PUBLIC STORAGE INC /CA
Form S-4/A
June 20, 2006
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As filed with the Securities and Exchange Commission on June 19, 2006

Registration No. 333-133438

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 3

to

FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

PUBLIC STORAGE, INC.

(Exact Name of Registrant as Specified in Its Charter)

California	**6798**	**95-3551121**
(State or Other Jurisdiction of Incorporation or Organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

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701 Western Avenue

Glendale, California 91201-2349

(818) 244-8080

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

John S. Baumann, Esq.

Public Storage, Inc.

701 Western Avenue

Glendale, California 91201-2349

(818) 244-8080

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

Copies to:

Adam O. Emmerich, Esq.	**Richard L. Posen, Esq.**	**Eric A. DeJong, Esq.**
Trevor S. Norwitz, Esq.	**Willkie Farr & Gallagher LLP**	**Perkins Coie, LLP**
Wachtell, Lipton, Rosen & Katz	**The Equitable Center**	**1201 Third Avenue, Suite 4800**
51 West 52nd Street	**787 Seventh Avenue**	**Seattle, Washington 98101-3099**
New York, New York 10019	**New York, New York 10019**	**(206) 359-8000**
(212) 403-1000	**(212) 728-8000**	

Approximate date of commencement of proposed sale to public: As soon as practicable after this Registration Statement becomes effective and all other conditions to the proposed merger described herein have been satisfied or waived.

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

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

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

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

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The information in this proxy statement/prospectus is not complete and may be changed. We may not sell the securities offered by this proxy statement/prospectus until the registration statement filed with the Securities and Exchange Commission is effective. This proxy statement/prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction where an offer or solicitation is not permitted.

PRELIMINARY SUBJECT TO COMPLETION DATED JUNE 19, 2006

TO THE SHAREHOLDERS OF

PUBLIC STORAGE, INC. AND

SHURGARD STORAGE CENTERS, INC.

The boards of directors of Public Storage, Inc. and Shurgard Storage Centers, Inc. have approved a merger agreement authorizing the merger of Shurgard into ASKL Sub LLC, an indirect subsidiary of Public Storage that we refer to as Merger Sub. As a result of the merger, Merger Sub will acquire Shurgard and its subsidiaries. We are sending you this joint proxy statement/prospectus to ask you to vote on the approval of the merger.

If the merger is completed, Shurgard shareholders will receive Public Storage common stock in exchange for their shares of Shurgard common stock. Each share of Shurgard common stock will be converted into the right to receive 0.82 shares of Public Storage common stock. The value of the shares of Public Storage to be received by Shurgard shareholders is dependent on the market price of Public Storage at the time of the merger as the exchange ratio is fixed. Upon completion of the merger, we estimate that Shurgard s former shareholders will own approximately [ ]% of the then-outstanding shares of Public Storage common stock, based on the number of shares of Shurgard and Public Storage common stock outstanding on June 23, 2006, 2006. Public Storage s shareholders will continue to own their existing shares. Shares of Public Storage common stock are listed on the New York Stock Exchange under the symbol PSA. Upon completion of the merger, Shurgard common stock, which is listed on the New York Stock Exchange under the symbol SHU, will be delisted. We expect the merger to be taxable for federal income tax purposes for Shurgard shareholders.

Public Storage will hold an annual meeting of shareholders and Shurgard will hold a special meeting of shareholders in order to obtain those approvals necessary to consummate the merger and to approve certain other matters as described in this joint proxy statement/prospectus. At the Public Storage annual meeting, Public Storage will ask its common shareholders and equity shareholders to approve the merger agreement and the transactions contemplated by the merger agreement, including the issuance of shares of Public Storage common stock in connection with the merger, and to vote on the other Public Storage annual meeting matters described in this joint proxy statement/prospectus. At the Shurgard special meeting, Shurgard will ask its owners of common stock and of Shurgard s Employee Stock Purchase Plan stock, which are referred to as ESPP shares, to approve the merger agreement and the transactions contemplated by the merger agreement, including the merger, and the proposal to approve adjournments or postponements of the special meeting, if necessary, as described in this joint proxy statement/prospectus. More information about Public Storage, Shurgard and the proposed merger is contained in this joint proxy statement/prospectus. **We urge you to read this joint proxy statement/prospectus carefully, including Risk Factors Risks Relating to the Merger and Public Storage s Business for a discussion of the risks relating to the merger.** You may obtain additional information about Public Storage and Shurgard from the documents that each company has filed with the Securities and Exchange Commission. See Where You Can Find More Information.

After careful consideration, each of our boards of directors has approved the merger agreement and has determined that the merger agreement and the merger are advisable and in the best interests of the shareholders of Public Storage and Shurgard, respectively. **Accordingly, the Shurgard board of directors recommends that Shurgard shareholders vote FOR the approval of the merger agreement and the transactions contemplated by the merger agreement, including the merger and FOR approval of adjournments or postponements of the special meeting. The Public Storage board of directors recommends that the Public Storage shareholders vote FOR the approval of the merger agreement and the transactions contemplated thereby, including the issuance of Public Storage common stock and FOR the other Public Storage annual meeting matters.** If you do not return or submit the proxy or vote in person at the Shurgard special meeting or the Public Storage annual meeting, the effect will be the same as a vote against the proposal to approve the merger agreement and the transactions contemplated by the merger agreement.

The merger agreement must be approved by the affirmative vote of the holders of (a) at least a majority of the outstanding shares of Public Storage common stock, (b) at least a majority of the outstanding Public Storage equity stock and (c) at least a majority of the outstanding shares of Shurgard common stock.

We are very excited about the opportunities the proposed merger brings to both Shurgard and Public Storage shareholders, and we thank you for your consideration and continued support.

Ronald L. Havner, Jr.	David K. Grant
President and Chief Executive Officer	President and Chief Executive Officer
Public Storage, Inc.	Shurgard Storage Centers, Inc.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this joint proxy statement/prospectus. Any representation to the contrary is a criminal offense.

This joint proxy statement/prospectus is dated **[ ]**, 2006, and is first being mailed to Shurgard and Public Storage shareholders on or about **[ ]**, 2006.

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REFERENCES TO ADDITIONAL INFORMATION

Except where we indicate otherwise, as used in this joint proxy statement/prospectus, Public Storage refers to Public Storage, Inc. and its consolidated subsidiaries and Shurgard refers to Shurgard Storage Centers, Inc. and its consolidated subsidiaries. This joint proxy statement/prospectus incorporates important business and financial information about Public Storage from documents that it has filed with the Securities and Exchange Commission, referred to as the SEC, but that have not been included in or delivered with this joint proxy statement/prospectus. This joint proxy statement/prospectus incorporates the annual report on Form 10-K of Public Storage for the fiscal year ended December 31, 2005 and the quarterly report on Form 10-Q of Public Storage for the quarter ended March 31, 2006. For a list of documents incorporated by reference into this joint proxy statement/prospectus and how you may obtain them, see Where You Can Find More Information.

This information is available to you without charge upon your written or oral request. You can obtain the documents incorporated by reference into this joint proxy statement/prospectus by accessing the SEC s website maintained at www.sec.gov.

In addition, Public Storage s SEC filings are available to the public on Public Storage s website, www.publicstorage.com, and Shurgard s SEC filings are available to the public on Shurgard s website, www.shurgard.com. Information contained on Public Storage s website, Shurgard s website or the website of any other person 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 will provide you with copies of this information relating to Public Storage, without charge, if you request them in writing or by telephone from:

Public Storage, Inc.

701 Western Avenue

Glendale, CA 91201-2349

Attention: Investor Relations

Telephone: (818) 244-8080

Shurgard will provide you with copies of this information relating to Shurgard, without charge, if you request them in writing or by telephone from:

Shurgard Storage Centers, Inc.

1155 Valley Street, Suite 400

Seattle, WA 98109-4426

Attention: Investor Relations

Telephone: (206) 624-8100

If you would like to request documents, please do so by July 19, 2006, in order to receive them before the shareholders meetings.

Public Storage has supplied all information contained in or incorporated by reference in this joint proxy statement/prospectus relating to Public Storage, and Shurgard has supplied all information contained in this joint proxy statement/prospectus relating to Shurgard.

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SHURGARD STORAGE CENTERS, INC.

1155 Valley Street, Suite 400

Seattle, WA 98109-4426

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD ON JULY 26, 2006

To the shareholders of Shurgard Storage Centers, Inc.:

Shurgard will hold a special meeting of its shareholders at 9:00 a.m. (PDT), on Wednesday, July 26, 2006, at [ ], unless postponed or adjourned to a later date. The Shurgard special meeting will be held for the following purposes:

1. To approve the Agreement and Plan of Merger, dated as of March 6, 2006, by and among Shurgard Storage Centers, Inc, Public Storage, Inc. and ASKL Sub LLC, an indirect subsidiary of Public Storage, and the transactions contemplated by the merger agreement, including the merger of Shurgard with and into ASKL Sub LLC, on the terms and subject to the conditions contained in the merger agreement, and the exchange of each outstanding share of Shurgard common stock for the right to receive 0.82 shares of Public Storage common stock. A copy of the merger agreement is attached as Annex A to the accompanying joint proxy statement/prospectus; and

2. To approve adjournments or postponements of the Shurgard special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the Shurgard special meeting to approve the above proposals.

These items of business are described in the accompanying joint proxy statement/prospectus. Only shareholders of record at the close of business on June 23, 2006, are entitled to notice of the Shurgard special meeting and to vote at the Shurgard special meeting and any adjournments or postponements of the Shurgard special meeting.

Shurgard s board of directors approved the merger agreement and the transactions contemplated by the merger agreement, including the merger, on March 6, 2006, and determined that the transactions contemplated by the merger agreement are advisable and fair to, and in the best interests of, Shurgard and its shareholders. Shurgard s board of directors recommends that you vote FOR the approval of the merger agreement and the transactions contemplated by the merger agreement, including the merger and FOR approval of adjournments or postponements of the special meeting.

Under Washington law, dissenters rights will be available to Shurgard shareholders of record who vote against approval of the merger agreement. To exercise your dissenters rights, you must strictly follow the procedures prescribed by Washington law. These procedures are summarized in the accompanying joint proxy statement/prospectus.

Your vote is very important. Whether or not you plan to attend the Shurgard special meeting in person, please complete, sign and date the enclosed proxy card(s) or voting instruction card(s) as soon as possible and return it in the postage-prepaid envelope provided, or vote your shares by telephone as described in the accompanying joint proxy statement/prospectus. Completing a proxy now will not prevent you from being able to vote at the Shurgard special meeting by attending in person and casting a vote. **However, if you do not return or submit the proxy or vote in person at the special meeting, the effect will be the same as a vote against the proposal to approve the merger agreement and the transactions contemplated by the merger agreement, including the merger, and the proposal to approve adjournments or postponements of the special meeting.**

By order of the board of directors,

Jane A. Orenstein

Vice President, General Counsel and Corporate Secretary

Seattle, Washington, [ ], 2006

Please vote your shares promptly. You can find instructions for voting on the enclosed proxy card or voting instruction card. If you have any questions about the merger proposal or about voting your shares, please call MacKenzie Partners, Inc. at (212) 929-5500 (call collect) or (800) 322-2885 (toll free).

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PUBLIC STORAGE, INC.

701 Western Avenue

Glendale, California 91201-2349

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON JULY 26, 2006

Please take notice that the 2006 Annual Meeting of Shareholders of Public Storage, Inc., a California corporation, will be held at the time and place and for the purposes indicated below.

Time and Date:	9:00 a.m., local time, on Wednesday, July 26, 2006
Place:	The Hilton Glendale, 100 West Glenoaks Boulevard, Glendale, California
Items of Business:	1. To approve the merger agreement dated as of March 6, 2006, by and among Public Storage, Inc., Shurgard Storage Centers, Inc., and ASKL Sub LLC, an indirect subsidiary of Public Storage, Inc., a copy of which is attached as Annex A, and the transactions contemplated thereby, including the issuance of Public Storage common stock;
	2. To elect ten members of Public Storage s board of directors to serve until the 2007 annual meeting of shareholders and until their successors are elected and qualified;
	3. To ratify the appointment of Ernst & Young LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2006;
	4. To approve adjournments or postponements of the Public Storage annual meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the Public Storage annual meeting to approve the above proposals; and
	5. To consider and act on any other business that may properly come before the Public Storage annual meeting or any reconvened meeting following an adjournment or postponement of the Public Storage annual meeting.

These items of business are described in the accompanying joint proxy statement/prospectus. You are entitled to vote at the meeting if you were a shareholder of record of Public Storage common stock, depositary shares each representing 1/1,000th of a share of equity stock, series A or equity stock, series AAA at the close of business on June 23, 2006.

Public Storage s board of directors approved the merger agreement and the transactions contemplated by the merger agreement, including the merger, on February 24, 2006, and determined that the transactions contemplated by the merger agreement are advisable and fair to, and in the best interests of, Public Storage and its shareholders. Public Storage s board of directors recommends that you vote FOR the approval of the merger agreement and the transactions contemplated thereby, including the issuance of Public Storage common stock. The affirmative vote of both (i) the holders of at least a majority of outstanding shares of Public Storage common stock and (ii) the holders of at least a majority of outstanding shares of Public Storage equity stock is required to approve the merger agreement and the transactions contemplated by the merger agreement, including the issuance of Public Storage common stock in connection with the merger. An entity controlled by Public Storage has the right to cast a majority of the votes of the Public Storage equity stock with respect to the merger and intends to vote those shares in favor of the approval of the merger agreement and the transactions contemplated thereby, including the issuance of Public Storage common stock.

Public Storage s board of directors also recommends that you vote FOR the other Public Storage annual meeting proposals, all of which are described in detail in the accompanying joint proxy statement/prospectus. Approval of the other Public Storage annual meeting proposals is not a condition to the merger.

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Your vote is very important. To ensure your representation at the meeting, please mark your vote on the enclosed proxy/instruction card, then date, sign and mail the proxy or voting instruction card in the stamped return envelope included with these materials as soon as possible. You may revoke a proxy at any time prior to its exercise at the meeting by following the instructions in the accompanying joint proxy statement/prospectus. Completing a proxy now will not prevent you from being able to vote at the annual meeting by attending in person and casting a vote. **However, if you do not return or submit the proxy or vote in person at the annual meeting, the effect will be the same as a vote against the proposal to approve the merger agreement and the transactions contemplated by the merger agreement, including the issuance of Public Storage common stock in the merger.**

By order of the board of directors,

Stephanie G. Heim

Secretary

Glendale, California, [ ], 2006

Please vote your shares promptly. You can find instructions for voting on the enclosed proxy card or voting instruction card. If you have any questions about the merger proposal or about voting your shares, please call MacKenzie Partners, Inc. at (212) 929-5500 (call collect) or (800) 322-2885 (toll free).

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QUESTIONS AND ANSWERS ABOUT THE SHAREHOLDERS MEETINGS AND THE MERGER

The following questions and answers briefly address some commonly asked questions about the annual meeting of shareholders of Public Storage, the special meeting of shareholders of Shurgard, and the merger. They may not include all the information that is important to you. Public Storage and Shurgard urge you to read carefully this entire joint proxy statement/prospectus, including the annexes and the other documents to which we have referred you. We have included page references in certain parts of this summary to direct you to a more detailed description of each topic presented elsewhere in this joint proxy statement/prospectus.

The Merger

Q: Why am I receiving this joint proxy statement/prospectus?

A: Public Storage and Shurgard have agreed to the acquisition of Shurgard by an indirect subsidiary of Public Storage under the terms of a merger agreement that is described in this joint proxy statement/prospectus. A copy of the merger agreement is attached to this joint proxy statement/prospectus as *Annex A*.

