.

SECTION 11.15. *Interpretation*. When a reference is made in this Agreement to an Article, Section, Schedule or Exhibit such reference shall be to an Article or Section of, or Schedule or Exhibit to, this Agreement unless otherwise indicated. Whenever the words include , includes or including are used in this Agreement, they shall be deemed to be followed by the words without limitation . The words hereof , herein and hereunder and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. The term or is not exclusive. The word extent in the phrase to the extent shall mean the degree to which a subject or other thing extends, and such phrase shall not mean simply if . The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms. References to a Person are also to its permitted successors and assigns.

[*Remainder of Page Intentionally Left Blank*]

Table of Contents

IN WITNESS WHEREOF, the Company, Parent and Merger Sub have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

SHURGARD STORAGE CENTERS, INC.

By: /s/ David K. Grant
Name: David K. Grant
Title: President and Chief Executive Officer

PUBLIC STORAGE, INC.

By: /s/ Ronald L. Havner, Jr.
Name: Ronald L. Havner, Jr.
Title: President and Chief Executive Officer

ASKL SUB LLC

By: /s/ Ronald L. Havner, Jr.
Name: Ronald L. Havner, Jr.
Title: President and Chief Executive Officer

A-61

STOCKHOLDERS VOTING AGREEMENT, dated as of March 6, 2006 (this *Agreement*), by and between Shurgard Storage Centers, Inc. (the *Company*) and the parties listed on *Schedule A* attached hereto (the *Stockholders*).

WHEREAS, the Company, Public Storage, Inc., a California corporation (*Parent*), and ASKL Sub LLC, a Delaware limited liability corporation and a direct or indirect subsidiary of Parent (*Merger Sub*), propose to enter into an Agreement and Plan of Merger dated as of the date of this Agreement (as the same may be amended or supplemented, the *Merger Agreement* ; terms used but not defined herein shall have the meanings set forth in the Merger Agreement) providing for the merger of the Company with and into Merger Sub (the *Merger*) upon the terms and subject to the conditions set forth in the Merger Agreement;

WHEREAS, each Stockholder owns (of record and beneficially) the number of shares of Parent Common Stock, par value $0.10 per share, set forth opposite such Stockholder s name on *Schedule A* hereto (such shares of Parent Common Stock being referred to herein as the *Original Shares* ; the Original Shares, together with any other shares of Parent Common Stock, other capital stock of Parent or other voting securities of Parent beneficially owned as of the date hereof as reflected in *Schedule A* or acquired (of record or beneficially) by such Stockholder after the date of this Agreement and during the term of this Agreement (including through the exercise of any warrants, stock options or similar instruments), being collectively referred to herein as the *Subject Shares*); and

WHEREAS, as a condition to its willingness to enter into the Merger Agreement, the Company has required that the Stockholders enter into this Agreement.

NOW, THEREFORE, in consideration of the foregoing and the representations, warranties, covenants and agreements set forth herein and in the Merger Agreement, the parties hereto, intending to be legally bound hereby, agree as follows:

SECTION 1. *Representations and Warranties of the Stockholders*. Each Stockholder hereby severally represents and warrants to Parent as follows:

(a) *Authority; Execution and Delivery; Enforceability*.

(i) If such Stockholder is other than a natural person, such Stockholder (x) is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization and (y) has all requisite corporate or other power and authority to execute and deliver this Agreement and to consummate the transactions contemplated by this Agreement. The execution and delivery of this Agreement by such Stockholder and the consummation by such Stockholder of the transactions contemplated by this Agreement have been duly authorized by all necessary corporate or other action on the part of such Stockholder and no other corporate or other proceedings on the part of such Stockholder are necessary to authorize this Agreement or to consummate the transactions contemplated by this Agreement. The execution and delivery of this Agreement and the consummation of the transactions contemplated by this Agreement and compliance with the provisions of this Agreement do not and will not conflict with, or result in any violation or breach of, any certificate of incorporation or by-laws, partnership agreement or limited liability company agreement (or similar organizational documents) of such Stockholder.

(ii) If such Stockholder is a natural person, such Stockholder has all power and authority to execute and deliver this Agreement and to consummate the transactions contemplated by this Agreement.

(iii) This Agreement has been duly executed and delivered by such Stockholder and constitutes a valid and binding obligation of such Stockholder, enforceable against such Stockholder in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors rights and to general equity principles. The execution and delivery of this Agreement and the consummation of the transactions contemplated by this Agreement and compliance with the provisions of this Agreement do not and will not conflict with, or result in any violation or breach of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of, or result in, termination, cancellation or acceleration of any obligation or to loss of a material benefit under, or result in the creation of any Lien in or upon any of the properties or assets of such Stockholder under, or give rise to any increased, additional, accelerated or guaranteed rights or entitlements under, any provision of (i) any Contract to which such Stockholder is a party or any of the Subject Shares are subject or (ii) subject to the governmental filings and other matters referred to in the following sentence, any Legal Requirement applicable to such Stockholder or the Subject Shares, other than, in the case of the foregoing clauses (i) and (ii), any such conflicts, violations, breaches, defaults, rights, losses, Liens or entitlements, that, individually or in the aggregate, would not reasonably be expected to impair the ability of such Stockholder to perform its obligations under this Agreement or prevent or materially impede or delay the consummation of any of the transactions contemplated by this Agreement or the Merger Agreement. No consent of, or registration, declaration or filing with, any Governmental Entity is required by or with respect to such Stockholder in connection with the execution and delivery of this Agreement by such Stockholder or the consummation by such Stockholder of the transactions contemplated by this Agreement or the compliance by such Stockholder with the provisions of this Agreement, except for (1) filings with the SEC of such reports under the Exchange Act as may be required in connection with this Agreement and (2) such other items and consents the failure of which to be obtained or made, individually or in the aggregate, would not reasonably be expected to impair the ability of such Stockholder to perform its obligations under this Agreement or prevent or materially impede or delay the consummation of any of the transactions contemplated by this Agreement or the Merger Agreement.

(b) *The Subject Shares*. Such Stockholder is the record and beneficial owner of and has good and valid title to, the Original Shares. As of the date of this Agreement, the Stockholder does not own of record any shares of capital stock of Parent other than the Original Shares, nor does such Stockholder beneficially own any shares of capital stock of Parent other than the Subject Shares. Such Stockholder has the sole right to vote the Original Shares and sell, transfer, pledge, assign or otherwise dispose of (including by gift) (collectively, *Transfer*) the Subject Shares, and none of the Subject Shares is subject to any voting trust or other agreement, arrangement or restriction with respect to the voting or the Transfer of the Subject Shares, except as set forth in Sections 3 and 4 of this Agreement or as otherwise permitted by this Agreement.

SECTION 2. *Representations and Warranties of the Company*. The Company hereby represents and warrants to each Stockholder as follows: the Company is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation. The Company has all requisite corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated by this Agreement and the Merger Agreement (collectively, the *Transactions*). The execution and delivery of this Agreement by the Company and the consummation of the Transactions have been duly authorized by all necessary corporate action on the part of the Company and no other corporate proceedings on the part of the Company are necessary to authorize this Agreement or to consummate the Transactions. This Agreement has been duly executed and delivered by the Company and constitutes a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors rights and to general equity principles. The execution and delivery of this Agreement and the consummation of the Transactions do not and will not conflict with, or result in any violation or breach of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of, or result in, termination, cancellation or acceleration of any obligation or to loss of a material benefit under, or result in the creation of any Lien upon any of the properties or assets of the Company under, or give rise to any increased, additional, accelerated or guaranteed rights or entitlements under, any provision of (i) the articles of incorporation or by-laws of the Company, (ii) any Contract applicable to the Company or its properties or assets or subject to the governmental filings and other matters referred to in the following sentence, any Legal Requirement applicable to the Company or its properties or assets, other than, in the case of clauses (ii) and (iii), any such conflicts, violations, breaches, defaults, rights, losses, Liens or entitlements that, individually or in the aggregate, would not have a Company Material Adverse Effect or impair the ability of the Company to consummate the Transactions or prevent or materially impede or delay the consummation of the Transactions. No consent of, or registration, declaration or filing with, any Governmental Entity is required by or with respect to the Company in connection with the execution and delivery of this Agreement by the Company or the consummation by the Company of the Transactions, except for (1) any antitrust filings in conjunction with the Merger, (2) filings with the SEC of such documents under the Securities Act and the Exchange Act as may be required in connection with this Agreement, the Merger Agreement and the Merger, (3) the filing of the Articles of Merger with the Secretary of State of the State of Washington and appropriate documents with the relevant authorities of the other jurisdictions in which the Company is qualified to do business, (4) filings with the NYSE and (5) such other items and consents, the failure of which to be obtained or made, individually or in the aggregate, would not have a Company Material Adverse Effect or impair the ability of the Company to consummate the Transactions or prevent or materially impede or delay the consummation of the Transactions.

SECTION 3. *Covenants of the Stockholders*. Each Stockholder severally covenants and agrees as follows:

(a) At any meeting of the stockholders of Parent (whether annual or special, and whether or not an adjourned or postponed meeting), or in any other circumstances upon which a vote, consent, adoption or other approval (including by written consent solicitation) is sought, such Stockholder shall vote (or cause to be voted) all of the Original Shares of such Stockholder and any other Subject Shares then owned of record and beneficially by such Stockholder: (1) in favor of the adoption of the Merger Agreement and the approval of the terms thereof and of the Merger and each of the other Transactions, including the share issuance, and (2) against any action or agreement that would (A) result in a breach of any covenant, representation or warranty or any other obligation or agreement under the Merger Agreement or of the Stockholders under this Agreement or (B) impede, interfere with, delay, discourage, postpone, or adversely affect the Merger or the transactions contemplated thereby or hereby.