In order to complete the merger, the merger must be approved by the shareholders of both Public Storage and Shurgard. Public Storage and Shurgard will hold separate meetings of their respective shareholders to obtain these approvals, as well as to consider various other proposals unrelated to the transaction.

This joint proxy statement/prospectus contains important information about the merger, the merger agreement and the annual meeting of shareholders of Public Storage and the special meeting of shareholders of Shurgard, which you should read carefully. The enclosed voting materials allow you to vote your shares without attending your respective company s shareholders meeting.

Your vote is very important. We encourage you to vote as soon as possible.

Q: What is the proposed transaction for which I am being asked to vote?

A: Shurgard shareholders are being asked to approve the merger agreement and the transactions contemplated by the merger agreement, including the merger of Shurgard into an indirect subsidiary of Public Storage. The approval of this proposal by Shurgard shareholders is a condition to the effectiveness of the merger. See *The Merger Agreement Conditions to the Merger* and *Summary Conditions to Completion of the Merger*.

Public Storage shareholders are being asked to approve the merger agreement and the transactions contemplated thereby, including the issuance of Public Storage common stock. The approval of this proposal by the Public Storage shareholders is a condition to the effectiveness of the merger. See *The Merger Agreement Conditions to the Merger* and *Summary Conditions to Completion of the Merger*.

Q: Why are Public Storage and Shurgard proposing the merger?

A: Public Storage and Shurgard both believe that the merger will provide strategic and financial benefits to the shareholders of both companies by creating the largest self-storage company in the world, with significant operating platforms in both the United States and Europe. In addition, Shurgard is also proposing the merger to offer Shurgard shareholders the opportunity to participate in the growth and opportunities of the combined company by receiving Public Storage stock in the merger.

The combination is designed to provide a number of strategic and financial benefits and growth opportunities including:

Solidifying Public Storage s position as the largest owner and operator of self-storage facilities in the United States;

Enhancing access to capital for the combined company and strengthening credit ratings relative to Shurgard;

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Eliminating duplicative general and administrative expenses and improving cost efficiencies;

Increasing growth opportunities,with significant platforms in Europe for international expansion;

Providing greater geographic and financial diversification relative to each company on a stand-alone basis; and

Increasing Public Storage s equity market capitalization.

To review the reasons for the merger in greater detail, see *The Merger Public Storage s Reasons for the Merger and Recommendation of Public Storage s Board of Directors* and *The Merger Shurgard s Reasons for the Merger and Recommendation of Shurgard s Board of Directors*.

Q: What will happen in the proposed merger?

A: In the proposed merger, Shurgard will merge with a newly formed, indirect subsidiary of Public Storage. After the merger, Shurgard will no longer be a public company and its business will be owned by a subsidiary of Public Storage. See *The Merger Agreement Form of the Merger* and *The Merger Agreement Completion and Effectiveness of the Merger*.

Q: What vote is required to approve the merger?

A: The merger agreement must be approved by the affirmative vote of the holders of (a) at least a majority of the outstanding shares of Public Storage common stock, (b) at least a majority of the outstanding Public Storage equity stock and (c) at least a majority of the outstanding shares of Shurgard common stock.

Q: What will Shurgard shareholders receive in the merger?

A: In the merger, Shurgard shareholders will receive 0.82 shares of Public Storage common stock for each share of Shurgard common stock that they own. Shurgard shareholders will receive cash for any fractional shares of Public Storage common stock that they would otherwise be entitled to receive in the merger. The value of the shares of Public Storage common stock to be received by Shurgard shareholders is dependent on the market price of Public Storage common stock at the time of the merger as the exchange ratio is fixed.

Q: Do Shurgard shareholders have dissenters rights?

A: Yes. Under applicable Washington law, Shurgard common shareholders have the right to dissent from the merger and to receive payment in cash for the appraised value of their shares of Shurgard common stock. The appraised value of the shares of Shurgard common stock may be more than, less than or equal to the value of the merger consideration. Each Shurgard shareholder seeking to preserve statutory dissenters rights must:

deliver to Shurgard, before the vote is taken at the Shurgard special meeting regarding the merger agreement and the merger, written notice of such shareholder s intent to demand payment for such shareholder s Shurgard common stock if the merger becomes effective;

not vote such shareholder s shares of Shurgard common stock in person or by proxy in favor of the proposal to approve the merger agreement; and

follow the statutory procedures for perfecting dissenters rights under Washington law, which are described in the section of this joint proxy statement/prospectus entitled *The Merger Dissenters Rights of Shurgard Shareholders*.

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Chapter 23B.13 of the Washington Business Corporation Act is reprinted in its entirety and attached as Annex G to this joint proxy statement/prospectus. Failure by a Shurgard shareholder to comply precisely with all procedures required by Washington law may result in the loss of dissenters rights for that shareholder.

Q: Do Public Storage shareholders have dissenters rights?

A: No. Public Storage shareholders are not entitled to dissenters rights.

Q: Will the rights of Shurgard shareholders change as a result of the merger?

A: Yes. Shurgard shareholders will become Public Storage shareholders and their rights as Public Storage shareholders will be governed by California law and Public Storage s articles of incorporation and bylaws. For a description of those rights, see *Comparison of Rights of Shareholders*. For a copy of Public Storage s articles of incorporation or bylaws, see *Where You Can Find More Information*.

Q: Will the rights of Public Storage shareholders change as a result of the merger?

A: No. Public Storage shareholders will retain their shares of Public Storage common stock and their rights will continue to be governed by California law and Public Storage s articles of incorporation and bylaws.

Q: Where does Public Storage common stock trade?

A: Shares of Public Storage common stock trade on the New York Stock Exchange under the symbol PSA.

Q: When do you expect to complete the merger?

A: If the shareholders of both Shurgard and Public Storage approve the merger agreement and the transactions contemplated thereby, we expect to complete the merger shortly after the shareholders meetings subject to the satisfaction or waiver of the other conditions to the merger. The transaction is targeted to close during the third quarter of 2006. See *The Merger Agreement Form of the Merger* and *The Merger Agreement Completion and Effectiveness of the Merger*.

Q: Are there risks involved in undertaking the merger?

A: Yes. In evaluating the merger, Public Storage and Shurgard shareholders should carefully consider the factors disclosed in the section of this joint proxy statement/prospectus entitled *Risk Factors Risks Relating to the Merger and Public Storage s Business* and other information included in this joint proxy statement/prospectus and the documents incorporated by reference in this joint proxy statement/prospectus.

Q: Who will be the directors of Public Storage after the merger?

A: The directors of Public Storage immediately prior to the merger will continue as directors after the merger. In addition, Public Storage has agreed to cause one of the current independent members of the board of directors of Shurgard to be appointed to the board of directors of Public Storage at the effective time of the merger.

Q: What are the material U.S. federal income tax consequences of the merger to shareholders?

A: Assuming that the merger is completed as currently contemplated, we expect that the receipt of the merger consideration by Shurgard common shareholders in exchange for their Shurgard common stock in the merger will be a taxable transaction for federal income tax purposes. Because the merger consideration consists solely of Public Storage common stock (other than cash received in the merger for fractional shares), holders of Shurgard common stock may need to sell shares of Public Storage common stock received in the merger, or raise cash from other sources, to pay any tax obligations resulting from the

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merger. We anticipate that the merger will have no material U.S. federal income tax consequences to Public Storage shareholders who do not own any Shurgard stock.

The tax consequences to you of the merger will depend on your own situation. You should consult your own tax advisor for a full understanding of the tax consequences to you of the merger. For more information regarding the tax consequences of the merger to Shurgard common shareholders, please see *The Merger Material United States Federal Income Tax Consequences of the Merger*.

Q: Should I send in my stock certificates now?

A: No. If the merger is completed, Public Storage will send Shurgard shareholders written instructions for sending in their stock certificates. See *The Shurgard Special Meeting Solicitation of Proxies* and *The Merger Exchange of Shares; Exchange of Certificates; Withholding*. Public Storage shareholders will not need to send in their stock certificates.

Other Public Storage Annual Meeting Proposals

Q: On what other proposals am I being asked to vote at the Public Storage annual meeting?

A: At Public Storage s annual meeting, in addition to voting on the merger agreement and the transactions contemplated thereby, including the issuance of Public Storage common stock, Public Storage shareholders will be asked:

To elect ten members of Public Storage s board of directors;

To ratify the appointment of Ernst & Young LLP as Public Storage s independent registered public accounting firm for the fiscal year ending December 31, 2006;

To approve adjournments or postponements of the Public Storage annual meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the Public Storage annual meeting to approve the above proposals; and

To consider and act on any other business that may properly come before the Public Storage annual meeting or any reconvened meeting following an adjournment or postponement of the Public Storage annual meeting.

See *The Public Storage Annual Meeting Purposes of the Public Storage Annual Meeting*.

Procedures

Q: When and where are the shareholders meetings?

A: The Shurgard special meeting will be held on Wednesday, July 26, 2006, 9:00 a.m. (PDT) at [ ].

The Public Storage annual meeting will be held on Wednesday, July 26, 2006, 9:00 a.m. (PDT) at The Hilton Glendale, 100 West Glenoaks Boulevard, Glendale, California.

Q: Who is eligible to vote at the Shurgard special meeting and the Public Storage annual meeting?

A: Holders of Shurgard common stock are eligible to vote at the Shurgard special meeting if they were shareholders of record at the close of business on June 23, 2006. See *The Shurgard Special Meeting Record Date; Shares Entitled to Vote; Quorum.*
Holders of Public Storage common stock and equity stock are eligible to vote at the Public Storage annual meeting if they were shareholders of record at the close of business on June 23, 2006. See *The Public Storage Annual Meeting Record Date; Outstanding Shares; Shares Entitled to Vote*.

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Q: What should I do now?

A: You should read this joint proxy statement/prospectus carefully, including the annexes, and return your completed, signed and dated proxy card(s) or voting instruction card(s) by mail in the enclosed postage-paid envelope or, if you are a Shurgard shareholder, by submitting your proxy by telephone as soon as possible so that your shares will be represented and voted at your respective company s meeting. A number of banks and brokerage firms participate in a program that also permits shareholders whose shares are held in street name to direct their vote by telephone or over the Internet. If your shares are held in an account at a bank or brokerage firm that participates in such a program, you may direct the vote of these shares by telephone or over the Internet by following the voting instructions enclosed with the proxy form from the bank or brokerage firm. See *The Shurgard Special Meeting Voting of Proxies*, and *The Public Storage Annual Meeting Voting Your Proxy*.

Q: If I am going to attend my company s meeting, should I return my proxy card(s) or voting instruction card(s)?

A: Yes. Returning your signed and dated proxy card(s) or voting instruction card(s) or, if you are a Shurgard shareholder, voting by telephone ensures that your shares will be represented and voted at your respective company s meeting. See *The Shurgard Special Meeting Voting of Proxies* and *The Public Storage Annual Meeting Voting Your Proxy*.

Q: How will my proxy be voted?

A: If you complete, sign and date your proxy card(s) or voting instruction card(s), or, if you are a Shurgard shareholder, vote by telephone your proxy will be voted in accordance with your instructions. If you sign and date your proxy card(s) or voting instruction card(s) but do not indicate how you want to vote at your meeting:

For Shurgard shareholders, your shares will be voted FOR the approval of the merger agreement and the transactions contemplated by the merger agreement, including the merger and FOR the approval to any adjournment and postponement of the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the merger agreement. If you vote FOR the approval of the merger agreement and the transactions contemplated by the merger agreement, including the merger, at the Shurgard special meeting, you will lose the appraisal rights to which you would otherwise be entitled. See *Summary Dissenters Rights*, *The Merger Dissenters Rights of Shurgard Shareholders* and *The Shurgard Special Meeting Voting of Proxies*.

For Public Storage shareholders, your shares will be voted FOR the approval of the merger agreement and the transactions contemplated thereby, including the issuance of Public Storage common stock, FOR the election of the members of the board of directors and FOR the ratification of the independent registered public accounting firm. See *The Public Storage Annual Meeting Voting Your Proxy*.

Q: Can I change my vote after I mail my proxy card(s) or voting instruction card(s), or, if I am a Shurgard shareholder, vote by telephone?

A: Yes. If you are a record holder of Shurgard common stock, Shurgard ESPP shares, Public Storage common stock or Public Storage equity stock, you can change your vote by:

sending to the corporate secretary of the company in which you hold shares a written notice that is received prior to your company s meeting and states that you revoke your proxy;

signing and delivering a new proxy card(s) or voting instruction card(s) bearing a later date;

if you are a Shurgard shareholder, voting again by telephone and submitting your proxy so that it is received prior to Shurgard s meeting; or

attending your company s meeting *and* voting in person, although your attendance alone will not revoke your proxy.

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If your shares are held in a street name account, you must contact your broker, bank or other nominee to change your vote. See *The Public Storage Annual Meeting Revoking Your Proxy* and *The Shurgard Special Meeting Revocability of Proxies*.

Q: What if my shares are held in street name by my broker?

A: If a broker holds your common stock for your benefit but not in your own name, your shares are in street name. In that case, your broker will send you a voting instruction form to use to vote your shares. The availability of Internet and telephone voting depends on your broker s voting procedures. Please follow the instructions on the voting instruction form they send you. If your shares are held in your broker s name and you wish to vote in person at your company s meeting, you must contact your broker and request a document called a legal proxy. You must bring this legal proxy to your respective company s meeting in order to vote in person. See *The Public Storage Annual Meeting Voting Your Proxy* and *The Shurgard Special Meeting Voting of Proxies*.

Q: What if I don t provide my broker with instructions on how to vote?

A: Generally, a broker may only vote the common stock that it holds for you in accordance with your instructions. However, if your broker has not received your instructions, your broker has the discretion to vote on certain matters that are considered routine. A broker non-vote occurs if your broker cannot vote on a particular matter because your broker has not received instructions from you and because the proposal is not routine.

Shurgard Shareholders

If you wish to vote on the proposal to approve the merger agreement and the transactions contemplated by the merger agreement, including the merger, you must provide instructions to your broker, because this proposal is not routine. If you do not provide your broker with instructions, your broker will not be authorized to vote with respect to approving the merger agreement and the transactions contemplated by the merger agreement, including the merger, and a broker non-vote will occur. This will have the same effect as a vote against the approval of the merger agreement and the transactions contemplated by the merger agreement, including the merger. Because adjournments and postponements of the special meeting require the affirmative vote of a majority of the shares of Shurgard common stock present, in person or by proxy, and entitled to vote at the special meeting, broker non-votes, which are not entitled to vote, will have the effect of reducing the aggregate number of votes required to adjourn or postpone the meeting. See *The Shurgard Special Meeting Voting of Proxies* and *The Shurgard Special Meeting Record Date; Shares Entitled to Vote; Quorum*.

Public Storage Shareholders

If you wish to vote on the proposal to approve the merger, you must provide instructions to your broker because this proposal is not routine. If you do not provide your broker with instructions, your broker will not be authorized to vote with respect to the approval of the merger agreement and the transactions contemplated thereby, and a broker non-vote will occur. Because the affirmative vote required to approve the merger agreement and the transactions contemplated thereby is based upon the total number of outstanding shares of Public Storage common stock and Public Storage equity stock, broker non-votes will have the same effect as votes against the approval of the merger agreement and the transactions contemplated thereby, including the issuance of Public Storage common stock.

If you wish to vote on the proposals to elect the ten members to the board of directors of Public Storage, to ratify the appointment of Public Storage s independent registered public accounting firm or to act upon any other routine business that may properly come before the Public Storage annual meeting, you should provide instructions to your broker. If you do not provide your broker with instructions, your broker generally will have the authority to vote on the election of directors, the ratification of the appointment of the independent registered public accounting firm and other routine matters.