(b) Such Stockholder hereby covenants and agrees that such Stockholder will not, and will agree not to, directly or indirectly, Transfer any of the Original Shares or Subject Shares, or grant any proxy, power-of-attorney or other authorization or interest in or with respect to such Original Shares or Subject Shares, or deposit such Original Shares or Subject Shares into a voting trust or enter into a voting agreement or arrangement with respect to such Original Shares or Subject Shares unless and until they shall have taken all actions (including the endorsement of a legend on the certificates evidencing such Original Shares or Subject Shares) necessary to ensure that such Original Shares or Subject Shares shall at all times be subject to the rights, powers and privileges granted or conferred, and subject to all restrictions, covenants and limitations imposed, by this Agreement and shall have caused any transferee of any of the Original Shares or the Subject Shares to execute and deliver to the other party hereto, an Agreement and irrevocable proxy consistent with the terms contained herein; provided however, that nothing contained herein shall prevent such Stockholder from Transferring Original Shares or Subject Shares which represent in the aggregate 1% or less of the outstanding shares of Parent Common Stock for estate tax planning purposes or to any charitable organization.

SECTION 4. *Grant of Irrevocable Proxy; Appointment of Proxy*.

(a) Subject to Section 8, each Stockholder hereby severally irrevocably grants to, and appoints, David K. Grant or Jane A. Orenstein, in their respective capacities as designees of the Company or other designees of the Company so designated, and each of them individually, or any of them, such Stockholder s proxy and attorney-in-fact (with full power of substitution), for and in the name, place and stead of such Stockholder, to vote all of such Stockholder s Subject Shares (owned of record) in accordance with Section 3(a)(1) and Section 3(a)(2)(A) of this Agreement.

B-3

(b) Each Stockholder represents that any proxies heretofore given in respect of such Stockholder s Subject Shares are not irrevocable and that all such proxies are hereby revoked.

(c) Each Stockholder understands and acknowledges that the Company is entering into the Merger Agreement in reliance upon such Stockholder s execution and delivery of this Agreement. Such Stockholder hereby affirms that the irrevocable proxy set forth in this Section 4 is given in connection with the execution of the Merger Agreement and that such irrevocable proxy is given to secure the performance of the duties of such Stockholder under this Agreement. Such Stockholder hereby further affirms that the irrevocable proxy is coupled with an interest and may under no circumstances be revoked. Such Stockholder hereby ratifies and confirms all that such irrevocable proxy may lawfully do or cause to be done by virtue hereof. The irrevocable proxy is executed and intended to be irrevocable in accordance with the provisions of Section 705(e) of the California Corporations Code.

SECTION 5. *Further Assurances*. Each Stockholder shall from time to time execute and deliver, or cause to be executed and delivered, such additional or further consents, documents and other instruments as requested by the Company that are necessary to carry out the purpose and intent of this Agreement.

SECTION 6. *Certain Events*. Each Stockholder severally agrees that this Agreement and the obligations hereunder shall attach to the Subject Shares and shall be binding upon any person or entity to which legal or beneficial ownership of any Subject Shares shall pass, whether by operation of law or otherwise, including such Stockholder s administrators or successors, and such Stockholder further agrees to take all actions necessary to effectuate the foregoing. In the event of any stock split, stock dividend, reclassification, merger, reorganization, recapitalization or other change in the capital structure of Parent affecting the capital stock of Parent, the number of Original Shares shall be adjusted appropriately. In addition, in the event of any other acquisition (of record or beneficially) of additional shares of Parent Common Stock, other capital stock of Parent or other voting securities of Parent by such Stockholder (including through the exercise of any warrants, stock options or similar instruments), the number of Subject Shares listed on *Schedule A* hereto beside the name of such Stockholder shall be adjusted appropriately. This Agreement and the representations, warranties, covenants, agreements and obligations hereunder shall attach to any additional shares of Parent Common Stock, other capital stock of Parent or other voting securities of Parent issued to or acquired (of record or beneficially) by any Stockholder directly or indirectly (including through the exercise of any warrants, stock options or similar instruments).

SECTION 7. *Assignment*. Neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned, in whole or in part, by operation of law or otherwise, by any of the parties hereto without the prior written consent of the other parties hereto. Any purported assignment in violation of this Section 7 shall be void. Subject to the preceding sentences of this Section 7, this Agreement shall be binding upon, inure to the benefit of and be enforceable by, the parties hereto and their respective successors and assigns.

SECTION 8. *Termination*. Except as set forth below, this Agreement (including the irrevocable proxy granted pursuant to Section 4(a)) shall terminate upon the earliest of (i) the Effective Time and (ii) the date of termination of the Merger Agreement. In the event of the termination of this Agreement pursuant to this Section 8, except as set forth herein, this Agreement shall forthwith become null and void, there shall be no liability on the part of any of the parties, and all rights and obligations of each party hereto shall cease except that this Section 8 and Sections 9 and 11 shall survive such termination and; *provided*, that no such termination of this Agreement shall relieve any party hereto from any liability for any breach of any provision of this Agreement prior to termination.

SECTION 9. *General Provisions*.

(a) *Amendments*. This Agreement may not be amended except by an instrument in writing signed by the parties hereto.

(b) *Notices*. All notices and other communications given or made pursuant to this Agreement shall be in writing and shall be deemed to have been duly given or made (i) as of the date delivered or sent by facsimile if delivered personally or by facsimile, and (ii) on the third Business Day after deposit in the U.S. mail, if mailed by registered or certified mail (postage prepaid, return receipt requested), in each case to the parties at the following addresses (or at such other address for a party as shall be specified by like notice, except that notices of changes of address shall be effective upon receipt):

if to the Company:

Shurgard Storage Centers, Inc.

1155 Valley Street, Suite 400

Seattle, Washington 98109

Attention: General Counsel

Facsimile: (206) 652-3710

With a copy to:

Willkie Farr & Gallagher LLP

787 Seventh Avenue

New York, New York 10019

Attention: Richard L. Posen, Esq.

Facsimile: (212) 728-9255

if to any Stockholder, at the addresses set forth on *Schedule A* hereto (or at such

other address as shall be specified by like notice);

With a copy to:

Public Storage, Inc.

701 Western Avenue

Glendale, CA 91201

Attention: Chief Legal Officer

Facsimile: (818) 548-9288

and with a copy to:

Wachtell, Lipton, Rosen & Katz

51 West 52nd Street

New York, NY 10019

Attention: Adam O. Emmerich, Esq.

Trevor S. Norwitz, Esq.

Facsimile: (212) 403-2000

(c) *Interpretation; Headings*. When a reference is made in this Agreement to a Section or a Schedule, such reference shall be to a Section of, or a Schedule to, this Agreement unless otherwise indicated. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words include , includes or including are used in this Agreement, they shall be deemed to be followed by the words without limitation . The words hereof , herein and hereunder and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. The term or is not exclusive. The word extent in the phrase to the extent shall mean the degree to which a subject or other thing extends, and such phrase shall not mean simply if . The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms. References to a person are also to its permitted successors and assigns.

(d) *Effectiveness; Entire Agreement*. This Agreement shall not be effective until, and shall become effective and binding upon the parties hereto upon, the execution and delivery hereof by the Company and each of the Stockholders. This Agreement shall constitute the entire agreement among the parties hereto with respect to the subject matter hereof and shall supersede all prior agreements and understandings, both written and oral, among such parties or any of them with respect to the subject matter hereof (other than the Merger Agreement). The effectiveness of this Agreement shall be conditioned upon the execution and delivery of the Merger Agreement by each of the parties thereto.

(e) *Expenses*. Whether or not the Transactions contemplated by this Agreement are consummated, and except as otherwise expressly set forth herein, all legal and other costs and expenses incurred in connection with the Transactions contemplated by this Agreement shall be paid by the party incurring such expenses.

(f) *No Third-Party Beneficiaries*. This Agreement shall be binding upon and inure solely to the benefit of each party hereto (and the persons specified as proxies in Section 4) and their respective successors and assigns. Nothing in this Agreement, express or implied, is intended to or shall confer upon any other Person any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

(g) *Governing Law*. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, regardless of the laws that might otherwise govern under applicable principles of conflict or choice of law.

(h) *Severability*. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the maximum extent possible.

(i) *Agreement Made Only in Capacity as Stockholder*. No person executing this Agreement who is or becomes during the term hereof a director, officer or employee of Parent makes any agreement or understanding herein in his or her capacity as such a director, officer or employee of Parent. Each Stockholder signs solely in his, her or its capacity as the record holder and beneficial owner of, or the trustee of a trust whose beneficiaries are the beneficial owners of, the Subject Shares and nothing herein shall require any action to be taken, or limit or affect any actions taken, by a Stockholder in his or her capacity as an officer, director or employee of Parent.

(j) *Counterparts*. This Agreement may be executed in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original but all of which shall constitute one and the same agreement.

SECTION 10. *Enforcement; Jurisdiction*. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any court of the United States located in the State of New York or in any New York state court, this being in addition to any other remedy to which they are entitled at law or in equity. In addition, each of the parties hereto (a) consents to submit itself to the personal jurisdiction of any court of the United States located in the State of New York or of any New York state court in the event of any action, suit or proceeding to enforce this Agreement, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court, (c) agrees that it will not bring any action relating to this Agreement or the transactions contemplated by this Agreement in any court other than a court of the United States located in the State of New York or a New York state court and (d) waives any right to trial by jury with respect to any claim or proceeding related to or arising out of this Agreement or any transaction contemplated by this Agreement.

IN WITNESS WHEREOF, the Company and the Stockholders have duly executed this Agreement, all as of the date first written above.

SHURGARD STORAGE CENTERS, INC.

by: /s/ David K. Grant
Name: David K. Grant

Title: President and Chief Executive Officer

STOCKHOLDERS:

B. W. HUGHES LIVING TRUST

by: /s/ B. Wayne Hughes
Name: B. Wayne Hughes

Title: Trustee

B. WAYNE HUGHES 5-04 ANNUITY TRUST

by: /s/ B. Wayne Hughes
Name: B. Wayne Hughes

Title: Trustee

B. WAYNE HUGHES 6-04 ANNUITY TRUST

by: /s/ B. Wayne Hughes
Name: B. Wayne Hughes

Title: Trustee

B. WAYNE HUGHES 9-05 ANNUITY TRUST

by: /s/ B. Wayne Hughes
Name: B. Wayne Hughes

Title: Trustee

AMERICAN COMMERCIAL EQUITIES TWO LLC

by: /s/ B. Wayne Hughes
Name: B. Wayne Hughes

Title: Member and Manager

by: /s/ B. Wayne Hughes, Jr.
Name: B. Wayne Hughes, Jr.

by: /s/ Tamara Hughes Gustavson
Name: Tamara Hughes Gustavson

B-7

Table of Contents

Schedule A

Name and Address of Stockholder	Number of Shares of Parent Common Stock Owned of Record and Beneficially*
B. W. Hughes Living Trust c/o Public Storage, Inc. 701 Western Avenue Glendale, CA 91201	14,862,452
B. Wayne Hughes 5-04 Annuity Trust c/o Public Storage, Inc. 701 Western Avenue Glendale, CA 91201	2,050,000
B. Wayne Hughes 6-04 Annuity Trust c/o Public Storage, Inc. 701 Western Avenue Glendale, CA 91201	1,624,000
B. Wayne Hughes 9-05 Annuity Trust c/o Public Storage, Inc. 701 Western Avenue Glendale, CA 91201	1,000,000
American Commercial Equities Two LLC c/o Public Storage, Inc. 701 Western Avenue Glendale, CA 91201	310,000
B. Wayne Hughes, Jr. c/o Public Storage, Inc. 701 Western Avenue Glendale, CA 91201	4,329,953[1] [2]

Tamara Hughes Gustavson c/o Public Storage, Inc. 701 Western Avenue Glendale, CA 91201	21,188,140[1] [3]

---

[1] Includes 11,348 shares owned jointly by B. Wayne Hughes, Jr. and Tamara Hughes Gustavson.
[2] Includes 11,896 shares owned by B. Wayne Hughes, Jr. as custodian for his children.
[3] Includes 2,500 shares owed by Tamara Hughes Gustavson as custodian for her children.
* Except as noted does not include shares owned by spouses and children or shares held in 401(K) plans or IRAs.

Table of Contents

STOCKHOLDERS VOTING AGREEMENT, dated as of March 6, 2006 (this *Agreement*), by and between Public Storage, Inc. (*Parent*) and Charles K. Barbo (the *Stockholder*).

WHEREAS, Shurgard Storage Centers, Inc. (the Company), Parent, and Askl Sub LLC, a Delaware limited liability corporation and a direct or indirect subsidiary of Parent (*Merger Sub*), propose to enter into an Agreement and Plan of Merger dated as of the date of this Agreement (as the same may be amended or supplemented, the *Merger Agreement* ; terms used but not defined herein shall have the meanings set forth in the Merger Agreement) providing for the merger of the Company with and into Merger Sub (the *Merger*) upon the terms and subject to the conditions set forth in the Merger Agreement;

WHEREAS, the Stockholder beneficially owns 1,216,942 of shares of Company Common Stock, par value $0.001 per share, (such shares of Company Common Stock being referred to herein as the *Original Shares* ; the Original Shares, together with any other shares of Company Common Stock, other capital stock of the Company or other voting securities of the Company beneficially owned as of the date hereof as reflected in *Schedule A* or acquired (of record or beneficially) by such Stockholder after the date of this Agreement and during the term of this Agreement (including through the exercise of any warrants, stock options or similar instruments), being collectively referred to herein as the *Subject Shares*); and

WHEREAS, as a condition to its willingness to enter into the Merger Agreement, Parent has required that the Stockholder enter into this Agreement.

NOW, THEREFORE, in consideration of the foregoing and the representations, warranties, covenants and agreements set forth herein and in the Merger Agreement, the parties hereto, intending to be legally bound hereby, agree as follows:

SECTION 1. *Representations and Warranties of the Stockholders*. The Stockholder hereby represents and warrants to Parent as follows:

(a) Authority; Execution and Delivery; Enforceability.

(i) The Stockholder has all requisite power and authority to execute and deliver this Agreement.

(ii) This Agreement has been duly executed and delivered by the Stockholder and constitutes a valid and binding obligation of the Stockholder, enforceable against the Stockholder in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors rights and to general equity principles. The execution and delivery by the Stockholder of this Agreement and compliance by the Stockholder with the provisions of this Agreement do not and will not conflict with, or result in any violation or breach of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of, or result in, termination, cancellation or acceleration of any obligation or to loss of a material benefit under, or result in the creation of any Lien in or upon any of the properties or assets of the Stockholder under, or give rise to any increased, additional, accelerated or guaranteed rights or entitlements under, any provision of (i) any Contract to which the Stockholder is a party or any of the Subject Shares are subject or (ii) subject to the governmental filings and other matters referred to in the following sentence, any Legal Requirement applicable to the Stockholder or the Subject Shares, other than, in the case of the foregoing clauses (i) and (ii), any such conflicts, violations, breaches, defaults, rights, losses, Liens, entitlements or Legal Requirements that, individually or in the aggregate, would not reasonably be expected to impair the ability of such Stockholder to perform its obligations under this Agreement. No consent of, or registration, declaration or filing with, any Governmental Entity is required to be obtained or made by or with respect to the Stockholder in connection with the execution and delivery of this Agreement by the Stockholder or the compliance by the Stockholder with the provisions of this Agreement, except for (1) filings with the SEC of such reports under the Exchange Act as may be required in connection with this Agreement and (2) such other items and consents the failure of which to be obtained or made, individually or in the aggregate, would not reasonably be expected to impair the ability of the Stockholder to perform its obligations under this Agreement.

(b) *The Subject Shares*. The Stockholder is the beneficial owner of the Original Shares. As of the date of this Agreement, the Stockholder does not own of record any shares of capital stock of the Company other than 415,431 of the Original Shares, nor does the Stockholder beneficially own any shares of capital stock of the Company other than (i) the Original Shares, (ii) shares subject to restricted stock grants and options granted by the Company and (iii) shares held by certain trusts of which the Stockholder is a trustee. The Stockholder has the sole right to vote the Original Shares and, subject to the community property interests of his spouse under the laws of the State of Washington, has the right to sell, transfer, pledge, assign or otherwise dispose of (including by gift) (collectively, *Transfer*) the Original Shares, and none of the Original Shares is subject to any voting trust or other agreement, arrangement or restriction with respect to the voting or the Transfer of the Original Shares, except as set forth in Sections 3 and 4 of this Agreement or as otherwise permitted by this Agreement and except for certain shares subject to a pledge.

SECTION 2. *Representations and Warranties of Parent*. Parent hereby represents and warrants to the Stockholder as follows: Parent is a corporation duly organized, validly existing and in good standing under the laws of the State of California. Parent has all requisite corporate power and authority to execute and deliver this Agreement and the Merger Agreement and to consummate the transactions contemplated by the Merger Agreement (collectively, the *Transactions*). The execution and delivery of this Agreement and the Merger Agreement by Parent and the consummation of the Transactions have been duly authorized by all necessary corporate action on the part of Parent and no other corporate proceedings on the part of Parent are necessary to authorize this Agreement and the Merger Agreement or to consummate the Transactions. Each of this Agreement and the Merger Agreement has been duly executed and delivered by Parent and constitutes a valid and binding obligation of Parent, enforceable against Parent in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors rights and to general equity principles. The execution and delivery of this Agreement and the Merger Agreement and the consummation of the Transactions do not and will not conflict with, or result in any violation or breach of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of, or result in, termination, cancellation or acceleration of any obligation or to loss of a material benefit under, or result in the creation of any Lien upon any of the properties or assets of Parent under, or give rise to any increased, additional, accelerated or guaranteed rights or entitlements under, any provision of (i) the articles of incorporation or by-laws of Parent, (ii) any Contract applicable to Parent or its properties or assets or (iii) subject to the governmental filings and other matters referred to in the following sentence, any Legal Requirement applicable to Parent or its properties or assets, other than, in the case of clauses (ii) and (iii), any such conflicts, violations, breaches, defaults, rights, losses, Liens or entitlements that, individually or in the aggregate, would not have a Purchaser Material Adverse Effect or impair the ability of Parent to consummate the Transactions or prevent or materially impede or delay the consummation of the Transactions. No consent of, or registration, declaration or filing with, any Governmental Entity is required by or with respect to Parent in connection with the execution and delivery of this Agreement by Parent or the consummation by Parent of the Transactions, except for (1) any antitrust filings in conjunction with the Merger, (2) filings with the SEC of such documents under the Securities Act and the Exchange Act as may be required in connection with this Agreement, the Merger Agreement and the Merger, (3) the filing of the Articles of Merger with the Secretary of State of the State of Washington and appropriate documents with the relevant authorities of the other jurisdictions in which Parent is qualified to do business, (4) filings with the NYSE and (5) such other items and consents, the failure of which to be obtained or made, individually or in the aggregate, would not have a Purchaser Material Adverse Effect or impair the ability of Parent to consummate the Transactions or prevent or materially impede or delay the consummation of the Transactions.