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If you wish to vote on any proposal to approve adjournments or postponements of the Public Storage annual meeting, you should provide instructions to your broker. If you do not provide instructions to your broker, your broker generally will have the authority to vote on proposals such as the adjournment or postponement of meetings. However, your broker will not be authorized to vote on any proposal to adjourn or postpone the meeting solely relating to the solicitation of proxies to approve the proposal to approve the merger agreement and the transactions contemplated by the merger agreement, including the issuance of Public Storage common stock. See *The Public Storage Annual Meeting Voting Your Proxy*, *The Public Storage Annual Meeting Voting Rights* and *The Public Storage Annual Meeting Quorum*.

Q: What if I abstain from voting?

A: Your abstention from voting will have the following effect:

If you are a Shurgard shareholder:

Because the affirmative vote of a majority of the outstanding shares of Shurgard common stock is required to approve the merger agreement and the transactions contemplated thereby, an abstention or failure to submit a proxy/voting instruction card or to vote at the Shurgard special meeting will have the same effect as a vote against the approval of the merger agreement and the transactions contemplated by the merger agreement, including the merger. Because adjournments and postponements of the special meeting require the affirmative vote of a majority of the shares of Shurgard common stock present, in person or by proxy, and entitled to vote at the special meeting, abstentions will have the same effect as a vote against the approval of adjournments or postponements of the special meeting.

See *The Shurgard Special Meeting Voting of Proxies*.

If you are a Public Storage shareholder:

Abstentions will have the same effect as a vote against the approval of the merger agreement.

Abstentions will not be counted and therefore will not have an effect on the outcome of the election of the board of directors.

Abstentions will not be counted for and therefore will not have an effect on the ratification of the appointment of the independent registered public accounting firm or the approval of adjournments or postponements of the Public Storage annual meeting.

See *The Public Storage Annual Meeting Voting Your Proxy*.

Q: What does it mean if I receive multiple proxy cards?

A: Your shares may be registered in more than one account, such as brokerage accounts and 401(k) accounts. It is important that you complete, sign, date and return each proxy card or voting instruction card you receive, or, if you are a Shurgard shareholder, vote using the telephone as described in the instructions included with your proxy card(s) or voting instruction card(s).

Q: Where can I find more information about Public Storage and Shurgard?

A: You can find more information about Public Storage and Shurgard from various sources described under *Where You Can Find More Information*.

Q: Who can help answer my questions?

A: If you have any questions about the merger or your meeting, need assistance in voting your shares, or need additional copies of this joint proxy statement/prospectus or the enclosed proxy card(s) or voting instructions, you should contact:
MacKenzie Partners, Inc. by telephone at 1-212-929-5500 (call collect) or 1-800-322-2885 (toll free) or by email at proxy@mackenziepartners.com.

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SUMMARY

This summary of the material information contained in this joint proxy statement/prospectus may not include all the information that is important to you. To understand fully the proposed merger, and for a more detailed description of the terms and conditions of the merger and certain other matters being considered at your meeting, you should read this entire joint proxy statement/prospectus and the documents to which we have referred you. See Where You Can Find More Information, beginning on page 265. We have included references parenthetically in this summary to direct you to a more detailed description of each topic presented in this summary.

Shurgard s consolidated financial statements as set forth under Index to Consolidated Financial Statements of Shurgard , Shurgard Management s Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2005 and Selected Historical Financial Data of Shurgard for each of the fiscal years ended December 31, 2005, 2004, 2003, 2002 and 2001 have 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.

The Companies

Shurgard (page 162)

Shurgard Storage Centers, Inc. is a real estate investment trust headquartered in Seattle, Washington. Shurgard develops, acquires, invests in, operates and manages self-storage centers and related operations in the United States and Europe. As of March 31, 2006, it operated a network of over 656 operating storage centers containing approximately 41 million net rentable square feet located throughout the United States and in Europe.

Shurgard Storage Centers, Inc.

1155 Valley Street, Suite 400

Seattle, WA 98109-4426

Telephone: (206) 624-8100

Public Storage (page 144)

Public Storage, Inc., an S&P 500 company, is a fully integrated, self-administered and self-managed real estate investment trust that primarily acquires, develops, owns and operates self-storage facilities. Public Storage s headquarters are located in Glendale, California. Public Storage s self-storage properties are located in 37 states. At March 31, 2006, Public Storage had interests in 1,508 storage facilities with approximately 92 million net rentable square feet.

Public Storage, Inc.

701 Western Avenue

Glendale, CA 91201-2349

Telephone: (818) 244-8080

ASKL Sub LLC

ASKL Sub LLC, or Merger Sub, is a Delaware limited liability company, recently organized as an indirect subsidiary of Public Storage solely for the purpose of effecting the merger. Currently, Merger Sub has no material assets and has not engaged in any activities except in connection with the merger. Public Storage presently intends to change the name of Merger Sub from ASKL Sub LLC to Shurgard Storage Centers, LLC after the consummation of the merger.

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Shurgard s Reasons for the Merger and Recommendations to Shareholders (page 73)

The Shurgard board of directors, has determined that the merger is fair to and in the best interests of Shurgard and its shareholders, and recommends that Shurgard shareholders vote FOR the approval of the merger agreement and the transactions contemplated by the merger agreement, including the merger and FOR the approval of adjournments or postponements of the special meeting.

Among the reasons for the Shurgard board of directors recommendation are the following:

Completion of Strategic Alternatives Process. The Shurgard board of directors, with the assistance of outside advisors, conducted a comprehensive strategic alternatives process designed to maximize value to Shurgard s shareholders. In conducting this strategic alternatives process, the Shurgard board of directors evaluated strategic alternatives reasonably available to Shurgard, including a sale of Shurgard, the formation of one or more asset joint ventures with strategic partners, a sale of certain of Shurgard s assets or operations, and continued implementation of Shurgard s strategic business plan.

Market Price. The Shurgard board of directors considered the value of the merger consideration to be received by Shurgard s shareholders in the merger, and noted that, based upon the closing price of Public Storage s common stock on March 6, 2006, the exchange ratio of 0.82 of a share of Public Storage common stock for each share of Shurgard common stock represented a premium of approximately 39% over Shurgard s closing stock price on July 29, 2005, the last trading day prior to Public Storage s publicized acquisition proposal, and a premium of approximately 52% over the average closing price of Shurgard s common stock during the six months prior to Public Storage s publicized acquisition proposal.

Form of Merger Consideration. The Shurgard board of directors considered that the all-stock merger consideration will permit Shurgard s shareholders to exchange their shares of Shurgard common stock for shares of Public Storage common stock and retain an equity interest in the combined enterprise with the related opportunity to share in its future growth, synergies from the combination and any economies of scale. The Shurgard board of directors also reviewed Public Storage s current and historical results of operations, the trading prices for Public Storage common stock and considered its future prospects.

Terms of the Merger Agreement. The Shurgard board of directors, with the assistance of its legal advisors, reviewed the terms of the merger agreement, the amount of the termination fees payable under certain circumstances described below and the outside termination date of December 31, 2006. In addition, the Shurgard board of directors considered the ability of Shurgard s management and employees to continue to run the business consistent with past practices in the period between the signing of the merger agreement and the closing of the merger.

Likelihood of Consummation of the Merger. The Shurgard board of directors considered the likelihood of consummation of the merger, including the terms and conditions of the merger agreement and the conditions to the consummation of the merger.

Business, Condition and Prospects. The Shurgard board of directors considered information with respect to Shurgard s financial condition, results of operations, business, competitive position, relationships with regulators, outstanding legal proceedings and business prospects, on both a historical and prospective basis, as well as current industry, economic, government regulatory and market conditions and trends.

Improved Liquidity. The Shurgard board of directors considered the fact that the combined company would have a significantly larger market capitalization resulting in an enhanced ability for current Shurgard shareholders to sell their shares of common stock of the combined company.

Financing Related to the Merger. The Shurgard board of directors considered the fact that the merger with Public Storage would not be contingent on any financing condition.

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Strategic Advantages. The Shurgard board of directors considered the fact that the merger with Public Storage would offer numerous strategic advantages to Shurgard s shareholders going forward, including:

- the ability to participate in expanded growth opportunities as a result of forming the largest self-storage owner/operator in the world, with significant platforms in the U.S. and Europe suitable for continued expansion;
- the ability to derive enhanced property and geographical diversification in the United States and an enlarged footprint improving the risk profile of the combined company s property portfolio;
- enhanced access to capital through a combination with a larger entity with stronger credit ratings and less financial leverage than Shurgard;
- the taxable nature of the merger would create a step-up in the tax basis of Shurgard s assets so as to enhance the combined company s growth prospects through the retention of free cash flow (see also the potential tax risks arising from the taxable nature of the merger, discussed below under *Potential Risks*);
- the ability to derive significant synergies, including the ability to lower the combined company s general and administrative costs through the elimination of redundancies in back office support staff, executive infrastructure and the reduction in compliance costs related to the Sarbanes-Oxley Act of 2002;
- the ability to lower the combined company s operating costs through the implementation of scalable financial systems, realization of economies of scale in media, call centers and supervisory personnel, and the reduction in duplicate expenses of advertising and management information systems; and
- the ability of the combined company to increase revenues through participation in national media and promotional programs and the expansion of ancillary businesses, such as tenant reinsurance.

Ability to Accept a Superior Proposal Upon Payment of a Termination Fee. The Shurgard board of directors considered Shurgard s ability to terminate the merger agreement under certain circumstances prior to shareholder approval of the merger agreement in order to enter into an alternative transaction in response to a superior proposal. In this regard, Shurgard may not solicit competing offers and would be required to pay a $125 million termination fee in connection with accepting a superior proposal.

Potential Risks. The Shurgard board of directors considered a number of potential risks, as well as related mitigating factors, in connection with its evaluation of the merger, including:

- the possibility that the merger might not be completed as a result of the failure to satisfy certain closing conditions, including securing approvals from shareholders of both Shurgard and Public Storage, which failure to complete the merger could result in significant distractions to Shurgard s employees, and Shurgard would still be obligated to pay certain fees and expenses of its advisors regardless of whether the merger was consummated;
- the risk that the Hughes family will be able to significantly influence the outcome of matters submitted to a vote of the combined company s shareholders, due to their current aggregate ownership of approximately 36% of all of the outstanding shares of Public Storage common stock and Public Storage s 2% ownership limit;

the risk that prior to the completion or abandonment of the merger, Shurgard is required to conduct its business only in the ordinary course consistent with past practice and subject to certain operational restrictions that could damage Shurgard s business if the merger were not consummated;

the uncertainties involved in a change of control environment impose difficulties in retaining key management and store personnel and motivating employees facing uncertainties about the future ownership and direction of Shurgard;

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the fact that Public Storage historically has paid a lower dividend to its common shareholders than Shurgard has paid to its common shareholders;

the risk that after the merger Shurgard shareholders will have an interest in a combined entity with a potentially lower proportion of growth properties than Shurgard on a stand-alone basis, as Public Storage has a more mature property portfolio;

the fact that the fully taxable nature of the transaction will cause Shurgard s common shareholders to recognize gain from the receipt of Public Storage common stock, and such shareholders will not receive any cash as part of the merger consideration in order to pay taxes on this gain;

the risks arising from the challenges of integrating the businesses, management teams, strategies, cultures and organizations of the two companies, including the risks associated with the integration of Shurgard s European operations into Public Storage;

the possibility that Shurgard would be required to pay a termination fee of $125 million if the merger agreement is terminated under specified circumstances and Shurgard later agrees to or consummates a different acquisition proposal, and the possibility that Shurgard would be required to pay up to $10 million of Public Storage s expenses if Shurgard s common shareholders do not vote to approve the merger agreement and another acquisition proposal is publicly proposed or publicly announced at that time; and

the fact that the stock price of the Public Storage common stock had appreciated significantly during period between the publicized acquisition proposal and the entry into the merger agreement and was trading near its then all-time high upon entry into the merger agreement, and the fact that, given the fixed exchange ratio of 0.82 of a share of Public Storage common stock for each share of Shurgard common stock, if the stock price of Public Storage were to decline between the date of execution of the merger agreement and the closing date of the merger, the value of the merger consideration to be received by a Shurgard common shareholder would be reduced.

In the judgment of the Shurgard board, however, these potential risks were more than offset by the potential benefits of the merger discussed above.

Opinions of Financial Advisors. The Shurgard board of directors considered the joint financial presentation of Shurgard s financial advisors, Citigroup Global Markets Inc. and Banc of America Securities LLC, including the separate opinions, each dated March 6, 2006, of Citigroup and Banc of America Securities to the Shurgard board of directors as to the fairness, from a financial point of view and as of the date of such opinion, of the exchange ratio provided for in the merger agreement, as more fully described below under the caption *The Merger Opinions of Shurgard s Financial Advisors*.

Additional Considerations. In the course of its deliberations on the merger agreement and the merger, the Shurgard board of directors consulted with members of Shurgard management and Shurgard s legal, financial, accounting and tax advisors on various legal, business and financial matters. Additional factors considered by the Shurgard board of directors in determining whether to approve the merger agreement and the merger and recommend that Shurgard s shareholders vote to approve the merger agreement and the merger included:

the existence of severance and other benefits under Shurgard s employee benefits plans for those employees whose employment may terminate under certain circumstances following the execution of the merger agreement; and

the fact that Shurgard s shareholders will have an opportunity to vote on the merger on the terms provided in the merger agreement.

In connection with its search for strategic alternatives and negotiation and execution of the merger agreement with Public Storage, to date Shurgard has paid fees of $14.5 million to its legal, financial and

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accounting advisors and will be obligated to pay an additional $12.9 million to its financial advisors if the merger is consummated.

Public Storage s Reasons for the Merger and Recommendations to Shareholders (page 64)

The Public Storage board of directors has determined that the merger is fair to and in the best interests of Public Storage and its shareholders, and recommends that Public Storage shareholders vote FOR the merger, as well as FOR the other proposals being presented at the annual meeting.

Among the reasons for the Public Storage board s recommendation are the following:

Strategic Considerations. The Public Storage board believes that the merger will provide a number of significant strategic opportunities and benefits, including the following, all of which it viewed as generally supporting its decision:

- The combination, by increasing the net rentable square feet of Public Storage s self-storage facilities in the United States by approximately 36%, will further solidify Public Storage s position as the largest owner and operator of self-storage facilities in the United States;

- The combined company will eliminate duplicative general and administrative expenses and should eliminate certain other duplicative expenses in the United States, such as yellow page advertisements, as well as improve cost efficiencies of certain support functions, such as human resources, payroll and national telephone reservation system, resulting in economies of scale and cost efficiencies;

- With Shurgard s existing European portfolio and an in-place infrastructure and management team, the combination will provide Public Storage with a platform for international expansion, which would provide Public Storage with geographic and financial diversification;

- A taxable combination will provide Public Storage with a step-up in basis in Shurgard s assets, providing for increased depreciation deductions to facilitate internal growth; and

- The acquisition will increase Public Storage s equity market capitalization, which may increase the liquidity for Public Storage shareholders and potentially enhance Public Storage s long-term financial flexibility.

Other Factors Considered by the Public Storage Board of Directors. In addition to considering the strategic factors outlined above, the Public Storage board of directors considered the following additional factors, all of which it viewed as generally supporting its decision to approve the merger:

- Historical information concerning Shurgard s and Public Storage s respective businesses, financial performance and condition, operations, management, competitive positions and stock performance, which comparisons generally informed the Public Storage board of directors determination as to the relative values of Shurgard, Public Storage and the combined companies;

- The results of the due diligence review of Shurgard s businesses and operations;

- The presentation by representatives of Goldman Sachs, and Goldman Sachs oral opinion, subsequently confirmed in writing, to the effect that, as of the date of the written fairness opinion and based upon and subject to the factors and assumptions set forth therein, the exchange ratio of 0.82 shares of Public Storage common stock to be issued in exchange for each share of Shurgard common stock pursuant to the merger agreement was fair from a financial point

of view to Public Storage (the written opinion of Goldman Sachs is attached as Annex D to this joint proxy statement/prospectus and discussed under *Opinion of Public Storage s Financial Advisor*); and

Management s assessment that the proposed merger was likely to meet certain criteria it deemed necessary for a successful merger strategic fit, acceptable execution risk, and financial benefits to Public Storage and its shareholders.