SECTION 3. *Covenants of the Stockholders*. The Stockholder covenants and agrees as follows:

(a) At any meeting of the stockholders of the Company at which the Merger and the Merger Agreement will be voted upon by the stockholders (whether annual or special, and whether or not an adjourned or postponed meeting), or in any other circumstances upon which a vote, consent, adoption or other approval (including by written consent solicitation) is sought, in each case held or occurring prior to termination of this Agreement, the Stockholder shall vote (or cause to be voted) all of the Original Shares of the Stockholder and any other Subject Shares then owned of record and beneficially by the Stockholder: (1) in favor of the adoption of the Merger Agreement and the approval of the terms thereof and of the Merger, and (2) against any action or agreement that would (A) result in a breach of any covenant, representation or warranty or any other obligation or agreement under the Merger Agreement or (B) impede, interfere with, delay, discourage, postpone, or adversely affect the Merger or the transactions contemplated thereby.

(b) The Stockholder hereby covenants and agrees that, after the date of this Agreement and prior to the termination of this Agreement, the Stockholder will not, directly or indirectly, Transfer any of the Original Shares or Subject Shares, or grant any proxy, power-of-attorney or other authorization or interest in or with respect to such Original Shares or Subject Shares, or deposit such Original Shares or Subject Shares into a voting trust or enter into a voting agreement or arrangement with respect to such Original Shares or Subject Shares unless and until the Stockholder shall have taken all actions (including the endorsement of a legend on the certificates evidencing such Original Shares or Subject Shares) necessary to ensure that such Original Shares or Subject Shares shall at all times be subject to the rights, powers and privileges granted or conferred, and subject to all restrictions, covenants and limitations imposed, by this Agreement and shall have caused any transferee of any of the Original Shares or the Subject Shares to execute and deliver to the other party hereto, an Agreement and irrevocable proxy consistent with the terms contained herein; provided however, that nothing contained herein shall prevent such Stockholder from Transferring Original Shares or Subject Shares which represent in the aggregate 25,000 shares or less of the outstanding shares of the Company for estate tax planning purposes or to any charitable organization.

SECTION 4. *Grant of Irrevocable Proxy; Appointment of Proxy*.

(a) Subject to Section 8, the Stockholder hereby severally irrevocably grants to, and appoints, David K. Grant or Jane A. Orenstein, in their respective capacities as designees of the Company or other designees of the Company so designated, and each of them individually, or any of them, the Stockholder s proxy and attorney-in-fact (with full power of substitution), for and in the name, place and stead of the Stockholder, to vote all of the Stockholder s Subject Shares owned of record by the Stockholder in accordance with Section 3(a)(1) and Section 3(a)(2)(A) of this Agreement.

(b) The Stockholder represents that any proxies heretofore given in respect of the Stockholder s Original Shares are not irrevocable and that all such proxies are hereby revoked.

(c) The Stockholder understands and acknowledges that Parent is entering into the Merger Agreement in reliance upon the Stockholder s execution and delivery of this Agreement. The Stockholder hereby affirms that the irrevocable proxy set forth in this Section 4 is given in connection with the execution of the Merger Agreement and that such irrevocable proxy is given to secure the performance of the duties of the Stockholder under this Agreement. The Stockholder hereby further affirms that the irrevocable proxy is coupled with an interest and may under no circumstances be revoked. The Stockholder hereby ratifies and confirms all that such irrevocable proxy may lawfully do or cause to be done by virtue hereof. The irrevocable proxy is executed and intended to be irrevocable in accordance with the provisions of Section 23B.07.220(4)(e) of the Washington Business Corporation Act.

SECTION 5. *Further Assurances*. The Stockholder shall from time to time execute and deliver, or cause to be executed and delivered, such additional or further consents, documents and other instruments as requested by Parent that are necessary to carry out the purpose and intent of this Agreement.

SECTION 6. *Certain Events*. The Stockholder agrees that this Agreement and the obligations hereunder shall attach to the Subject Shares and shall be binding upon any person or entity to which legal or beneficial ownership of any Subject Shares shall pass, whether by operation of law or otherwise, including the Stockholder s administrators or successors, and the Stockholder further agrees to take all actions necessary to effectuate the foregoing. In the event of any stock split, stock dividend, reclassification, merger, reorganization, recapitalization or other change in the capital structure of the Company affecting the capital stock of the

Table of Contents

Company, the number of Original Shares shall be adjusted appropriately. In addition, in the event of any other acquisition (of record or beneficially) of additional shares of Company Common Stock, other capital stock of the Company or other voting securities of the Company by the Stockholder (including through the exercise of any warrants, stock options or similar instruments), the number of Subject Shares shall be adjusted appropriately. This Agreement and the representations, warranties, covenants, agreements and obligations hereunder shall attach to any additional shares of Company Common Stock, other capital stock of the Company or other voting securities of the Company issued to or acquired (of record or beneficially) by the Stockholder directly or indirectly (including through the exercise of any warrants, stock options or similar instruments), other than shares held in a trust of which the Stockholder is a trustee.

SECTION 7. *Assignment*. Neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned, in whole or in part, by operation of law or otherwise, by any of the parties hereto without the prior written consent of the other parties hereto. Any purported assignment in violation of this Section 7 shall be void. Subject to the preceding sentences of this Section 7, this Agreement shall be binding upon, inure to the benefit of and be enforceable by, the parties hereto and their respective successors and assigns.

SECTION 8. *Termination*. Except as set forth below, this Agreement (including the irrevocable proxy granted pursuant to Section 4(a)) shall terminate upon the earliest of (i) the Effective Time and (ii) the date of termination of the Merger Agreement. In the event of the termination of this Agreement pursuant to this Section 8, except as set forth herein, this Agreement shall forthwith become null and void, there shall be no liability on the part of any of the parties, and all rights and obligations of each party hereto shall cease except that this Section 8 and Sections 9 and 11 shall survive such termination and; *provided*, that no such termination of this Agreement shall relieve any party hereto from any liability for any breach of any provision of this Agreement prior to termination.

SECTION 9. *General Provisions*.

(a) *Amendments*. This Agreement may not be amended except by an instrument in writing signed by the parties hereto.

(b) *Notices*. All notices and other communications given or made pursuant to this Agreement shall be in writing and shall be deemed to have been duly given or made (i) as of the date delivered or sent by facsimile if delivered personally or by facsimile, and (ii) on the third Business Day after deposit in the U.S. mail, if mailed by registered or certified mail (postage prepaid, return receipt requested), in each case to the parties at the following addresses (or at such other address for a party as shall be specified by like notice, except that notices of changes of address shall be effective upon receipt):

if to Parent:

Public Storage, Inc.

701 Western Avenue

Glendale, CA 91201

Attention: Chief Legal Officer

Facsimile: (818) 548-9288

With a copy to:

Wachtell, Lipton, Rosen & Katz

51 West 52nd Street

New York, NY 10019

Attention: Adam O. Emmerich, Esq.

David E. Shapiro, Esq.

Facsimile: (212) 403-2000

if to the Stockholder:

Shurgard Storage Centers, Inc.

1155 Valley Street, Suite 400

Seattle, Washington 98109

Attention: Jane A. Orenstein, Esq.

Facsimile: (206) 652-3710

With a copy to:

Willkie Farr & Gallagher LLP

787 Seventh Avenue

New York, New York 10019

Attention: Richard L. Posen, Esq.

Facsimile: (212) 728-9255

(c) *Interpretation; Headings*. When a reference is made in this Agreement to a Section, such reference shall be to a Section of this Agreement unless otherwise indicated. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words include , includes or including are used in this Agreement, they shall be deemed to be followed by the words without limitation . The words hereof , herein and hereunder and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. The term or is not exclusive. The word extent in the phrase to the extent shall mean the degree to which a subject or other thing extends, and such phrase shall not mean simply if . The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms. References to a person are also to its permitted successors and assigns.

(d) *Effectiveness; Entire Agreement*. This Agreement shall not be effective until, and shall become effective and binding upon the parties hereto upon, the execution and delivery hereof by Parent and the Stockholder. This Agreement shall constitute the entire agreement among the parties hereto with respect to the subject matter hereof and shall supersede all prior agreements and understandings, both written and oral, among such parties or any of them with respect to the subject matter hereof (other than the Merger Agreement). The effectiveness of this Agreement shall be conditioned upon the execution and delivery of the Merger Agreement by each of the parties thereto.

(e) *Expenses*. Whether or not the Transactions contemplated by this Agreement are consummated, and except as otherwise expressly set forth herein, all legal and other costs and expenses incurred in connection with the Transactions contemplated by this Agreement shall be paid by the party incurring such expenses.

(f) *No Third-Party Beneficiaries*. This Agreement shall be binding upon and inure solely to the benefit of each party hereto (and the persons specified as proxies in Section 4) and their respective successors and assigns. Nothing in this Agreement, express or implied, is intended to or shall confer upon any other Person any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

(g) *Governing Law*. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, regardless of the laws that might otherwise govern under applicable principles of conflict or choice of law.

(h) *Severability*. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the maximum extent possible.

C-5

Table of Contents

(i) *Agreement Made Only in Capacity as Stockholder*. No person executing this Agreement who is or becomes during the term hereof a director, officer or employee of the Company makes any agreement or understanding herein in his or her capacity as such a director, officer or employee of the Company. The Stockholder signs solely in his, her or its capacity as the record holder and beneficial owner of, or the trustee of a trust whose beneficiaries are the beneficial owners of, the Subject Shares and nothing herein shall require any action to be taken, or limit or affect any actions taken, by a Stockholder in his or her capacity as an officer, director or employee of the Company.

(j) *Counterparts*. This Agreement may be executed in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original but all of which shall constitute one and the same agreement.

SECTION 10. *Enforcement; Jurisdiction*. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any court of the United States located in the State of New York or in any New York state court, this being in addition to any other remedy to which they are entitled at law or in equity. In addition, each of the parties hereto (a) consents to submit itself to the personal jurisdiction of any court of the United States located in the State of New York or of any New York state court in the event of any action, suit or proceeding to enforce this Agreement, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court, (c) agrees that it will not bring any action relating to this Agreement or the transactions contemplated by this Agreement in any court other than a court of the United States located in the State of New York or a New York state court and (d) waives any right to trial by jury with respect to any claim or proceeding related to or arising out of this Agreement or any transaction contemplated by this Agreement.

[*Remainder of Page Intentionally Left Blank*]

Table of Contents

IN WITNESS WHEREOF, Parent and the Stockholder have duly executed this Agreement, all as of the date first written above.

PUBLIC STORAGE, INC.

by: /s/ Ronald L. Havner, Jr.
Name: Ronald L. Havner, Jr.

Title: President and Chief Executive Officer

STOCKHOLDER:

CHARLES K. BARBO

by: /s/ Charles K. Barbo
Name: Charles K. Barbo

Title:

C-7

PERSONAL AND CONFIDENTIAL

March 6, 2006

Board of Directors

Public Storage, Inc.

701 Western Avenue

Glendale, California 91201-2349

Gentlemen:

You have requested our opinion as to the fairness from a financial point of view to Public Storage, Inc. (the Company) of the exchange ratio (the Exchange Ratio) of 0.820 shares of common stock, par value $0.10 per share (the Company Common Stock), of the Company to be issued in exchange for each share of common stock, par value $0.001 per share (the Shurgard Common Stock), of Shurgard Storage Centers, Inc. (Shurgard) pursuant to the Agreement and Plan of Merger, dated as of March 6, 2006 (the Agreement), among the Company, ASKL Sub LLC, a wholly owned subsidiary of the Company, and Shurgard.

Goldman, Sachs & Co. and its affiliates, as part of their investment banking business, are continually engaged in performing financial analyses with respect to businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and other transactions as well as for estate, corporate and other purposes. We have acted as financial advisor to the Company in connection with, and have participated in certain of the negotiations leading to, the transaction contemplated by the Agreement (the Transaction). We expect to receive fees for our services in connection with the Transaction, all of which are contingent upon consummation of the Transaction, and the Company has agreed to reimburse our expenses and indemnify us against certain liabilities arising out of our engagement. In addition, we have provided certain investment banking services to the Company from time to time, including having acted as (i) co-managing underwriter of a public offering of 5,000,000 depositary shares of 6.50% Series W Cumulative Preferred Stock of the Company in September 2003, (ii) co-managing underwriter of a public offering of 4,400,000 depositary shares of 6.45% Series X Cumulative Preferred Stock of the Company in November 2003, (iii) co-managing underwriter of a public offering of 4,000,000 depositary shares of 625% Series Z Cumulative Preferred Stock of the Company in February 2004, (iv) co-managing underwriter of a public offering of 4,000,000 depositary shares of 6.125% Series A Cumulative Preferred Stock of the Company in March 2004, (v) co-managing underwriter of a public offering of 4,000,000 depositary shares of 7.125% Series B Cumulative Preferred Stock of the Company in June 2004, (vi) co-managing underwriter of a public offering of 4,000,000 depositary shares of 6.60% Series C Cumulative Preferred Stock of the Company in September 2004, (vii) co-managing underwriter of a public offering of 4,000,000 depositary shares of 7.00% Series G Cumulative Preferred Stock of the Company in December 2005 and (viii) co-managing underwriter of a public offering of 4,000,000 depositary shares of 6.95% Series H Cumulative Preferred Stock of the Company in January 2006. We also may provide investment banking services to the Company, Shurgard and their respective affiliates in the future. In connection with the above-described services we have received, and may receive, compensation.

Table of Contents

Board of Directors

Public Storage, Inc.

March 6, 2006

Goldman, Sachs & Co. is a full service securities firm engaged, either directly or through its affiliates, in securities trading, investment management, financial planning and benefits counseling, risk management, hedging, financing and brokerage activities for both companies and individuals. In the ordinary course of these activities, Goldman, Sachs & Co. and its affiliates may provide such services to the Company, Shurgard and their respective affiliates, may actively trade the debt and equity securities (or related derivative securities) of the Company, Shurgard and their respective affiliates for their own account and for the accounts of their customers and may at any time hold long and short positions of such securities.

In connection with this opinion, we have reviewed, among other things, the Agreement; annual reports to stockholders and Annual Reports on Form 10-K of the Company and Shurgard for the five fiscal years ended December 31, 2004; certain interim reports to stockholders and Quarterly Reports on Form 10-Q of the Company and Shurgard; certain other communications from the Company and Shurgard to their respective stockholders; certain internal financial analyses and forecasts for Shurgard prepared by its management, as reviewed and approved by the management of the Company (the Forecasts); certain internal financial analyses for the Company prepared by the management of the Company; and certain research analyst estimates of the future performance of the Company. We also have held discussions with members of the senior managements of the Company and of Shurgard regarding their assessment of the past and current business operations, financial condition, and future prospects of Shurgard and with members of the senior management of the Company regarding their assessment of the strategic rationale for, and the potential benefits of, the Transaction and the past and current business operations, financial condition, and future prospects of the Company. In addition, we have reviewed the reported price and trading activity for the shares of Company Common Stock and the shares of Shurgard Common Stock, compared certain financial and stock market information for the Company and Shurgard with similar information for certain other companies the securities of which are publicly traded, reviewed the financial terms of certain recent business combinations in the REIT industry specifically and in other industries generally and performed such other studies and analyses, and considered such other factors, as we considered appropriate.

We have relied upon the accuracy and completeness of all of the financial, accounting, legal, tax and other information discussed with or reviewed by us and have assumed such accuracy and completeness for purposes of rendering this opinion. In that regard, we have assumed with your consent that the Forecasts have been reasonably prepared on a basis reflecting the best currently available estimates and judgments of the Company and Shurgard, as the case may be. As instructed by you, for purposes of rendering this opinion, our review of the expected future financial performance of the Company was limited to discussions with the senior management of the Company regarding certain research analyst estimates of the future financial performance of the Company and certain internal financial analyses for the Company prepared by the management of the Company and our review of such research analyst estimates and such internal financial analyses. We also have assumed that all governmental, regulatory or other consents and approvals necessary for the consummation of the Transaction will be obtained without any adverse effect on the Company or Shurgard or on the expected benefits of the Transaction in any way meaningful to our analysis. In addition, we have not made an independent evaluation or appraisal of the assets and liabilities (including any contingent, derivative or off-balance-sheet assets and liabilities) of the Company, Shurgard or any of their respective subsidiaries and we have not been furnished with any such evaluation or appraisal.

Our opinion does not address the underlying business decision of the Company to engage in the Transaction, nor are we expressing any opinion as to the prices at which shares of Company Common Stock will trade at any time. Our opinion is necessarily based on economic, monetary, market and other conditions as in effect on, and the information made available to us as of, the date hereof. Our advisory services and the opinion expressed herein are provided for the information and assistance of the Board of Directors of the Company in connection with its consideration of the Transaction and such opinion does not constitute a recommendation as to how any holder of shares of Company Common Stock should vote with respect to such Transaction.

Table of Contents

Board of Directors

Public Storage, Inc.

March 6, 2006

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the Exchange Ratio pursuant to the Agreement is fair from a financial point of view to the Company.

Very truly yours,

(GOLDMAN, SACHS & CO.)

Table of Contents

[LETTERHEAD OF CITIGROUP GLOBAL MARKETS INC.]

March 6, 2006

The Board of Directors

Shurgard Storage Centers, Inc.