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Potential Risks Considered by the Public Storage Board. Public Storage s board also considered the potential risks of the merger including the following:

- The Shurgard debt to be assumed or repaid by Public Storage in the combination, the borrowings required in connection with the redemption of Shurgard preferred stock and the out-of-pocket costs incurred in the transaction would increase Public Storage s indebtedness by about $2 billion in the absence of Public Storage raising additional capital, including issuances of preferred stock;

- The size of the transaction may make integration of Public Storage and Shurgard difficult, expensive and disruptive, affecting the combined company s earnings, and implementation of merger integration efforts may divert management s attention from other strategic priorities;

- Shurgard s European operations have not been profitable to date and may not become profitable, and the acquisition of Shurgard s European properties may create currency risks, potentially adverse tax burdens, burdens of complying with a variety of foreign laws, obstacles to the repatriation of earnings and cash, local, regional and national political uncertainty, economic slowdown and/or downturn in foreign markets, and potential difficulties in staffing and managing international operations;

- As a share of overall operations, particularly in Europe, Shurgard has more recently developed properties whose occupancies have not stabilized and more construction activity than Public Storage, and delays in construction and fill up could create additional costs and expenses;

- As a share of overall operations, particularly in Europe, Shurgard has more joint venture facilities and more facilities located on leased land than Public Storage. Joint venture facilities and leased facilities present additional risks, such as loss of control or additional financial commitments in respect of the facilities;

- As a result of the merger, some of Shurgard s facilities could be subject to property tax reappraisal; and

- The merger will be dilutive to Public Storage shareholders.

The Merger (page 49)

The boards of directors of Shurgard and Public Storage each approved the merger of Shurgard into Merger Sub, on the terms and subject to the conditions contained in the merger agreement. The surviving company of the merger will be a subsidiary of Public Storage.

We encourage you to read the merger agreement, which governs the merger and is attached as *Annex A* to this joint proxy statement/prospectus, because it sets forth the terms of the merger of Shurgard into Merger Sub.

Merger Consideration (page 127)

Holders of Shurgard common stock (other than Public Storage, Merger Sub, any other subsidiary of Public Storage, Shurgard and dissenting Shurgard shareholders who properly exercise their dissenters rights) will be entitled to receive 0.82 shares of Public Storage common stock for each share of Shurgard common stock that they own. As a result, Public Storage will issue approximately [ ] million shares of Public Storage common stock in the merger based on the number of shares of Shurgard common stock outstanding on the record date. We refer to the stock consideration to be paid to Shurgard shareholders by Public Storage as the merger consideration.

The total value of the merger consideration that a Shurgard common shareholder will receive in the merger may vary. The value of the merger consideration to be paid to Shurgard common shareholders is not fixed and will depend on the value of 0.82 shares of Public Storage common stock. This value may be ascertained by multiplying the trading price of Public Storage common stock upon completion of the merger by 0.82.

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As illustrated in the table below, the value of 0.82 shares of Public Storage common stock may be less than or greater than $65.16, which was the value of 0.82 shares of Public Storage common stock as of the announcement of the transaction, based on the closing price of Public Storage common stock as of March 6, 2006. In particular, if the closing price of Public Storage common stock upon completion of the merger is greater than $79.46, then the value of 0.82 shares of Public Storage common stock would be greater than $65.16. If the closing price of Public Storage common stock upon completion of the merger is less than $79.46, then the value of 0.82 shares of Public Storage common stock would be less than $65.16.

Hypothetical Trading Price of Public Storage s Common Stock	Corresponding Value of Merger Consideration
$84.00	$68.88
$82.00	$67.24
$80.00	$65.60
$78.00	$63.96
$76.00	$62.32
$74.00	$60.68
$72.00	$59.04
$70.00	$57.40
$68.00	$55.76
$66.00	$54.12
$64.00	$52.48
$62.00	$50.84
$60.00	$49.20

No fractional shares of Public Storage common stock will be issued in the merger. All fractional shares of Public Storage common stock that a Shurgard shareholder would otherwise be entitled to receive will be aggregated. As soon as practicable following the effective time of the merger, the aggregated shares will be sold at the prevailing prices on the NYSE. Any holder of shares of Shurgard common stock entitled to receive a fractional share of Public Storage common stock will be entitled to receive a cash payment in an amount equal to such holder s proportionate interest in the net proceeds from the sale or sales in the open market of the aggregated shares.

Opinions of Financial Advisors (page 66 for Public Storage and page 77 for Shurgard)

Public Storage: Goldman Sachs delivered its opinion to the Public Storage board of directors that, as of the date of the written fairness opinion and based upon and subject to the factors and assumptions set forth therein, the exchange ratio of 0.82 shares of Public Storage common stock to be issued in exchange for each share of Shurgard common stock pursuant to the merger agreement was fair from a financial point of view to Public Storage.

The full text of the written opinion of Goldman Sachs, dated March 6, 2006, which sets forth assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Annex D to this joint proxy statement/prospectus. Goldman Sachs provided its opinion for the information and assistance of the Public Storage board of directors in connection with its consideration of the merger. The Goldman Sachs opinion is not a recommendation as to how any holder of the Public Storage common stock should vote with respect to the merger.

Shurgard: In connection with the merger, Shurgard s board of directors received separate written opinions, each dated March 6, 2006, from Shurgard s financial advisors, Citigroup and Banc of America Securities, as to the fairness, from a financial point of view and as of the date of such opinion, to the holders of Shurgard common

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stock, other than Public Storage, Merger Sub and their respective affiliates, of the exchange ratio provided for in the merger agreement. The full text of the written opinions of Citigroup and Banc of America Securities are attached to this joint proxy statement/prospectus as Annex E and Annex F, respectively. We encourage you to read these opinions carefully in their entirety for a description of the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Citigroup and Banc of America Securities. **Citigroup s and Banc of America Securities respective opinions were provided to Shurgard s board of directors in connection with its evaluation of the exchange ratio and relate only to the fairness, from a financial point of view, of the exchange ratio. The opinions of Citigroup and Banc of America Securities do not address any other terms, aspects or implications of the merger and do not constitute a recommendation to any shareholder as to how such shareholder should vote or act as to any matters relating to the proposed merger.**

Record Date; Outstanding Shares; Shares Entitled to Vote (page 44 for Public Storage and page 41 for Shurgard)

Shurgard Shareholders. The record date for the special meeting of Shurgard shareholders is June 23, 2006. This means that you must have been a shareholder of record of Shurgard s common stock at the close of business on June 23, 2006, in order to vote at the special meeting. You are entitled to one vote for each share of common stock you owned on that date. On Shurgard s record date, Shurgard s voting securities carried [ ] votes, which consisted of [ ] shares of common stock.

Public Storage Shareholders. The record date for the annual meeting of Public Storage shareholders is June 23, 2006. This means that you must have been a shareholder of record of Public Storage s common stock or equity stock at the close of business on June 23, 2006, in order to vote at the annual meeting. You are entitled to one vote for each share of common stock you owned on that date. You are entitled to one-tenth of a vote for each depository share that you own representing equity stock, series A. You are entitled to one vote for each share of equity stock, series AAA but with respect to those shares are only entitled to vote with regard to the approval of the merger agreement and the transactions contemplated thereby, including the issuance of Public Storage common stock. As of the record date for the Public Storage annual meeting, a subsidiary of Public Storage had the right to vote all 4,289,544 shares of the outstanding equity stock, series AAA at the Public Storage annual meeting.

Stock Ownership of Directors and Executive Officers (page 47 for Public Storage and page 42 for Shurgard)

Shurgard. At the close of business on the record date for the Shurgard special meeting, directors and executive officers of Shurgard and their affiliates beneficially owned and were entitled to vote approximately [ ] shares of Shurgard common stock, collectively representing [ ]% of the shares of Shurgard common stock outstanding on that date.

Public Storage. As of the record date for the Public Storage annual meeting, there were [ ] shares of Public Storage common stock outstanding and entitled to vote at the annual meeting, approximately [ ]% of which were owned and entitled to be voted by Public Storage directors and executive officers and their affiliates, [ ] depositary shares representing Public Storage equity stock, series A outstanding and entitled to vote at the annual meeting, approximately [ ]% of which were owned and entitled to be voted by Public Storage directors and executive officers and their affiliates, and 4,289,544 shares of Public Storage equity stock, series AAA outstanding and entitled to vote at the annual meeting, all of which were owned and entitled to be voted by an entity controlled by Public Storage.

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Ownership of Public Storage After the Merger (page 44)

Based on the number of shares of Public Storage and Shurgard common stock outstanding on their respective record dates, after completion of the merger, Public Storage expects to issue approximately [ ] million shares of Public Storage common stock and former Shurgard shareholders will own approximately [ ]% of the then-outstanding shares of Public Storage common stock.

Interests of Shurgard Directors and Executive Officers in the Merger (page 89)

In considering the recommendation of the Shurgard board of directors with respect to the merger agreement and the merger, Shurgard shareholders should be aware that certain executive officers and directors of Shurgard have certain interests in the merger that may be different from, or in addition to, the interests of Shurgard s shareholders generally. These interests include rights of Shurgard s executive officers under business combination agreements with Shurgard, rights under Shurgard s equity compensation plans and rights to continued indemnification and insurance coverage by Public Storage after the merger. Each of Shurgard s executive officers, Charles Barbo, Harrell Beck, Devasis Ghose, David Grant, Jane Orenstein, and Steven Tyler, is party to a business combination agreement with Shurgard and will be entitled to certain severance payments in the event that his or her employment is terminated by Shurgard (or its successor) without cause, or by the executive for good reason, within two and one half (2 1/2) years after the consummation of the merger. Generally, upon such termination, the executive officer will be entitled to (i) an amount equal to two and one half (2 1/2) times the sum of the executive officer s annual base salary and target bonus, (ii) continued welfare coverage for a period of two and one half (2 1/2) years following such termination (or an amount equal to the cost of the premiums) and (iii) reimbursement of any golden parachute excise tax payable by the executive, including any income taxes and further excise tax payable by the executive due to this reimbursement. Assuming annual base salary and target bonus as in effect for the 2006 fiscal year, the aggregate amount of payments that will be payable to the executive officers pursuant to the business combination agreements if all of the agreements are triggered within two and one half (2 1/2) years following the consummation of the merger (excluding any amounts associated with the golden parachute excise tax gross-up or the continued welfare coverage) will be approximately $7.5 million. In addition, 25 other officers and employees of Shurgard are also party to business combination agreements with Shurgard. For more information regarding the business combination agreements, please see *Interests of Shurgard Directors and Executive Officers in the Merger Business Combination Agreements.*

As of the consummation of the merger, all outstanding stock options held by the directors, officers and employees of Shurgard under the Shurgard Storage Centers, Inc. 1995 Long-Term Incentive Compensation Plan, the Shurgard Storage Centers, Inc. 2000 Long-Term Incentive Plan and the Shurgard Storage Centers, Inc. 2004 Long-Term Incentive Plan, which plans we refer to in this section collectively as the stock plans, will become fully vested and will be converted into options to acquire the number of shares of Public Storage common stock multiplied by 0.82 (and rounded down to the nearest share). As of the consummation of the merger, all outstanding stock options granted to directors under the Shurgard Storage Centers, Inc. Amended and Restated Stock Incentive Plan for Nonemployee Directors, which plan we refer to in this section as the director incentive plan, will terminate. 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. Additionally, by virtue of the merger any outstanding restricted shares of Shurgard common stock held by the directors, officers or employees that were granted under the stock plans will be converted into the number of shares of Public Storage common stock obtained by multiplying such number of restricted shares of Shurgard common stock by 0.82. Assuming a value of $63.60 per share of Shurgard common stock (the value of a share of Shurgard common stock at the closing of the market on March 6, 2006, the date of the merger agreement), the aggregate value of the unvested options and restricted stock held by executive officers and directors that will be accelerated in connection with the merger is approximately $12.1 million. For more information regarding the treatment of Shurgard options and restricted following the merger, please see *Interests of Shurgard Directors and Executive Officers in the Merger Option Vesting; Conversion of Options and Restricted Stock.*

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The Shurgard board of directors was aware of these interests and considered them, among other matters, when approving the merger agreement and the merger. For more information regarding the benefits the directors and executive officers may receive pursuant to the business combination agreements and the equity compensation plans, please see *Interests of Shurgard Directors and Executive Officers in the Merger Business Combination Agreements* and *Interests of Shurgard Directors and Executive Officers in the Merger Option Vesting; Conversion of Options and Restricted Stock.*

Public Storage Board of Directors After the Merger (page 93)

Public Storage has agreed to cause one of the current independent members of the board of directors of Shurgard to be appointed to the board of directors of Public Storage at the effective time of the merger.

Public Storage Executive Officers After the Merger (page 93)

Public Storage currently anticipates that all of the current executive officers of Public Storage will remain executive officers of Public Storage following the merger. As of the date of this joint proxy statement/prospectus, Public Storage has not finalized any arrangements with current executive officers of Shurgard with respect to their employment by the combined company. If none of the current executive officers remains employed by Public Storage following the merger, it is anticipated that the associated severance costs would be approximately $9.8 million based on calculations made as of March 6, 2006.

Special Meeting of Shurgard Shareholders (page 41)

The special meeting of Shurgard shareholders will be held on Wednesday, July 26, 2006, at 9:00 a.m., (PDT), at [ ]. At the Shurgard special meeting, Shurgard shareholders will be asked:

- to approve the merger agreement and the transactions contemplated thereby, including the merger, and
- to approve adjournments or postponements of the Shurgard special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the Shurgard special meeting to approve the above proposal.

Shurgard shareholders are entitled to vote at the Shurgard special meeting if they owned shares of Shurgard common stock as of the close of business on June 23, 2006, the Shurgard record date. On the Shurgard record date, there were [ ] shares of Shurgard common stock entitled to vote at the Shurgard special meeting. Shareholders will have one vote at the Shurgard special meeting for each share of Shurgard common stock that they owned on the Shurgard record date.

Approval of the merger agreement and the merger requires the affirmative vote of the holders of a majority of the outstanding shares of Shurgard common stock entitled to vote. Approval of adjournments or postponements of the special meeting requires the affirmative vote of the holders of a majority of shares of Shurgard common stock present, in person or by proxy, and entitled to vote at the special meeting.

Annual Meeting of Public Storage Shareholders (page 44)

Public Storage will hold an annual meeting of its shareholders at 9:00 a.m. (PDT) on Wednesday, July 26, 2006 at The Hilton Glendale, 100 West Glenoaks Boulevard, Glendale, California. At the Public Storage annual meeting, Public Storage shareholders will be asked:

- To approve the merger agreement and the transactions contemplated thereby, including the issuance of Public Storage common stock;
- To elect ten members of Public Storage s board of directors;

To ratify the appointment of Ernst & Young LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2006;

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To approve adjournments or postponements of the Public Storage annual meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the Public Storage annual meeting to approve the above proposals; and

To consider and act on any other business that may properly come before the Public Storage annual meeting or any reconvened meeting following an adjournment or postponement of the Public Storage annual meeting.

Public Storage shareholders may vote at the Public Storage annual meeting if they owned shares of Public Storage common stock or equity stock at the close of business on the Public Storage record date, June 23, 2006.