1155 Valley Street, Suite 400

Seattle, Washington 98109

Members of the Board:

You have requested our opinion as to the fairness, from a financial point of view, to the holders of the common stock of Shurgard Storage Centers, Inc. (Shurgard), other than Public Storage, Inc. (Public Storage), ASKL Sub LLC, an indirect subsidiary of Public Storage (Merger Sub), and their respective affiliates, of the Exchange Ratio (as defined below) provided for in the Agreement and Plan of Merger, dated as of March 6, 2006 (the Merger Agreement), among Shurgard, Public Storage and Merger Sub. As more fully described in the Merger Agreement, (i) Shurgard will be merged with and into Merger Sub (the Merger) and (ii) each outstanding share of Class A common stock, par value $0.001 per share, of Shurgard (Shurgard Common Stock), other than Shurgard Common Stock owned by Public Storage, Merger Sub or any other subsidiary of Public Storage, will be converted into the right to receive 0.82 (the Exchange Ratio) of a share of the common stock, par value $0.10 per share, of Public Storage (Public Storage Common Stock).

In arriving at our opinion, we reviewed the Merger Agreement and held discussions with certain senior officers, directors and other representatives and advisors of Shurgard and certain senior officers and other representatives and advisors of Public Storage concerning the businesses, operations and prospects of Shurgard and Public Storage. We examined certain publicly available business and financial information relating to Shurgard and Public Storage, including certain publicly available consensus research analysts estimates relating to Public Storage which were discussed with us by the management of Public Storage. We also examined certain other information and data relating to Shurgard and Public Storage which were provided to or discussed with us by the managements of Shurgard and Public Storage, including financial forecasts and other information and data relating to Shurgard prepared by the management of Shurgard. We reviewed the financial terms of the Merger as set forth in the Merger Agreement in relation to, among other things: current and historical market prices of Shurgard Common Stock and Public Storage Common Stock; the historical and projected earnings and other operating data of Shurgard and Public Storage; and the capitalization and financial condition of Shurgard and Public Storage. We analyzed certain financial, stock market and other publicly available information relating to the businesses of other companies whose operations we considered relevant in evaluating those of Shurgard and Public Storage and considered, to the extent publicly available, the financial terms of certain other transactions which we considered relevant in evaluating the Merger. We also evaluated certain potential pro forma financial effects of the Merger on Public Storage. In connection with our engagement and at the direction of Shurgard, we were requested to approach, and we held discussions with, third parties to solicit indications of interest in the possible acquisition of all or a part of Shurgard. We also considered the fact that Shurgard publicly had announced that it would explore its strategic alternatives. In addition to the foregoing, we conducted such other analyses and examinations and considered such other information and financial, economic and market criteria as we deemed appropriate in arriving at our opinion.

In rendering our opinion, we have assumed and relied, without assuming any responsibility for independent verification, upon the accuracy and completeness of all financial and other information and data publicly available or provided to or otherwise reviewed by or discussed with us and upon the assurances of the managements of Shurgard and Public Storage that they are not aware of any relevant information that has been omitted or that remains undisclosed to us. With respect to financial forecasts and other information and data provided to or otherwise reviewed by or discussed with us relating to Shurgard, we have been advised by the management of Shurgard, and have assumed, with your consent, that such forecasts and other information and data were reasonably prepared on bases reflecting the best currently available estimates and judgments of the

Table of Contents

The Board of Directors

Shurgard Storage Centers, Inc.

March 6, 2006

management of Shurgard as to the future financial performance of Shurgard. As you are aware, we were not provided with, or given access to, internal financial forecasts relating to Public Storage prepared by the management of Public Storage and, accordingly, we have utilized, with your consent, publicly available consensus research analysts estimates relating to Public Storage for purposes of certain of our analyses. With respect to such publicly available consensus estimates, we have been advised by the management of Public Storage, and have assumed, with your consent, that such consensus estimates reflect reasonable estimates and judgments as to the future financial performance of Public Storage. We also have assumed, with your consent, that the Merger will be consummated in accordance with its terms, without waiver, modification or amendment of any material term, condition or agreement and that, in the course of obtaining the necessary regulatory or third party approvals, consents, releases and waivers for the Merger, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on Shurgard, Public Storage or the Merger. We have been advised by the managements of Shurgard and Public Storage that each of Shurgard and Public Storage has operated in conformity with the requirements for qualification as a real estate investment trust (REIT) for federal income tax purposes since its formation as a REIT and have assumed, with your consent, that the Merger will not adversely affect the status or operations of Shurgard or Public Storage as a REIT. We are not expressing any opinion as to what the value of Public Storage Common Stock actually will be when issued pursuant to the Merger or the prices at which Public Storage Common Stock or Shurgard Common Stock will trade at any time. We have not made or been provided with an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of Shurgard or Public Storage nor have we made any physical inspection of the properties or assets of Shurgard or Public Storage. Our opinion does not address any terms or other aspects or implications of the Merger (other than the Exchange Ratio to the extent expressly specified herein), including, without limitation, the form or structure of the Merger or tax or accounting aspects thereof. We express no view as to, and our opinion does not address, the underlying business decision of Shurgard to effect the Merger, the relative merits of the Merger as compared to any alternative business strategies that might exist for Shurgard or the effect of any other transaction in which Shurgard might engage. Our opinion is necessarily based upon information available to us, and financial, stock market and other conditions and circumstances existing and disclosed to us, as of the date hereof.

Citigroup Global Markets Inc. has acted as financial advisor to Shurgard in connection with the proposed Merger and will receive a fee for such services, portions of which were payable upon our engagement and in connection with the unsolicited takeover proposal previously made by Public Storage (the Public Storage Proposal), a portion of which is payable in connection with the delivery of this opinion and a significant portion of which is contingent upon the consummation of the Merger. We and our affiliates in the past have provided services to Shurgard and Public Storage unrelated to the proposed Merger, for which services we and such affiliates have received compensation, including having acted as financial advisor to Shurgard in connection with an acquisition transaction in 2003 and as an underwriter for various preferred stock offerings of Public Storage in 2004 and 2005. In addition, one of our affiliates is acting as syndication agent for, and is a lender under, existing credit facilities of Shurgard and also is a lender under an existing credit facility of Public Storage, for which services such affiliate has received and will receive compensation. In the ordinary course of our business, we and our affiliates may actively trade or hold the securities of Shurgard and Public Storage for our own account or for the account of our customers and, accordingly, may at any time hold a long or short position in such securities. In addition, we and our affiliates (including Citigroup Inc. and its affiliates) may maintain relationships with Shurgard, Public Storage and their respective affiliates.

Our advisory services and the opinion expressed herein are provided for the information of the Board of Directors of Shurgard in its evaluation of the proposed Merger, and our opinion is not intended to be and does not constitute a recommendation to any shareholder as to how such shareholder should vote or act on any matters relating to the proposed Merger.

Table of Contents

The Board of Directors

Shurgard Storage Centers, Inc.

March 6, 2006

Based upon and subject to the foregoing, our experience as investment bankers, our work as described above and other factors we deemed relevant, we are of the opinion that, as of the date hereof, the Exchange Ratio is fair, from a financial point of view, to holders of Shurgard Common Stock (other than Public Storage, Merger Sub and their respective affiliates).

Very truly yours,

/s/ Citigroup Global Markets Inc.

CITIGROUP GLOBAL MARKETS INC.

E-3

Table of Contents

[LETTERHEAD OF BANC OF AMERICA SECURITIES LLC]

March 6, 2006

Board of Directors

Shurgard Storage Centers, Inc.

1155 Valley Street, Suite 400

Seattle, Washington 98109

Members of the Board of Directors:

You have requested our opinion as to the fairness, from a financial point of view, to the holders of Shurgard Common Stock (as defined below), other than Public Storage, Inc. (Public Storage), ASKL Sub LLC, an indirect subsidiary of Public Storage (Merger Sub), and their respective affiliates, of the Exchange Ratio (as defined below) provided for in the Agreement and Plan of Merger, dated as of March 6, 2006 (the Agreement), among Public Storage, Merger Sub, and Shurgard Corporation (Shurgard). As more fully described in the Agreement, Shurgard will be merged with and into Merger Sub (the Merger), with Merger Sub continuing as the surviving corporation in the Merger, and each outstanding share of Class A common stock, par value $0.001 per share, of Shurgard (Shurgard Common Stock), other than Shurgard Common Stock owned by Public Storage, Merger Sub or any other subsidiary of Public Storage, will be converted into the right to receive 0.82 (the Exchange Ratio) of a share of the common stock, par value $0.10 per share, of Public Storage (Public Storage Common Stock). The terms and conditions of the Merger are more fully set out in the Agreement.

For purposes of the opinion set forth herein, we have:

(i) reviewed certain publicly available financial statements and other business and financial information of Shurgard and Public Storage;

(ii) reviewed certain internal financial statements and other financial and operating data concerning Shurgard;

(iii) reviewed a draft Annual Report on Form 10-K of Public Storage for the fiscal year ended December 31, 2005;

(iv) reviewed certain financial forecasts relating to Shurgard prepared by the management of Shurgard (the Shurgard Forecasts);

(v) reviewed certain publicly available consensus research analysts estimates for Public Storage (the Public Storage Consensus Estimates);

(vi) discussed the past and current operations, financial condition and prospects of Shurgard and Public Storage with senior executives of Shurgard and Public Storage;

(vii) reviewed the potential pro forma financial impact of the Merger on the estimated funds from operations per share and certain dividend and other financial statistics of Public Storage;

(viii) reviewed the reported prices and trading activity for Shurgard Common Stock and Public Storage Common Stock;

(ix) compared the financial performance of Shurgard and Public Storage and the prices and trading activity of Shurgard Common Stock and Public Storage Common Stock with each other and with that of certain other publicly traded companies we deemed relevant;

(x) compared certain financial terms of the Merger to financial terms, to the extent publicly available, of certain other business combination transactions we deemed relevant;

(xi) participated in discussions and negotiations among representatives of Shurgard, Public Storage and their respective advisors;

Table of Contents

Board of Directors

Shurgard Storage Centers, Inc.