Holders of Public Storage common stock and holders of Public Storage equity stock vote together as one class except with respect to the approval of the merger agreement and the transactions contemplated thereby, including the issuance of Public Storage common stock, on which Public Storage common shareholders vote as one class and holders of Public Storage equity stock, series A and Public Storage equity stock, series AAA vote together as another class. With respect to the election of directors, (i) each holder of Public Storage common stock on the record date is entitled to cast as many votes as there are directors to be elected multiplied by the number of shares registered in the holder s name on the record date, and (ii) each holder of depositary shares representing Public Storage equity stock, series A is entitled to cast as many votes as there are directors to be elected multiplied by 100 times the number of shares of Public Storage equity stock registered in its name (equivalent to 1/10 the number of depositary shares registered in the holder s name). The holder may cumulate its votes for directors by casting all of its votes for one candidate or by distributing its votes among as many candidates as it chooses. With respect to all other matters, Public Storage shareholders can cast one vote for each share of Public Storage common stock and 100 votes for each share of Public Storage equity stock, series A (equivalent to 1/10 of a vote for each depositary shares) registered in their name. Holders of Public Storage equity stock, series AAA are entitled to one vote for each share but are only entitled to vote with regard to the approval of the merger agreement and the transactions contemplated thereby. The proposals require different percentages of votes in order to approve them:

The affirmative vote of both (i) the holders of at least a majority of outstanding shares of Public Storage common stock and (ii) the holders of at least a majority of outstanding shares of Public Storage equity stock is required to approve the merger agreement and the transactions contemplated thereby, including the issuance of Public Storage common stock.

The ten director nominees who receive the most votes will be elected directors of Public Storage.

The ratification of Ernst & Young LLP as the Company s independent registered public accounting firm requires the affirmative vote of the holders of at least a majority of the votes cast.

An entity controlled by Public Storage holds a majority of the votes of the Public Storage equity stock and intends to vote those shares in favor of the approval of the merger agreement and the transactions contemplated thereby, including the issuance of Public Storage common stock.

Voting Agreements (page 142)

In connection with the merger agreement, Charles K. Barbo has entered into a voting agreement with Public Storage, pursuant to which Mr. Barbo has agreed, among other things, to vote all of the shares of Shurgard common stock beneficially owned by him, representing approximately 3% of the outstanding shares, in favor of the approval of the merger agreement and the transactions contemplated thereby, including the merger.

Also in connection with the merger agreement, B. Wayne Hughes and certain shareholders affiliated with him have entered into a voting agreement with Shurgard, pursuant to which such shareholders have agreed,

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among other things, to vote substantially all of the shares of Public Storage common stock beneficially owned by them, representing approximately 35% the outstanding shares of common stock, in favor of the approval of the merger agreement and the transactions contemplated thereby, including the issuance of Public Storage common stock.

Listing of Public Storage Common Stock and Delisting of Shurgard Common Stock (page 125)

Public Storage will apply to have the shares of Public Storage common stock issued in the merger approved for listing on the NYSE, where Public Storage common stock currently is traded under the symbol PSA. If the merger is completed, Shurgard common stock will no longer be listed on the NYSE and will be deregistered under the Securities Exchange Act of 1934, as amended, which is referred to as the Exchange Act, and Shurgard will no longer file periodic reports with the SEC.

Dissenters Rights (page 121)

Shurgard. Under applicable Washington law, Shurgard common shareholders have the right to dissent from the merger and to receive payment in cash for the appraised value of their shares of Shurgard common stock. The appraised value of the shares of Shurgard common stock may be more than, less than or equal to the value of the merger consideration. Each Shurgard shareholder seeking to preserve statutory dissenters rights must:

- deliver to Shurgard, before the vote is taken at the Shurgard special meeting regarding the merger agreement and the merger, written notice of such shareholder s intent to demand payment for such shareholder s Shurgard common stock if the merger becomes effective;
- not vote such shareholder s shares of Shurgard common stock in person or by proxy in favor of the proposal to approve the merger agreement; and
- follow the statutory procedures for perfecting dissenters rights under Washington law, which are described in the section of this joint proxy statement/prospectus entitled *The Merger Appraisal Rights*.

Chapter 23B.13 of the Washington Business Corporation Act is reprinted in its entirety and attached as Annex G to this joint proxy statement/prospectus. Failure by a Shurgard shareholder to comply precisely with all procedures required by Washington law may result in the loss of dissenters rights for that shareholder.

Public Storage. Public Storage shareholders are not entitled to dissenters rights in connection with the merger or in connection with any of the other annual meeting proposals on which the Public Storage shareholders are being asked to vote.

Conditions to Completion of the Merger (page 134)

As more fully described in this joint proxy statement/prospectus and the merger agreement, the completion of the merger depends on the satisfaction or waiver of a number of conditions, including:

- the required approvals of Shurgard shareholders;
- the required approvals of Public Storage shareholders;
- the absence of any injunction or other order prohibiting the consummation of the merger by a court or provision of law;

the listing on the New York Stock Exchange of the shares of Public Storage common stock to be issued; and

the registration statement of which this joint proxy statement/prospectus forms a part having become effective and not being subject to any stop order or proceeding seeking a stop order;

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We would be in violation of the law or NYSE rules if we were to waive any of the above conditions.

Public Storage s and Merger Sub s obligations to effect the merger are also separately subject to satisfaction or waiver of certain other conditions, including the following:

- the representations and warranties of Shurgard being true and correct, subject to the materiality standards contained in the merger agreement;
- Shurgard s performance of and compliance with, in all material respects, all agreements and covenants required by the merger agreement;
- there not having occurred a material adverse effect on Shurgard since March 6, 2006;
- the parties to the merger agreement having obtained all permits and consents legally required to consummate the merger, subject to the materiality standards contained in the merger agreement; and
- Shurgard s delivery of a tax opinion on Shurgard s status as a REIT.

Shurgard s obligations to effect the merger is also separately subject to satisfaction or waiver of certain other conditions, including the following:

- the representations and warranties of Public Storage and Merger Sub being true and correct, subject to the materiality standards contained in the merger agreement;
- Public Storage s and Merger Sub s performance of and compliance with, in all material respects, all agreements and covenants required by the merger agreement;
- there not having occurred a material adverse effect on Public Storage or Merger Sub since March 6, 2006; and
- Public Storage s delivery of a tax opinion on Public Storage s status as a REIT.

Required Regulatory Approvals (page 121)

Neither Public Storage nor Shurgard is aware of any material regulatory approvals that are required in order to consummate the merger.

Termination of the Merger Agreement (page 137)

The boards of directors of Merger Sub and Shurgard can agree at any time to terminate the merger agreement, even if Shurgard s and Public Storage shareholders have approved the merger. Also, any of Public Storage, Merger Sub or Shurgard can terminate the merger agreement if:

- a governmental entity issues an order permanently enjoining or prohibiting the merger;

Shurgard shareholders fail to approve the merger agreement and the transactions contemplated by the merger agreement, including the merger, at the Shurgard special meeting;

Public Storage shareholders fail to approve the merger agreement and the transactions contemplated by the merger agreement, including the issuance of Public Storage common stock, at the Public Storage annual meeting;

the merger has not been completed by December 31, 2006 (other than because of a breach of the merger agreement by the party seeking termination); or

a counterparty has materially breached any of its representations, warranties, covenants or agreements in the merger agreement, and such breach is either not curable or has not been cured within 30 days of written notice or December 31, 2006, whichever is earlier (except that this right to terminate the merger agreement will not be available to any party that is itself in material breach of any of its representations, warranties, covenants or agreements).

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Additionally, Shurgard may terminate the merger agreement if:

- Shurgard has approved a superior proposal in accordance with the terms and subject to the conditions described in *The Merger Agreement Covenants and Agreements No Solicitation*, provided that Shurgard pays the applicable termination fee of $125 million as described in *The Merger Agreement Termination and Other Fees* ;

Also, Public Storage or Merger Sub may terminate the merger agreement if:

- the Shurgard board of directors (i) withdraws, modifies or changes in a manner adverse to Public Storage or Merger Sub its approval or recommendation of the merger agreement or the transactions contemplated by the merger agreement, including the merger, (ii) recommends or approves an acquisition proposal, (iii) adopts any resolution to effect any of the foregoing, or (iv) fails to reconfirm its recommendation of the merger agreement within five days after being requested in writing by Public Storage to do so.

Termination Fees (page 138)

Shurgard agreed to pay to Public Storage a termination fee of $125 million, less the amount of any of Public Storage s termination costs and expenses that have already been paid by Shurgard up to a maximum of $10 million, subject to reduction in certain circumstances, if the merger agreement is terminated under the circumstances specified in *The Merger Agreement Termination and Other Fees*.

No Solicitation by Shurgard (page 132)

Subject to certain exceptions, the merger agreement precludes Shurgard or any of its subsidiaries, whether directly or indirectly through officers, directors, employees, agents or representatives, from soliciting, encouraging, initiating or facilitating any inquiries that could reasonably be expected to lead to, participating in any discussions or negotiations regarding, or entering into any agreement with respect to, any third party s proposal with respect to the acquisition of assets representing 10% or more of the consolidated assets of Shurgard or of an equity interest representing a 10% or greater economic interest in Shurgard, its subsidiaries, or its assets.

Material United States Federal Income Tax Consequences (page 94)

Assuming that the merger is completed as currently contemplated, we expect that the receipt of the merger consideration by Shurgard common shareholders in exchange for their Shurgard common stock pursuant to the merger will be a taxable transaction for federal income tax purposes. Because the merger consideration consists solely of Public Storage common stock (other than cash received in the merger for fractional shares), holders of Shurgard common stock may need to sell shares of Public Storage common stock received in the merger, or raise cash from other sources, to pay any tax obligations resulting from the merger. We anticipate that the merger will have no material U.S. federal income tax consequences to Public Storage shareholders who do not own any Shurgard stock.

The tax consequences to you of the merger will depend on your own situation. You should consult your own tax advisor for a full understanding of the tax consequences to you of the merger. For more information regarding the tax consequences of the merger to Shurgard common shareholders, please see *The Merger Material United States Federal Income Tax Consequences of the Merger*.

Accounting Treatment (page 121)

Public Storage will account for the merger as a purchase for financial reporting purposes, as required by Statement of Financial Accounting Standards No. 141. Under that method of accounting, the aggregate merger consideration paid, merger costs incurred and the fair value of Shurgard options will be allocated to the fair value of the assets acquired and liabilities assumed in the merger.

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Risks (page 29)

In evaluating the merger, the merger agreement or the issuance of shares of Public Storage common stock in the merger, you should carefully read this joint proxy statement/prospectus and especially consider the factors discussed in the section entitled *Risk Factors Risks Relating to the Merger and Public Storage s Business.*

Among the risks associated with the merger, the merger agreement and the issuance of shares of Public Storage common stock in the merger are the following:

- Because the market price of Public Storage common stock may fluctuate, Shurgard shareholders cannot be sure of the market value of the common stock to be issued in the merger;
- The merger should be taxable to Shurgard shareholders; however, Shurgard shareholders will not receive cash with which to pay any tax;
- Public Storage may fail to realize the anticipated benefits of the merger, which may negatively impact the value of the Public Storage shares;
- There may be unexpected delays in the consummation of the merger, which would delay Shurgard shareholders receipt of shares of Public Storage common stock and could impact Public Storage s ability to timely achieve cost savings associated with the merger;
- The market price of the Public Storage shares after the merger may be affected by factors different from those affecting the shares of Shurgard or Public Storage currently;
- The merger is subject to certain closing conditions that, if not satisfied or waived, will result in the merger not being completed, which may cause the market price of Public Storage common stock or Shurgard common stock, or both, to decline;
- Distributions to Shurgard shareholders will decrease after the merger;
- The unaudited pro forma financial data included in this joint proxy statement/prospectus is preliminary and Public Storage s actual financial position and results of operations may differ materially from the unaudited pro forma financial data included in this joint proxy statement/prospectus;
- Public Storage would incur adverse tax consequences if it or Shurgard failed to qualify as a real estate investment trust for United States federal income tax purposes;
- Public Storage and Shurgard shareholders will become subject to the risks of new real estate markets;
- Some of Shurgard s facilities will be subject to property tax reappraisal;

Shurgard shareholders will become subject to the risks of owning commercial properties;

Public Storage cannot protect against liabilities that may result from indirect investments;

Provisions in Public Storage s organizational documents may limit changes in control;

The Hughes family could significantly influence Public Storage and take actions adverse to other shareholders;

There could be a significant increase in the exposure of Public Storage to interest rate and refinancing risks;

The European operations of Shurgard have not been profitable and have specific inherent risks;

Shurgard has more new development than Public Storage, which would lead to additional costs; and

Public Storage shareholders will incur immediate dilution.

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Transaction Expenses (page 241)

Public Storage and Shurgard have paid, and will be obligated to pay, certain fees and expenses in connection with the merger, even if the merger is not completed. In connection with its search for strategic alternatives and negotiation and execution of the merger agreement with Public Storage, Shurgard has to date paid fees of $14.5 million. Public Storage has to date paid fees of less than $700,000 in connection with the merger, and the negotiation and execution of the merger agreement with Shurgard. If the transaction is completed, Public Storage and Shurgard currently expect to pay an aggregate of approximately $68.1 million in fees and other expenses associated with the merger, including related severance costs.

Comparative Per Share Data and Comparative Market Prices (page 256)

The following table sets forth the closing sale prices of Public Storage common stock and Shurgard common stock as reported on the New York Stock Exchange on March 6, 2006, the last trading day prior to the date of the merger agreement, and on [ ], 2006, the last trading day prior to the printing of this joint proxy statement/prospectus for which it was practicable to obtain this information. This table also shows the equivalent per share price of Shurgard common stock.

Date	Public Storage Common Stock	Shurgard Common Stock	Equivalent Per Share Price (1)
March 6, 2006	$79.46	$63.60	$65.16
[ ], 2006	[ ]	[ ]	[ ]

(1) The equivalent per share value of Shurgard common stock is calculated by multiplying the Public Storage closing price by the exchange ratio of 0.82.

The market price of Public Storage common stock will change prior to the merger, while the exchange ratio is fixed. You should obtain current stock price quotations for Public Storage common stock and Shurgard common stock. You can get these quotations from a newspaper, on the Internet or by calling your broker.

Comparison of Rights of Shareholders (page 257)

As a result of the merger, the holders of Shurgard common stock will become holders of Public Storage common stock. Following the merger, Shurgard shareholders will have different rights as shareholders of Public Storage than as shareholders of Shurgard due to differences between the laws of the states of incorporation, articles of incorporation and bylaws of Public Storage and Shurgard.

For a summary of the material differences between the rights of Shurgard shareholders and Public Storage shareholders, see *Comparison of Rights of Shareholders* beginning on page 211.

Legal Proceedings Relating to the Merger (page 126)

On March 7, 2006, a putative class action complaint was filed on behalf of the public shareholders of Shurgard 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 the directors of Shurgard breached their fiduciary duties by failing to properly value Shurgard 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 acquisition. Shurgard intends to defend the action vigorously.

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FINANCIAL SUMMARY

Selected Historical Financial Data of Public Storage

The following table shows selected historical financial data for Public Storage. The data as of and for each of the five years ended December 31, 2005, was derived from Public Storage s audited consolidated financial statements. The income statement data for the quarters ended March 31, 2006 and 2005, and the balance sheet data at March 31, 2006, was derived from Public Storage s unaudited financial statements.

Detailed historical financial information is included in the audited consolidated balance sheets as of December 31, 2005, and December 31, 2004, and the related consolidated statements of income, shareholders equity and cash flows for each of the years in the three-year period ended December 31, 2005 included in Public Storage s Annual Report on Form 10-K for the fiscal year ended December 31, 2005, filed on March 15, 2006, as well as Public Storage s Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, filed on May 10, 2006. You should read the following selected financial data together with Public Storage s historical consolidated financial statements, including the related notes, and the other information contained or incorporated by reference in this joint proxy statement/prospectus. See *Where You Can Find More Information*.

	For the quarter ended March 31,		For the year ended December 31,				
	2006	2005	2005 (1)	2004 (1)	2003 (1)	2002 (1)	2001 (1)
	(Amounts in thousands, except per share data)						
Revenues:							
Rental income and ancillary operations	$ 273,608	$ 248,049	$ 1,044,514	$ 953,910	$ 891,419	$ 846,379	$ 787,655
Interest and other income	5,075	2,893	16,447	5,391	2,537	5,210	8,640
	278,683	250,942	1,060,961	959,301	893,956	851,589	796,295
Expenses:							
Cost of operations	103,009	95,930	378,631	362,269	341,182	309,819	279,564
Depreciation and amortization	50,049	47,938	196,397	183,063	184,063	175,726	163,922
General and administrative	6,779	5,141	21,115	18,813	17,127	15,619	21,038
Interest expense	1,557	1,663	8,216	760	1,121	3,809	3,227
	161,394	150,672	604,359	564,905	543,493	504,973	467,751
Income from continuing operations before equity in earnings of real estate entities, gain (loss) on disposition of real estate investments, casualty loss, and minority interest in income	117,289	100,270	456,602	394,396	350,463	346,616	328,544
Equity in earnings of real estate entities	3,466	5,678	24,883	22,564	24,966	29,888	38,542
Gain/(loss) on disposition of real estate investments, and casualty loss			1,182	67	1,007	(2,541)	4,091
Minority interest in income (3)	(7,159)	(10,644)	(32,651)	(49,913)	(43,703)	(44,087)	(46,015)
Income from continuing operations	113,596	95,304	450,016	367,114	332,733	329,876	325,162
Cumulative effect of change in accounting principal	578						
Discontinued operations (2)	42	1,107	6,377	(901)	3,920	(11,138)	(954)
Net income	$ 114,216	$ 96,411	$ 456,393	$ 366,213	$ 336,653	$ 318,738	$ 324,208
Per Common Share:							
Distributions	$ 0.50	$ 0.45	$ 1.90	$ 1.80	$ 1.80	$ 1.80	$ 1.69
Net income Basic	$ 0.49	$ 0.38	$ 1.98	$ 1.39	$ 1.29	$ 1.15	$ 1.41
Net income Diluted	$ 0.48	$ 0.38	$ 1.97	$ 1.38	$ 1.28	$ 1.14	$ 1.39
Weighted average common shares Basic	128,122	128,586	128,159	127,836	125,181	123,005	122,310
Weighted average common shares Diluted	129,009	129,175	128,819	128,681	126,517	124,571	123,577
Cash flow Data:							

Net cash provided by operating activities	$ 162,833	$ 148,975	$ 692,048	$ 616,664	$ 571,387	$ 591,283	$ 538,534
Net cash used in investing activities	$ (68,862)	$ (46,529)	$ (443,656)	$ (157,638)	$ (205,133)	$ (325,786)	$ (306,058)
Net cash used in financing activities	$ (205,143)	$ (114,268)	$ (121,146)	$ (297,604)	$ (264,545)	$ (211,720)	$ (272,596)

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	At March 31, 2006	At December 31, 2005 (1)	2004 (1)	2003 (1)	2002 (1)	2001 (1)
			(Amounts in thousands, except per share data)			
Balance Sheet Data:						
Total assets	$ 5,470,604	$ 5,552,486	$ 5,204,790	$ 4,968,069	$ 4,843,662	$ 4,625,879
Total debt	$ 141,940	$ 149,647	$ 145,614	$ 76,030	$ 115,867	$ 168,552
Minority interest (other partnership interests)	$ 32,789	$ 28,970	$ 118,903	$ 141,137	$ 154,499	$ 169,601
Minority interest (preferred partnership interests)	$ 225,000	$ 225,000	$ 310,000	$ 285,000	$ 285,000	$ 285,000
Shareholders equity	$ 4,917,716	$ 4,817,009	$ 4,429,967	$ 4,219,799	$ 4,158,969	$ 3,909,583

(1) During 2005, 2004, 2003, 2002, and 2001, Public Storage completed several significant asset acquisitions, business combinations and equity transactions. See Notes 4, 7, 8, 9 and 10 to Public Storage s consolidated financial statements included in the December 31, 2005 annual report on Form 10-K.

(2) Commencing January 1, 2002, Public Storage adopted and modified a business plan that included the closure or consolidation of certain non-strategic containerized storage facilities. Public Storage sold two commercial properties one in 2002, the other in 2004. During 2003 Public Storage sold five self-storage facilities. The historical operations of these facilities are classified as discontinued operations, with the rental income, cost of operations, depreciation expense and gain or loss on disposition of these facilities for current and prior periods included in the line-item Discontinued Operations on the consolidated income statement.

(3) During 2004, holders of $200,000,000 of Public Storage s Series N preferred partnership units agreed to a restructuring which included reducing their distribution rate from 9.5% to 6.4% in exchange for a special distribution of $8,000,000. This special distribution, combined with $2,063,000 in costs incurred at the time the units were originally issued that were charged against income in accordance with the Securities and Exchange Commission s clarification of Emerging Issues Task Force Topic D-42, are included in minority interest in income.

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Selected Historical Financial Data of Shurgard

The following table shows selected historical financial data for Shurgard. The data as of and for each of the five years ended December 31, 2005, was derived from Shurgard s audited consolidated financial statements except for the balance sheet data as of December 31, 2001, which has not been audited. The data as of and for the three months ended March 31, 2006 and 2005, was derived from Shurgard s condensed consolidated financial statements, which have not been audited.

Detailed historical financial information is included in the consolidated balance sheets as of March 31, 2006, and December 31, 2005 and 2004, and the related consolidated statements of operations, shareholders equity and cash flows for each of the years in the three-year period ended December 31, 2005 and the condensed consolidated statements of operations and cash flows for the three months ended March 31, 2006 and 2005; you should read the following selected financial data together with Shurgard s historical consolidated financial statements, including the related notes, and the other information contained in this joint proxy statement/prospectus. See *Index to Consolidated Financial Statements of Shurgard*.

	As of and for the three months ended March 31,		As of and for the year ended December 31,				
	2006 (1)	2005 (1)	2005 (1)	2004 (1)	2003	2002	2001 (2)
	(unaudited)	(unaudited)	(Amounts in thousands, except per share data)				
OPERATING DATA:							
Total revenue (4)	$ 127,610	$ 113,625	$ 483,892	$ 424,288	$ 297,962	$ 268,200	$ 237,513
Income (loss) from continuing operations (4)	$ 5,191	$ (1,332)	$ (590)	$ 29,466	$ 35,314	$ 45,504	$ 19,601
Per Common Share Basic:							
Income (loss) from continuing operations available to common shareholders (4)	$ 0.04	$ (0.09)	$ (0.27)	$ 0.37	$ 0.57	$ 0.83	$ 0.15
Per Common Share Diluted:							
Income (loss) from continuing operations available to common shareholders (4)	$ 0.04	$ (0.09)	$ (0.27)	$ 0.37	$ 0.56	$ 0.82	$ 0.14
Distributions per common share	$ 0.56	$ 0.55	$ 2.23	$ 2.19	$ 2.15	$ 2.11	$ 2.07
BALANCE SHEET DATA (at period end):							
Total assets	$ 3,023,380		$ 2,957,372	$ 2,940,584	$ 2,067,091	$ 1,620,327	$ 1,353,296
Total borrowings (3)	$ 1,943,480		$ 1,859,220	$ 1,684,502	$ 1,014,869	$ 826,423	$ 590,934

(1) The consolidation of Shurgard Europe and First Shurgard in Shurgard s financial statements for periods beginning January 1, 2004 materially affects the comparability of total revenue, total assets and total borrowings presented in this table. See Note 3 to Shurgard s Consolidated Financial Statements.

(2) The balances for 2001 (balance sheet data only) have not been audited.

(3) Total borrowings include participation rights liability net of discount of $40.6 million, $47.5 million and $47.7 million in 2003, 2002 and 2001, respectively.

(4) For all reported periods, Shurgard reclassified to discontinued operations the results of properties that it intended to sell or had sold as of March 31, 2006. See Note 25 to Shurgard s consolidated financial statements as of December 31, 2005 and 2004, and for each of the years in the three-year period ended December 31, 2005.

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Selected Unaudited Pro Forma Condensed Consolidated Data of Public Storage and Shurgard

The following table shows information about our financial condition and results of operations, including per share data, after giving effect to the consummation of the merger. The table sets forth the information as if the merger had become effective on March 31, 2006, with respect to the balance sheet information, and as of January 1, 2005, with respect to the income statement information. The pro forma financial data presented are based on the purchase method of accounting.

The information is based on, and should be read together with, the historical financial statements, including the notes thereto, of Public Storage and Shurgard that have been presented in prior filings with the SEC, the consolidated financial statements of Shurgard included under *Index to Consolidated Financial Statements of Shurgard* and the more detailed pro forma financial information, including the notes thereto, appearing elsewhere in this document. See *Where You Can Find More Information* and *Unaudited Pro Forma Combined Condensed Consolidated Financial Statements.*

We anticipate that the merger will provide the combined company with financial benefits that include cost savings and additional revenue opportunities. The pro forma information, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect benefits of expected cost savings (other than expected reductions in general and administrative expense) or opportunities to earn additional revenue and, accordingly, does not attempt to predict or suggest future results. It also does not necessarily reflect what the historical results of the combined company would have been had our companies been combined during these periods.

	Public Storage/Shurgard Pro Forma Combined (Unaudited) (Amounts in thousands, except per share data)	
	For the quarter ended	For the year ended
	March 31, 2006	December 31, 2005
Revenues:		
Rental income and ancillary operations	$ 400,902	$ 1,525,814
Interest and other income	2,528	13,084
	403,430	1,538,898
Expenses:		
Cost of operations	165,773	621,679
Depreciation and amortization	119,721	620,756
General and administrative, impairment and abandoned project expense	10,476	37,045
Interest expense	18,377	74,743
	314,347	1,354,223
Income from continuing operations before equity in earnings of real estate entities, gain on disposition, casualty loss, minority interest in income, loss on derivatives, foreign exchange loss, costs related to takeover proposal and exploration of strategic alternatives, and income taxes	89,083	184,675
Equity in earnings of real estate entities	3,466	24,943
Gain on disposition, casualty loss, (loss) gain on derivatives, foreign exchange (loss) gain, costs related to takeover proposal and exploration of strategic alternatives, and income tax expense	(668)	(25,016)
Minority interest in income	(5,039)	(18,965)
Income from continuing operations	$ 86,842	$ 165,637
Per Common Share:		
Net income (loss) Basic and Diluted	$ 0.15	$ (0.44)

Weighted average common shares Basic	166,625	166,420
Weighted average common shares Diluted	168,519	166,420
Balance Sheet Data at March 31, 2006:		
Total assets	$ 10,801,796	
Total debt	1,413,035	
Minority interest (other partnership interests)	171,772	
Minority interest (preferred partnership interests)	325,000	
Shareholders equity	8,596,054	

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COMPARATIVE PER SHARE INFORMATION

We present below for Public Storage and Shurgard historical, unaudited pro forma combined and pro forma equivalent per share financial data for the year ended December 31, 2005 and the quarter ended March 31, 2006. You should read the information below together with the financial statements and related notes of Public Storage that are incorporated by reference in this document, the consolidated financial statements of Shurgard included under *Index to Consolidated Financial Statements of Shurgard* and the unaudited pro forma combined financial data included under *Unaudited Pro Forma Combined Financial Information*.

	Quarter ended March 31, 2006	Year Ended December 31, 2005
Public Storage Historical		
Income per basic share from continuing operations	$ 0.49	$ 1.93
Income per diluted share from continuing operations	0.48	1.92
Book value per share at period end	16.39	16.43
Shurgard Historical		
Income (loss) per basic share from continuing operations	$ 0.04	$ (0.27)
Income (loss) per diluted share from continuing operations	0.04	(0.27)
Book value per share at period end	14.00	14.12
Unaudited Pro Forma Combined		
Income (loss) per basic share from continuing operations	$ 0.15	$ (0.44)
Income (loss) per diluted share from continuing operations	0.15	(0.44)
Book value per share at March 31, 2006	31.52	
Unaudited Pro Forma Combined Shurgard Equivalents (A)		
Income (loss) per basic share from continuing operations	$ 0.12	$ (0.36)
Income (loss) per diluted share from continuing operations	0.12	(0.36)
Book value per share at March 31, 2006	25.85	

(A) Represents unaudited pro forma combined amounts multiplied by the exchange ratio of 0.82 share of Public Storage common stock for each outstanding share of Shurgard common stock.

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RISK FACTORS

Risks Relating To The Merger And Public Storage s Business

Material risks of this offering are identified in the risk factors included in this joint proxy statement/prospectus and those incorporated by reference. In addition to the other information contained in or incorporated by reference into this joint proxy statement/prospectus, including the matters addressed under the caption Special Note Regarding Forward-Looking Statements, you should carefully consider the following risk factors in deciding whether to vote for approval of the merger agreement. The material risks relating to Public Storage s ongoing business are incorporated by reference from the annual report of Public Storage on Form 10-K for the fiscal year ended December 31, 2005 and the quarterly report of Public Storage on Form 10-Q for the quarter ended March 31, 2006 and identified in the subsection Risks Relating to the Merger and Public Storage s Business.

Because the market price of Public Storage common stock may fluctuate, Shurgard shareholders cannot be sure of the market value of the common stock to be issued in the merger.

Upon completion of the merger, each share of Shurgard common stock will be converted into 0.82 shares of Public Storage common stock. This exchange ratio will not be adjusted for changes in the market price of either Public Storage common stock or Shurgard common stock. Changes in the price of Public Storage common stock prior to the merger will affect the value that Shurgard common shareholders will receive on the date of the merger. Stock price changes may result from a variety of factors, including general market and economic conditions, changes in our businesses, operations and prospects and regulatory considerations, many of which factors are beyond our control. Neither of us is permitted to terminate the merger agreement or resolicit the vote of our shareholders solely because of changes in the market price of either of our common stocks.

The prices of Public Storage common stock and Shurgard common stock at the closing of the merger may vary from their respective prices on the date the merger agreement was executed, on the date of this document and on the date of the meetings. As a result, the value represented by the exchange ratio will also vary. For example, based on the range of closing prices of Public Storage common stock during the period from March 6, 2006, the last trading day before public announcement of the merger, through [ ], 2006, the exchange ratio represented a value ranging from a high of $[ ] to a low of $[ ] for each share of Shurgard common stock. Because the date that the merger is completed will be later than the date of the meetings, at the time of your company s meeting, you will not know the exact market value of the Public Storage common stock that Shurgard shareholders will receive upon completion of the merger.

The merger should be taxable to Shurgard shareholders; however, Shurgard shareholders will not receive cash with which to pay any tax.

The merger should be treated as a taxable sale by Shurgard of all of its assets followed by a liquidating distribution to the Shurgard shareholders. Shurgard shareholders will not receive cash with which to pay any tax. The Shurgard shareholders effectively should be treated as selling their Shurgard common stock in exchange for the merger consideration. As a result, Shurgard shareholders should recognize gain or loss equal to the difference, if any, between the fair market value of Public Storage common stock and the amount of any cash received in the merger and the holder s adjusted tax basis in the Shurgard common stock exchanged. Generally, any gain or loss recognized should be capital gain or loss and will constitute long-term capital gain or loss if the Shurgard shareholder held the Shurgard common stock for more than one year as of the effective time of the merger.

We may fail to realize the anticipated benefits of the merger, which may negatively impact the value of the Public Storage shares.