March 6, 2006

(xii) reviewed the Agreement;

(xiii) considered our efforts to solicit, at the direction of Shurgard, third party indications of interest in the possible acquisition of all or a portion of Shurgard and the fact that Shurgard had publicly announced that it would explore its strategic alternatives; and

(xiv) performed such other analyses and considered such other factors as we have deemed appropriate.

We have assumed and relied upon, without independent verification, the accuracy and completeness of the financial and other information reviewed by us for the purposes of this opinion. With respect to the Shurgard Forecasts, we have assumed, at the direction of Shurgard, that they have been reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of the management of Shurgard as to the future financial performance of Shurgard. We have not been provided with, and did not have access to, any financial forecasts relating to Public Storage prepared by the management of Public Storage. Accordingly, upon the advice of the management of Public Storage and with the consent of Shurgard, we have used the Public Storage Consensus Estimates in certain of our analyses and have assumed that the Public Storage Consensus Estimates are a reasonable basis upon which to evaluate the future financial performance of Public Storage. We have not made any independent valuation or appraisal of the assets or liabilities (contingent or otherwise) of Shurgard or Public Storage, nor have we been furnished with any such valuations or appraisals. We have assumed, with the consent of Shurgard, that the Merger will be consummated as provided in the Agreement, with full satisfaction of all covenants and conditions set forth in the Agreement and without any waivers thereof. We also have assumed, with the consent of Shurgard, that all governmental, regulatory or other consents and approvals necessary for the consummation of the Merger will be obtained without any adverse effect on Shurgard, Public Storage or the Merger. We have been advised by the managements of Shurgard and Public Storage that each of Shurgard and Public Storage has operated in conformity with the requirements for qualification as a real estate investment trust (REIT) for federal income tax purposes since its formation as a REIT and further have assumed, with the consent of Shurgard, that the Merger will not adversely affect the status or operations of Shurgard or Public Storage as a REIT.

We express no view or opinion as to any terms or aspects of the Merger (other than the Exchange Ratio to the extent expressly specified herein), including, without limitation, the form or structure of the Merger or tax or accounting aspects thereof. In addition, no opinion is expressed as to the relative merits of the Merger in comparison to other transactions available to Shurgard or in which Shurgard might engage or as to whether any transaction might be more favorable to Shurgard as an alternative to the Merger, nor are we expressing any opinion as to the underlying business decision of the Board of Directors of Shurgard to proceed with or effect the Merger. We are not expressing any opinion as to what the value of Public Storage Common Stock actually will be when issued or the prices at which Public Storage Common Stock or Shurgard Common Stock may trade at any time.

We have acted as financial advisor to the Board of Directors of Shurgard in connection with the Merger, for which services we have received and will receive fees, portions of which were payable upon our engagement and in connection with the unsolicited takeover proposal previously made by Public Storage (the Public Storage Proposal), a portion of which is payable upon rendering this opinion and a significant portion of which is contingent upon the consummation of the Merger or withdrawal of the Public Storage Proposal. We or our affiliates have provided and currently are providing financial advisory and financing services to Shurgard, for which services we and our affiliates have received and will receive compensation, including acting as (i) book-running manager, lead arranger, administrative agent and lender for existing credit facilities of Shurgard, (ii) lead or co-manager for certain securities offerings of Shurgard and (iii) financial advisor to Shurgard in connection with an acquisition transaction. In addition, Banc of America Specialist Inc., an affiliate of ours, acts as a

Board of Directors

Shurgard Storage Centers, Inc.

March 6, 2006

specialist for Shurgard Common Stock and Public Storage Common Stock on the New York Stock Exchange. In the ordinary course of our businesses, we and our affiliates may actively trade or hold the securities or loans of Shurgard and Public Storage for our own accounts or for the accounts of customers and, accordingly, we or our affiliates may at any time hold long or short positions in such securities or loans.

It is understood that this letter is for the benefit and use of the Board of Directors of Shurgard in connection with and for purposes of its evaluation of the Merger. Our opinion is necessarily based on economic, market and other conditions as in effect on, and the information made available to us as of, the date hereof. It should be understood that subsequent developments may affect this opinion and we do not have any obligation to update, revise or reaffirm this opinion. In addition, we express no opinion or recommendation as to how the shareholders of Shurgard should vote or act in connection with the Merger.

Based upon and subject to the foregoing, including the various assumptions and limitations set forth herein, we are of the opinion on the date hereof that the Exchange Ratio is fair, from a financial point of view, to the holders of Shurgard Common Stock (other than Public Storage, Merger Sub and their respective affiliates).

Very truly yours,

/s/ Banc of America Securities LLC

BANC OF AMERICA SECURITIES LLC

Table of Contents

CHAPTER 23B.13. DISSENTERS RIGHTS

23B.13.010. Definitions

As used in this chapter:

(1) Corporation means the issuer of the shares held by a dissenter before the corporate action, or the surviving or acquiring corporation by merger or share exchange of that issuer.

(2) Dissenter means a shareholder who is entitled to dissent from corporate action under *RCW 23B.13.020* and who exercises that right when and in the manner required by *RCW 23B.13.200* through *23B.13.280*.

(3) Fair value, with respect to a dissenter s shares, means the value of the shares immediately before the effective date of the corporate action to which the dissenter objects, excluding any appreciation or depreciation in anticipation of the corporate action unless exclusion would be inequitable.

(4) Interest means interest from the effective date of the corporate action until the date of payment, at the average rate currently paid by the corporation on its principal bank loans or, if none, at a rate that is fair and equitable under all the circumstances.

(5) Record shareholder means the person in whose name shares are registered in the records of a corporation or the beneficial owner of shares to the extent of the rights granted by a nominee certificate on file with a corporation.

(6) Beneficial shareholder means the person who is a beneficial owner of shares held in a voting trust or by a nominee as the record shareholder.

(7) Shareholder means the record shareholder or the beneficial shareholder.

23B.13.020. Right to dissent

(1) A shareholder is entitled to dissent from, and obtain payment of the fair value of the shareholder s shares in the event of, any of the following corporate actions:

(a) Consummation of a plan of merger to which the corporation is a party (i) if shareholder approval is required for the merger by *RCW 23B.11.030*, *23B.11.080*, or the articles of incorporation, and the shareholder is entitled to vote on the merger, or (ii) if the corporation is a subsidiary that is merged with its parent under *RCW 23B.11.040*;

(b) Consummation of a plan of share exchange to which the corporation is a party as the corporation whose shares will be acquired, if the shareholder is entitled to vote on the plan;

(c) Consummation of a sale or exchange of all, or substantially all, of the property of the corporation other than in the usual and regular course of business, if the shareholder is entitled to vote on the sale or exchange, including a sale in dissolution, but not including a sale pursuant to court order or a sale for cash pursuant to a plan by which all or substantially all of the net proceeds of the sale will be distributed to the shareholders within one year after the date of sale;

(d) An amendment of the articles of incorporation, whether or not the shareholder was entitled to vote on the amendment, if the amendment effects a redemption or cancellation of all of the shareholder s shares in exchange for cash or other consideration other than shares of the corporation; or

(e) Any corporate action taken pursuant to a shareholder vote to the extent the articles of incorporation, bylaws, or a resolution of the board of directors provides that voting or nonvoting shareholders are entitled to dissent and obtain payment for their shares.

(2) A shareholder entitled to dissent and obtain payment for the shareholder s shares under this chapter may not challenge the corporate action creating the shareholder s entitlement unless the action fails to comply with

G-1

Table of Contents

the procedural requirements imposed by this title, *RCW 25.10.900* through *25.10.955*, the articles of incorporation, or the by-laws, or is fraudulent with respect to the shareholder or the corporation.

(3) The right of a dissenting shareholder to obtain payment of the fair value of the shareholder s shares shall terminate upon the occurrence of any one of the following events:

(a) The proposed corporate action is abandoned or rescinded;

(b) A court having jurisdiction permanently enjoins or sets aside the corporate action; or

(c) The shareholder s demand for payment is withdrawn with the written consent of the corporation.

23B.13.030. Dissent by nominees and beneficial owners

(1) A record shareholder may assert dissenters rights as to fewer than all the shares registered in the shareholder s name only if the shareholder dissents with respect to all shares beneficially owned by any one person and delivers to the corporation a notice of the name and address of each person on whose behalf the shareholder asserts dissenters rights. The rights of a partial dissenter under this subsection are determined as if the shares as to which the dissenter dissents and the dissenter s other shares were registered in the names of different shareholders.

(2) A beneficial shareholder may assert dissenters rights as to shares held on the beneficial shareholder s behalf only if:

(a) The beneficial shareholder submits to the corporation the record shareholder s consent to the dissent not later than the time the beneficial shareholder asserts dissenters rights, which consent shall be set forth either (i) in a record or (ii) if the corporation has designated an address, location, or system to which the consent may be electronically transmitted and the consent is electronically transmitted to the designated address, location, or system, in an electronically transmitted record; and

(b) The beneficial shareholder does so with respect to all shares of which such shareholder is the beneficial shareholder or over which such shareholder has power to direct the vote.