Public Storage has never undertaken to integrate a company as large as Shurgard or one with overseas operations. The success of the merger will depend, in part, on our ability to realize the anticipated cost savings

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from combining the businesses of Public Storage and Shurgard. However, to realize the anticipated benefits from the merger, we must successfully combine the businesses of Public Storage and Shurgard in a manner that permits those cost savings to be realized. If we are not able to successfully achieve these objectives, the anticipated benefits of the merger may not be realized fully or at all or may take longer or cost more to realize than expected. Public Storage and Shurgard have operated and, until the completion of the merger, will continue to operate, independently. It is possible that the integration process could result in the loss of valuable employees, the disruption of each company s ongoing businesses or inconsistencies in standards, controls, procedures, practices, policies and compensation arrangements that adversely affect our ability to maintain relationships with tenants and employees or to achieve the anticipated benefits of the merger. Further, the size of the transaction may make integration of Public Storage and Shurgard difficult, expensive and disruptive, adversely affecting the combined company s revenues and earnings, and implementation of merger integration efforts may divert management s attention from other strategic priorities. In addition, the merger has been structured so that it should be a taxable transaction for U.S. Federal income tax purposes. As a result, the combined company should have the benefit of a step-up in tax basis in Shurgard s assets. It is possible that the IRS may challenge the step-up in basis. If such challenge were sustained, we would not achieve this benefit, which would reduce our depreciation deductions and our ability to retain cashflow.

There may be unexpected delays in the consummation of the merger, which would delay Shurgard shareholders receipt of shares of Public Storage common stock and could impact Public Storage s ability to timely achieve cost savings associated with the merger.

The merger is targeted to close during the third quarter of 2006. However, certain events may delay the consummation of the merger. If these events were to occur, the receipt of Public Storage stock by Shurgard shareholders would be delayed. In addition, delays in consummating the merger will adversely affect Public Storage s ability to timely consummate the integration of the two companies and as a result will delay Public Storage s ability to realize any cost savings on efficiencies associated with the merger. Some of the events that could delay the consummation of the merger include difficulties in obtaining the approval of Public Storage or Shurgard common shareholders, satisfying the closing conditions to which the merger is subject or delays in redeeming the outstanding shares of Shurgard Series C Preferred Stock and Shurgard Series D Preferred Stock. It is contemplated by the merger agreement that prior to the consummation of the merger, the outstanding shares of Shurgard Series C Preferred Stock and Shurgard Series D Preferred Stock will be redeemed and that Shurgard will not seek the approval of the holders of shares of Shurgard s Series C Preferred Stock and Shurgard s Series D Preferred Stock to approve the merger agreement and the merger.

The market price of the Public Storage shares after the merger may be affected by factors different from those affecting the shares of Shurgard or Public Storage currently.

The businesses of Public Storage and Shurgard differ and, accordingly, the results of operations of the combined company and the market price of the combined company s shares of common stock may be affected by factors different from those currently affecting the independent results of operations of each of Public Storage or Shurgard. For instance, the combined company will have operations in Europe, and the results of these European operations may affect the market price of Public Storage common stock after the merger. Public Storage does not currently have any operations in Europe and the market price of shares of Public Storage common stock is currently unaffected by certain risks inherent to European operations, such as currency risks, including currency fluctuations, and regional, national and local political uncertainty. The market value of the shares of Public Storage common stock that Shurgard shareholders will receive in the merger could decrease following the closing date of the merger. For a discussion of the businesses of Public Storage and Shurgard and of certain factors to consider in connection with those businesses, see the documents incorporated by reference in this document and referred to under *Where You Can Find More Information*, and for further discussion of the business of Shurgard, see *Information about Shurgard Shurgard s Business*.

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The merger is subject to certain closing conditions that, if not satisfied or waived, will result in the merger not being completed, which may cause the market price of Public Storage common stock or Shurgard common stock, or both, to decline.

The merger is subject to customary conditions to closing, including the receipt of required approvals of the shareholders of Shurgard and Public Storage. If any condition to the merger is not satisfied or, if permissible, waived, the merger will not be completed. In addition, Public Storage and Shurgard may terminate the merger agreement in certain circumstances. If Public Storage and Shurgard do not complete the merger, the market price of Public Storage common stock or Shurgard common stock may fluctuate to the extent that the current market prices of those shares reflect a market assumption that the merger will be completed. Public Storage and Shurgard also have paid, and will be obligated to pay, certain fees and expenses in connection with the merger, even if the merger is not completed. In connection with its search for strategic alternatives and negotiation and execution of the merger agreement with Public Storage, Shurgard has to date paid fees of $14.5 million. Public Storage has to date paid fees of less than $700 thousand in connection with the merger, and the negotiation and execution of the merger agreement with Shurgard. In addition, Public Storage and Shurgard have each diverted significant management resources in an effort to complete the merger and are each subject to restrictions contained in the merger agreement on the conduct of its business. If the merger is not completed, Public Storage and Shurgard will have incurred significant costs, including the diversion of management resources, for which it will have received little or no benefit. Further, in specified circumstances, Shurgard may be required to pay to Public Storage a termination fee of $125 million if the merger agreement is terminated. For a detailed description of the circumstances in which such termination fee will be paid, see *The Merger Agreement Termination and Other Fees*.

Distributions to Shurgard shareholders will decrease after the merger.

Because Public Storage currently distributes a smaller share of its cash provided by operations than does Shurgard, the initial level of regular cash distributions to a Shurgard shareholder will be lower after the merger. In certain prior years, a portion of the Shurgard distribution has been a return of capital.

The unaudited pro forma financial data included in this joint proxy statement/prospectus is preliminary and Public Storage s actual financial position and results of operations may differ materially from the unaudited pro forma financial data included in this joint proxy statement/prospectus.

The unaudited pro forma financial data in this joint proxy statement/prospectus reflect adjustments, which are based upon preliminary estimates, to allocate the purchase price to Shurgard s net assets. The purchase price allocation reflected in this joint proxy statement/prospectus is preliminary, and final allocation of the purchase price will be based upon the actual purchase price and the actual assets and liabilities of Shurgard as of the date of the completion of the merger. Public Storage may need to revise materially its current estimates of those assets and liabilities as the valuation process and accounting policy review are finalized. Accordingly, the actual purchase accounting adjustments may differ materially from the pro forma adjustments reflected in this joint proxy statement/prospectus.

The unaudited pro forma financial data in this joint proxy statement/prospectus is presented for illustrative purposes only and is not necessarily indicative of what Public Storage s actual financial position or results of operations would have been had the merger been completed on the dates indicated. The unaudited pro forma financial data in this joint proxy statement/prospectus does not give effect to (1) Public Storage or Shurgard s results of operations or other transactions or developments since December 31, 2005, (2) with the exception of cost savings from a reduction in general and administrative expenses, the synergies, cost savings and one-time charges expected to result from the merger or (3) the effects of transactions or developments, including the acquisition or disposition of facilities or other assets, which may occur after the merger. In addition, the unaudited pro forma financial data in this joint proxy statement/prospectus assumes the absence of any adjustment to the purchase price provided for in the merger agreement.

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Public Storage would incur adverse tax consequences if it or Shurgard failed to qualify as a real estate investment trust for United States federal income tax purposes.

Public Storage has assumed based on public filings that Shurgard has qualified and will continue to qualify as a real estate investment trust for United States federal income tax purposes, referred to hereinafter as a REIT, and that Public Storage will be able to continue to qualify as a REIT following the merger. However, if Shurgard has failed or fails to qualify as a REIT, Public Storage and Merger Sub generally would succeed to or incur significant tax liabilities (including the significant tax liability that would result from the deemed sale of assets by Shurgard pursuant to the merger), and Public Storage could possibly lose its REIT status should disqualifying activities continue after the acquisition.

REITs are subject to a range of complex organizational and operational requirements. As a REIT, Public Storage must distribute with respect to each year at least 90% of its REIT taxable income to its shareholders. Other restrictions apply to its income and assets. Public Storage s REIT status is also dependent upon the ongoing qualification of its affiliate, PS Business Parks, Inc., as a REIT, as a result of its substantial ownership interest in that company.

For any taxable year that Public Storage fails to qualify as a REIT and is unable to avail itself of certain savings provisions set forth in the Internal Revenue Code of 1986, it would be subject to federal income tax at the regular corporate rates on all of its taxable income, whether or not it makes any distributions to its shareholders. Those taxes would reduce the amount of cash available for distribution to its shareholders or for reinvestment and would adversely affect Public Storage s earnings. As a result, Public Storage s failure to qualify as a REIT during any taxable year could have a material adverse effect upon Public Storage and its shareholders. Furthermore, unless certain relief provisions apply, Public Storage would not be eligible to elect REIT status again until the fifth taxable year that begins after the first year for which it failed to qualify.

Public Storage and Shurgard shareholders will become subject to the risks of new real estate markets.

Shurgard shareholders will become subject to the risks of the real estate markets in the United States in which Public Storage currently operates, or in which its operations are more concentrated as compared with Shurgard. Conversely, Public Storage shareholders will become subject to the risks of the real estate markets in the United States in which Shurgard currently operates, or in which its operations are more concentrated as compared with Public Storage.

Some of Shurgard s facilities will be subject to property tax reappraisal.

As a result of the merger, some of Shurgard s facilities will be subject to property tax reappraisal that could increase property tax expense and adversely affect Public Storage s profitability. Up to 17% of Shurgard s domestic facilities are located in jurisdictions that may provide for property tax reappraisal upon a change of ownership and so may face such a reassessment. The merger and the associated publicity together with the related transfers of property and property name changes that will occur in connection with the merger may cause other jurisdictions, in which the timing of the reappraisals is discretionary with the taxing authorities, to decide to reappraise Shurgard s properties in those jurisdictions and may correspondingly increase the property tax expense to the combined company. Due to the significant uncertainties involved, the possible increases in property tax expense have not been quantified.

Shurgard shareholders will become subject to the risks of owning commercial properties.

As a result of the combined company s continued ownership of a significant interest in PS Business Parks, after the merger, Shurgard shareholders will face the risks inherent in the ownership of commercial (non-self storage) properties.

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Public Storage cannot protect against liabilities that may result from indirect investments.

Shurgard has acquired additional equity interests in partnerships, joint ventures or other legal entities that have invested in real estate. Merger Sub will acquire these investments in the merger, and Public Storage may make additional investments of this type after the merger. These investments carry risks that are not present when Public Storage invests directly in real estate and against which Public Storage may not be able to protect, including the risk that Public Storage may not control the legal entity that has title to the real estate, the possibility that the enterprise in which Public Storage invests has liabilities that are not disclosed at the time of the investment and the possibility that Public Storage s investments may not be easily sold or readily accepted as collateral by its lenders.

Provisions in Public Storage s organizational documents may limit changes in control.

Provisions in Public Storage s organizational documents may limit changes in control. Unless Public Storage s board of directors waives these limitations, no shareholder may own more than (1) 2.0% of the outstanding shares of Public Storage common stock or (2) 9.9% of the outstanding shares of each class or series of Public Storage preferred or equity stock. As described below, however, Public Storage s organizational documents in effect provide that the Hughes family may continue to own the shares of Public Storage s common stock held by them at the time of the 1995 reorganization, and in the event the merger is completed, the Hughes family will be permitted to acquire additional common stock to maintain its premerger holding percentage. These limitations are designed, to the extent possible, to avoid a concentration of ownership that might jeopardize Public Storage s ability to qualify as a REIT. These limitations, however, also may make a change of control significantly more difficult (if not impossible) even if it would be favorable to the interests of Public Storage s public shareholders. These provisions will prevent future takeover attempts not approved by Public Storage s board of directors even if a majority of Public Storage s public shareholders deem it to be in their best interests because they would receive a premium for their shares over the shares then market value or for other reasons.

The Hughes family could significantly influence Public Storage and take actions adverse to other shareholders.

Public Storage s organizational documents currently in effect provide that the Hughes family may continue to own the shares of Public Storage common stock held by them at the time of Public Storage s 1995 reorganization. In the event the merger is completed, after giving effect to the shares to be acquired in the merger, the Hughes family is expected to own approximately 27% of Public Storage s outstanding shares of common stock immediately following the merger, and will be permitted to acquire additional Public Storage common stock to maintain its premerger ownership percentage (approximately 36%). Consequently, the Hughes family could significantly influence matters submitted to a vote of Public Storage s shareholders, including electing directors, amending Public Storage s organizational documents, dissolving and approving other extraordinary transactions, such as a takeover attempt, even though such actions may not be favorable to the other common shareholders. No individual or group of individuals currently owns a significant percentage of Shurgard common stock.

There could be a significant increase in the exposure of Public Storage to interest rate and refinancing risks.

Shurgard is significantly more leveraged than Public Storage, with more fixed and floating-rate debt and with related derivative instruments that Public Storage will assume. Further, completion of the merger may result in Public Storage s incurrence of additional short-term borrowings in order to raise funds that will be used in connection with the redemption of approximately $136 million of Shurgard s preferred stock, fund costs of the merger, and to repay Shurgard s outstanding borrowings on its line of credit ($620.7 million at March 31, 2006) that becomes immediately payable upon completion of the merger. These changes would result in a significant increase in Public Storage s exposure to interest rate and refinancing risks.

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The European operations of Shurgard have not been profitable and have specific inherent risks.

Merger Sub will also be acquiring Shurgard s international operations in Europe, which consist principally of facilities that have been completed in the last few years and are in various stages of fill-up. Shurgard s international operations have not been profitable, and there is no assurance they will ultimately be profitable. Merger Sub and Public Storage have no experience in European operations, which may adversely affect the ability to operate profitably in Europe. In addition, these operations have specific inherent risks, including without limitation the following: currency risks, including currency fluctuations; unexpected changes in legislative and regulatory requirements; potentially adverse tax burdens; burdens of complying with different permitting standards, environmental and labor laws and a wide variety of foreign laws; obstacles to the repatriation of earnings and cash; regional, national and local political uncertainty; economic slowdown and/or downturn in foreign markets; difficulties in staffing and managing international operations; and reduced protection for intellectual property in some countries.

Shurgard has more new development than Public Storage, which would lead to additional costs.

As a share of total operations, particularly in Europe, Shurgard has more recently developed properties whose occupancies have not stabilized and more construction activity than Public Storage. Delays in construction and fill-up could result in additional cost.

Public Storage shareholders will incur immediate dilution.

Public Storage shareholders will incur immediate dilution in connection with the merger. As reflected under *Unaudited Pro Forma Condensed Consolidated Financial Information*, during 2005, Public Storage shareholders would incur a loss of $0.30 per share (diluted) on a pro-forma basis compared to earnings of $1.92 per share (diluted) on a historical basis primarily as a result of an increase in depreciation and amortization expense. No adjustments have been made to the pro-forma financial information to reflect certain expected cost savings or increases in property taxes resulting from the merger because they have not been quantified.

Risks Relating To Shurgard s Business

The risks identified in the subsection Risks Relating to Shurgard s Business relate to the ongoing business of Shurgard assuming the transaction with Public Storage is not completed. They are included in this proxy statement/prospectus to provide information with respect to Shurgard for the benefit of Shurgard shareholders and are not intended to describe the risks of the combined businesses of Public Storage and Shurgard following the merger or the risks associated with the merger.

Real Estate Investment Risks

Shurgard s real estate development and acquisition activities can result in unforeseen liabilities and increases in costs.

Real estate development involves risks in addition to those involved in owning and operating existing properties. For example, Shurgard must hire contractors or subcontractors to develop its properties. Problems can develop with these relationships, including contract and labor disputes and unforeseen property conditions that require additional work and construction delays. These problems can increase construction and other costs and delay the date when tenants can occupy the property and pay Shurgard rent. Properties that Shurgard acquires may not meet its performance expectations, including projected occupancy and rental rates, and Shurgard may have overpaid for acquired properties. Failure of Shurgard s properties to perform as expected or the cost of unforeseen significant capital improvements could decrease Shurgard s cash flow. Shurgard may also have underestimated the cost of improvements needed for it to market a property effectively, requiring Shurgard to pay more to complete a project. If a number of these events were to occur, Shurgard s business, financial condition, operating results and cash flows would be adversely affected.