23B.13.200. Notice of dissenters rights

(1) If proposed corporate action creating dissenters rights under *RCW 23B.13.020* is submitted to a vote at a shareholders meeting, the meeting notice must state that shareholders are or may be entitled to assert dissenters rights under this chapter and be accompanied by a copy of this chapter.

(2) If corporate action creating dissenters rights under *RCW 23B.13.020* is taken without a vote of shareholders, the corporation, within ten days after the effective date of such corporate action, shall deliver a notice to all shareholders entitled to assert dissenters rights that the action was taken and send them the notice described in *RCW 23B.13.220*.

23B.13.210. Notice of intent to demand payment

(1) If proposed corporate action creating dissenters rights under *RCW 23B.13.020* is submitted to a vote at a shareholders meeting, a shareholder who wishes to assert dissenters rights must (a) deliver to the corporation before the vote is taken notice of the shareholder s intent to demand payment for the shareholder s shares if the proposed action is effected, and (b) not vote such shares in favor of the proposed action.

(2) A shareholder who does not satisfy the requirements of subsection (1) of this section is not entitled to payment for the shareholder s shares under this chapter.

Table of Contents

23B.13.220. Dissenters rights Notice

(1) If proposed corporate action creating dissenters rights under *RCW 23B.13.020* is authorized at a shareholders meeting, the corporation shall deliver a notice to all shareholders who satisfied the requirements of *RCW 23B.13.210*.

(2) The notice must be sent within ten days after the effective date of the corporate action, and must:

(a) State where the payment demand must be sent and where and when certificates for certificated shares must be deposited;

(b) Inform holders of uncertificated shares to what extent transfer of the shares will be restricted after the payment demand is received;

(c) Supply a form for demanding payment that includes the date of the first announcement to news media or to shareholders of the terms of the proposed corporate action and requires that the person asserting dissenters rights certify whether or not the person acquired beneficial ownership of the shares before that date;

(d) Set a date by which the corporation must receive the payment demand, which date may not be fewer than thirty nor more than sixty days after the date the notice in subsection (1) of this section is delivered; and

(e) Be accompanied by a copy of this chapter.

23B.13.230. Duty to demand payment

(1) A shareholder sent a notice described in *RCW 23B.13.220* must demand payment, certify whether the shareholder acquired beneficial ownership of the shares before the date required to be set forth in the notice pursuant to *RCW 23B.13.220(2)(c)*, and deposit the shareholder s certificates, all in accordance with the terms of the notice.

(2) The shareholder who demands payment and deposits the shareholder s share certificates under subsection (1) of this section retains all other rights of a shareholder until the proposed corporate action is effected.

(3) A shareholder who does not demand payment or deposit the shareholder s share certificates where required, each by the date set in the notice, is not entitled to payment for the shareholder s shares under this chapter.

23B.13.240. Share restrictions

(1) The corporation may restrict the transfer of uncertificated shares from the date the demand for their payment is received until the proposed corporate action is effected or the restriction is released under *RCW 23B.13.260*.

(2) The person for whom dissenters rights are asserted as to uncertificated shares retains all other rights of a shareholder until the effective date of the proposed corporate action.

23B.13.250. Payment

(1) Except as provided in *RCW 23B.13.270*, within thirty days of the later of the effective date of the proposed corporate action, or the date the payment demand is received, the corporation shall pay each dissenter who complied with *RCW 23B.13.230* the amount the corporation estimates to be the fair value of the shareholder s shares, plus accrued interest.

(2) The payment must be accompanied by:

(a) The corporation s balance sheet as of the end of a fiscal year ending not more than sixteen months before the date of payment, an income statement for that year, a statement of changes in shareholders equity for that year, and the latest available interim financial statements, if any;

(b) An explanation of how the corporation estimated the fair value of the shares;

(c) An explanation of how the interest was calculated;

(d) A statement of the dissenter s right to demand payment under *RCW 23B.13.280*; and

(e) A copy of this chapter.

23B.13.260. Failure to take action

(1) If the corporation does not effect the proposed action within sixty days after the date set for demanding payment and depositing share certificates, the corporation shall return the deposited certificates and release any transfer restrictions imposed on uncertificated shares.

(2) If after returning deposited certificates and releasing transfer restrictions, the corporation wishes to undertake the proposed action, it must send a new dissenters notice under *RCW 23B.13.220* and repeat the payment demand procedure.

23B.13.270. After-acquired shares

(1) A corporation may elect to withhold payment required by *RCW 23B.13.250* from a dissenter unless the dissenter was the beneficial owner of the shares before the date set forth in the dissenters notice as the date of the first announcement to news media or to shareholders of the terms of the proposed corporate action.

(2) To the extent the corporation elects to withhold payment under subsection (1) of this section, after taking the proposed corporate action, it shall estimate the fair value of the shares, plus accrued interest, and shall pay this amount to each dissenter who agrees to accept it in full satisfaction of the dissenter s demand. The corporation shall send with its offer an explanation of how it estimated the fair value of the shares, an explanation of how the interest was calculated, and a statement of the dissenter s right to demand payment under *RCW 23B.13.280*.

23B.13.280. Procedure if shareholder dissatisfied with payment or offer

(1) A dissenter may deliver a notice to the corporation informing the corporation of the dissenter s own estimate of the fair value of the dissenter s shares and amount of interest due, and demand payment of the dissenter s estimate, less any payment under *RCW 23B.13.250*, or reject the corporation s offer under *RCW 23B.13.270* and demand payment of the dissenter s estimate of the fair value of the dissenter s shares and interest due, if:

(a) The dissenter believes that the amount paid under *RCW 23B.13.250* or offered under *RCW 23B.13.270* is less than the fair value of the dissenter s shares or that the interest due is incorrectly calculated;

(b) The corporation fails to make payment under *RCW 23B.13.250* within sixty days after the date set for demanding payment; or

(c) The corporation does not effect the proposed action and does not return the deposited certificates or release the transfer restrictions imposed on uncertificated shares within sixty days after the date set for demanding payment.

(2) A dissenter waives the right to demand payment under this section unless the dissenter notifies the corporation of the dissenter s demand under subsection (1) of this section within thirty days after the corporation made or offered payment for the dissenter s shares.

Table of Contents

23B.13.300. Court action

(1) If a demand for payment under *RCW 23B.13.280* remains unsettled, the corporation shall commence a proceeding within sixty days after receiving the payment demand and petition the court to determine the fair value of the shares and accrued interest. If the corporation does not commence the proceeding within the sixty-day period, it shall pay each dissenter whose demand remains unsettled the amount demanded.

(2) The corporation shall commence the proceeding in the superior court of the county where a corporation s principal office, or, if none in this state, its registered office, is located. If the corporation is a foreign corporation without a registered office in this state, it shall commence the proceeding in the county in this state where the registered office of the domestic corporation merged with or whose shares were acquired by the foreign corporation was located.

(3) The corporation shall make all dissenters, whether or not residents of this state, whose demands remain unsettled, parties to the proceeding as in an action against their shares and all parties must be served with a copy of the petition. Nonresidents may be served by registered or certified mail or by publication as provided by law.

(4) The corporation may join as a party to the proceeding any shareholder who claims to be a dissenter but who has not, in the opinion of the corporation, complied with the provisions of this chapter. If the court determines that such shareholder has not complied with the provisions of this chapter, the shareholder shall be dismissed as a party.

(5) The jurisdiction of the court in which the proceeding is commenced under subsection (2) of this section is plenary and exclusive. The court may appoint one or more persons as appraisers to receive evidence and recommend decision on the question of fair value. The appraisers have the powers described in the order appointing them, or in any amendment to it. The dissenters are entitled to the same discovery rights as parties in other civil proceedings.

(6) Each dissenter made a party to the proceeding is entitled to judgment % 8(a)%8 for the amount, if any, by which the court finds the fair value of the dissenter s shares, plus interest, exceeds the amount paid by the corporation, or %8(b)%8 for the fair value, plus accrued interest, of the dissenter s after-acquired shares for which the corporation elected to withhold payment under *RCW 23B.13.270*.

23B.13.310. Court costs and counsel fees

(1) The court in a proceeding commenced under *RCW 23B.13.300* shall determine all costs of the proceeding, including the reasonable compensation and expenses of appraisers appointed by the court. The court shall assess the costs against the corporation, except that the court may assess the costs against all or some of the dissenters, in amounts the court finds equitable, to the extent the court finds the dissenters acted arbitrarily, vexatiously, or not in good faith in demanding payment under *RCW 23B.13.280*.

(2) The court may also assess the fees and expenses of counsel and experts for the respective parties, in amounts the court finds equitable:

(a) Against the corporation and in favor of any or all dissenters if the court finds the corporation did not substantially comply with the requirements of *RCW 23B.13.200* through *23B.13.280*; or

(b) Against either the corporation or a dissenter, in favor of any other party, if the court finds that the party against whom the fees and expenses are assessed acted arbitrarily, vexatiously, or not in good faith with respect to the rights provided by chapter 23B.13 RCW.

(3) If the court finds that the services of counsel for any dissenter were of substantial benefit to other dissenters similarly situated, and that the fees for those services should not be assessed against the corporation, the court may award to these counsel reasonable fees to be paid out of the amounts awarded the dissenters who were benefited.