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Shurgard s operations are concentrated almost exclusively in the self-storage business, which makes it vulnerable to declines in the profitability of self-storage properties.

Shurgard s investments focus predominantly on self-storage business and related real estate interests. Shurgard does not expect to invest in other real estate or businesses to hedge against the risk that industry trends might decrease the profitability of its self-storage-related investments. As a result, unfavorable changes in the self-storage industry may have a material adverse effect on Shurgard s business, financial condition, operating results and cash flows.

Shurgard s occupancy rates may decline if Shurgard is unable to compete successfully against other companies in the self-storage industry which may negatively affect Shurgard s business, financial condition, operating results and cash flows.

Shurgard faces intense competition in every U.S. market in which its storage centers are located and to a lesser extent in Europe. Shurgard s competitors include national, regional and many local self-storage operators and developers. Entry into the self-storage business by acquiring existing properties is relatively easy for persons or entities with the required initial capital. Competition may increase if available funds for investment in real estate increase. Some of Shurgard s competitors may have more resources than Shurgard does, including better access to financing, greater cash reserves and less demanding rules governing distributions to shareholders. Some competitors may have lower prices, better locations, better services or other advantages. Local market conditions will play a significant part in how competition affects Shurgard. Additional competition has lowered occupancy levels and rental revenue of Shurgard s self-storage properties in specific markets from time to time. Also, an economic slowdown in a particular market could have a negative effect on Shurgard s storage center revenues. If Shurgard s occupancy rates or rental revenues decline, Shurgard s business, financial condition, operating results and cash flows will be adversely affected.

Shurgard may suffer losses in its joint venture investments due to its inability to control the joint venture partners actions.

Shurgard invests and may continue to invest in properties through joint ventures. Shurgard often shares control over the operations of the joint venture assets. Therefore, these investments may under certain circumstances involve risks, such as the possibility that Shurgard s partner in an investment might become bankrupt, have economic or business interests or goals that are inconsistent with Shurgard s, or be in a position to take action contrary to Shurgard s instructions, requests, policies or objectives. Although Shurgard generally seeks to maintain a sufficient level of control of any joint venture to permit its objectives to be achieved, Shurgard may be unable to take action without the approval of its joint venture partners, or its joint venture partners could take actions binding on the joint venture without Shurgard s consent. A significant loss on these investments could have a material, adverse effect on Shurgard s future business, financial condition, operating results and cash flows.

Shurgard s growth strategy in Europe may not be successful.

Shurgard entered the European market in 1995 because it believed that the size and potential growth of that market made it a significant opportunity for Shurgard s continued growth. Shurgard s ability to achieve its strategy in Europe depends on a number of factors, including:

- the continued growth in acceptance of the self-storage concept in a market where the concept remains relatively new;
- Shurgard s ability to compete effectively as the European market develops and becomes more competitive; and
- Shurgard s ability to locate, acquire and develop appropriate new properties.

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Shurgard cannot assure you that it will be successful in implementing its strategy or overcoming these challenges or other problems it may encounter with its European operations, some of which may be beyond Shurgard s control.

Risks Relating to Qualification and Operation as a REIT

Shurgard might lose its REIT status and incur significant tax liabilities.

Shurgard has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the Code), commencing with its taxable year ended December 31, 1994. So long as Shurgard meets the requirements under the Code for qualification as a REIT each year, Shurgard can deduct dividends paid to its shareholders when calculating its taxable income. To qualify as a REIT, Shurgard must meet detailed technical requirements, including income, asset, distribution and stock ownership tests, under several Code provisions that have not been extensively interpreted by judges or administrative officers. In addition, Shurgard does not control the determination of all factual matters and circumstances that affect its ability to qualify as a REIT. New legislation, regulations, administrative interpretations or court decisions might significantly change the tax laws with respect to REIT qualification or the federal income tax consequences of such qualification. Shurgard believes that it is organized so that it qualifies as a REIT under the Code and that Shurgard has operated and will continue to operate so that it continues to qualify. However, Shurgard cannot guarantee that it will qualify as a REIT in any given year because:

- the rules governing REITs are highly complex;
- Shurgard does not control all factual determinations that affect REIT status; and
- Shurgard s circumstances may change in the future.

For any taxable year that Shurgard fails to qualify as a REIT, it would not be entitled to deduct dividends paid to its shareholders from its taxable income. Consequently, Shurgard s net assets and distributions to shareholders would be substantially reduced because of its increased tax liability. If Shurgard made distributions in anticipation of its qualification as a REIT, it might be required to borrow additional funds or to liquidate some of its investments in order to pay the applicable tax. If Shurgard s qualification as a REIT terminates, it may not be able to elect to be treated as a REIT for the four taxable years following the year it lost the qualification.

Shurgard may pay taxes even if it continues to qualify as a REIT.

Even if Shurgard continues to qualify as a REIT, it is required to pay some federal, state, local and foreign taxes on its income and property. For example, Shurgard TRS, Inc. and certain of Shurgard s other corporate subsidiaries have elected to be treated as taxable REIT subsidiaries. Shurgard will be subject to a 100% penalty tax on payments it receives from these subsidiaries if the economic arrangements between the REIT and the taxable subsidiaries are not comparable to similar arrangements between unrelated third parties. In addition, all of Shurgard s European subsidiaries are subject to local taxation. Shurgard also could be subject to tax in the event it, among other things:

- sells property that is considered to be held for sale to customers in the ordinary course of its trade or business (for example, inventory) for federal income tax purposes; and
- fails to satisfy certain distribution rules, as described below.

Shurgard s REIT distribution requirements are complex and may create tax difficulties.

To maintain Shurgard s status as a REIT for federal income tax purposes, Shurgard generally must distribute to its shareholders at least 90% of its taxable income each year. In addition, Shurgard is subject to a 4% nondeductible excise tax on the amount by which its distributions for a calendar year are less than the sum of:

85% of its ordinary income for the calendar year;

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95% of its capital gain net income for the calendar year; and

any amount of its income that it did not distribute in prior years.

For tax purposes, Shurgard may be required to treat interest, rent and other items as earned even though Shurgard has not yet received these amounts. In addition, Shurgard may not be able to deduct currently as expenses for tax purposes some items that it has actually paid. Shurgard could also realize income, such as income from cancellation of indebtedness that is not accompanied by cash proceeds. If one or more of these events happened, Shurgard could have taxable income in excess of cash available for distribution. In such circumstances, Shurgard might have to borrow money or sell investments on unfavorable terms in order to meet the distribution requirements applicable to a REIT.

Financing Risks

If Shurgard fails to complete the proposed merger, it will have the following financing risks:

Shurgard s inability to access the capital markets could delay or adversely affect execution of its business plan.

Because Shurgard did not file a fully compliant annual report on Form 10-K for 2004, until October 14, 2005, Shurgard is not eligible to access public capital markets to raise equity or debt using a short-form registration statement on Form S-3 until November 2006. Instead Shurgard would be required to use a long-form registration statement on Form S-11, which may mean delays in registering additional securities for sale.

Shurgard has a substantial amount of debt outstanding and will continue to have significant interest payments**.** Shurgard s debt may:

require Shurgard to dedicate a significant portion of its cash flow from operations to make payment on its debt, thereby reducing funds available for operations, future business opportunities, dividends and other purposes;

limit Shurgard s flexibility in planning for, or reacting to, changes in its business and the industry in which it operates;

limit Shurgard s ability to borrow additional funds, or to sell assets to raise funds, if needed, for working capital, capital expenditures, acquisitions or other purposes;

increase Shurgard s vulnerability to general adverse economic and industry conditions, including changes in interest rates; or

place Shurgard at a disadvantage compared to its competitors that have less debt.

Market interest rates may negatively affect the price of Shurgard s debt securities, preferred stock and common stock and increase Shurgard s interest costs.

Annual yields on other financial instruments might exceed the yield from Shurgard s interest payments, preferred stock dividends or common stock distributions. This could lower the market price of Shurgard s debt securities, preferred stock or common stock and make it more difficult for Shurgard to raise capital. As of March 31, 2006, Shurgard had approximately $1.32 billion of indebtedness that carries variable interest rates. With interest rates trending upward in recent periods, the interest rates on Shurgard s variable rate indebtedness have increased and may continue to increase. Shurgard seeks to mitigate this risk by entering into interest rate swaps and interest rate caps.

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Covenants in Shurgard s debt agreements could limit its activities.

Shurgard s unsecured senior notes and its unsecured domestic credit agreement contain customary restrictions, requirements and other limitations on its ability to incur indebtedness, including total debt to asset ratios, secured debt to total asset ratios, debt service coverage ratios, minimum ratios of unencumbered assets to unsecured debt, which Shurgard must maintain. Shurgard s credit facilities under its European joint ventures contain financial covenants based on the operating performance of its storage centers, Shurgard also has to maintain a maximum loan to value of the collateral ratio and a minimum debt service ratio. Shurgard continued ability to borrow under its credit facilities is subject to compliance with applicable financial and other covenants contained in its debt instruments. In addition, Shurgard s failure to comply with such covenants could cause a default under the applicable debt agreement, which could allow the lenders or other debt holders to declare all borrowings outstanding to be due and payable, in which case Shurgard may be required to repay such debt with capital from other sources. Under those circumstances, other sources of capital may not be available to Shurgard, or be available only on unfavorable terms. If the amounts outstanding under Shurgard s credit facility or other debt were to be accelerated, Shurgard cannot assure you that its assets would be sufficient to repay in full money owed to the lenders or to its other debt holders.

Shurgard may not be able to repay its debt financing obligations.

Shurgard might not have sufficient net cash flow from its operations to meet required payments of principal and interest under its loans. As a result, Shurgard might not be able to refinance the existing debt on its properties, or it might have to enter into credit terms that are less favorable than the terms of its existing debt. If Shurgard cannot generate sufficient cash from its operations to meet its debt service and repayment obligations, Shurgard may need to reduce or delay capital expenditures, the development of its business generally and any acquisitions. In addition, Shurgard may need to refinance its debt, obtain additional financing or sell assets, which it may not be able to do on commercially reasonable terms, or at all.

If Shurgard fails to maintain an effective system of internal control, it may not be able to accurately report its financial results or prevent fraud.

Effective internal controls are necessary for Shurgard to provide reliable financial reports and effectively prevent fraud. Any inability to provide reliable financial reports or prevent fraud could harm its business. The Sarbanes-Oxley Act of 2002 requires management to evaluate and assess the effectiveness of its internal control over financial reporting, and its independent registered public accounting firm must attest to management s evaluation. These Sarbanes-Oxley requirements may be modified, supplemented or amended from time to time. Satisfying these requirements may take a significant amount of time and require significant expenditures. In the process of conducting the management evaluation of Shurgard s internal control over financial reporting at December 31, 2004, which evaluation Shurgard did not complete until October 2005, Shurgard identified a number of control deficiencies that were characterized as material weaknesses and identified and instituted new processes and controls to remediate the deficiencies. Shurgard continued to institute new processes and controls through the end of 2005 in order to remediate the deficiencies identified in last year s internal control evaluation. As discussed elsewhere in this report, Shurgard s management evaluated Shurgard s internal control over financial reporting as of December 31, 2005, and concluded that such internal control over financial reporting was effective at such date. Although Shurgard s most recent internal control evaluation concluded that Shurgard s internal control over financial reporting is effective, Shurgard may in the future identify control deficiencies, including deficiencies that arise to the level of a material weakness. Shurgard may not be able to implement necessary control changes and employee training effectively and timely to ensure continued compliance with the Sarbanes-Oxley Act and other regulatory and reporting requirements. If Shurgard fails to maintain effective internal control over financial reporting, Shurgard could be subject to regulatory scrutiny and sanctions, and investors could lose confidence in the accuracy and completeness of its financial reports. Shurgard cannot assure you that it will be able to comply fully with the requirements of the Sarbanes-Oxley Act or that management will conclude that its internal controls over financial reporting are effective in future periods.

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Shurgard is vulnerable to interest rate increases and foreign currency exchange rate changes which could negatively impact earnings and cash flow.

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 Shurgard s 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 it considers long term and Shurgard s 2005 net loss from its foreign operations was approximately $30.0 million.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This joint proxy statement/prospectus, including information and other documents incorporated by reference into this joint proxy statement/prospectus, contains or may contain forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995 that relate to the businesses of Public Storage and Shurgard. These forward-looking statements are found at various places throughout this joint proxy statement/prospectus and the other documents incorporated by reference in this joint proxy statement/prospectus. These forward-looking statements include, without limitation, those relating to projected financial and operating results, earnings and cash flows, future actions, new projects, strategies, tax consequences of the merger, and the outcome of contingencies such as legal proceedings, in each case relating to Public Storage or Shurgard, respectively. Those forward looking statements, wherever they occur in this joint proxy statement/prospectus or the other documents incorporated by reference in this joint proxy statement/prospectus, are necessarily estimates or projections reflecting the judgment of the respective management of Public Storage and Shurgard and are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from any future results, performance or achievements expressed or implied by those forward-looking statements.

You should understand that the risks, uncertainties, factors and assumptions listed and discussed in this joint proxy statement/prospectus, including those set forth under the heading *Risk Factors Risks Relating to the Merger and Public Storage s Business* ; the risks discussed in Public Storage s Annual Report on Form 10-K for the fiscal year ended December 31, 2005, in Item 7A Qualitative and Quantitative Disclosures about Market Risk ; and the following important factors and assumptions, could affect the future results of Public Storage following the merger, or the future results of Public Storage and Shurgard if the merger does not occur, and could cause actual results to differ materially from those expressed in any forward-looking statements:

- the ability of Public Storage to integrate the Shurgard businesses with Public Storage s businesses and achieve the expected synergies from the merger;
- the approval of the merger agreement and the transactions contemplated by the merger agreement, including the merger, at the Shurgard special meeting;
- the approval of the merger agreement and the transactions contemplated thereby, including the issuance of Public Storage common stock, at the Public Storage annual meeting;
- changes in federal income tax laws and regulations;
- the timing of the completion of the merger;
- the actual financial position and results of operations of Public Storage following the merger, which may differ significantly from the pro forma financial data contained in this joint proxy statement/prospectus;
- the impact of competitive products and pricing;
- general market conditions in the self-storage industry;
- the level of capital resources required for future acquisitions and operations; and

changes in laws and regulations.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of the joint proxy statement/prospectus or, in the case of documents incorporated by reference, as of the date of those documents. Neither Public Storage nor Shurgard undertakes any obligation to publicly update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this joint proxy statement/prospectus or to reflect the occurrence of unanticipated events, except as required by law.

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THE SHURGARD SPECIAL MEETING

Shurgard is furnishing this joint proxy statement/prospectus to Shurgard shareholders as of the Shurgard record date as part of the solicitation of proxies by the Shurgard board of directors for use at the Shurgard special meeting.

Purpose of the Special Meeting

Shurgard will hold a special meeting of its shareholders at Wednesday 9:00 a.m. (PDT), on July 26, 2006, at [ ], unless postponed or adjourned to a later date. The Shurgard special meeting will be held for the following purposes:

1. To approve the merger agreement and the transactions contemplated by the merger agreement, including the merger, pursuant to which Shurgard will merge with and into Merger Sub and each outstanding share of Shurgard common stock for the right to receive 0.82 shares of Public Storage common stock; and

2. To approve adjournments or postponements of the Shurgard special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the Shurgard special meeting to approve the above proposals.

The Shurgard board of directors has determined that the merger agreement and the transactions contemplated by the merger agreement, including the merger, are advisable and fair to, and in the best interests of, Shurgard and its shareholders, adopted the merger agreement and recommends that Shurgard shareholders vote FOR approval of the merger agreement and the transactions contemplated by the merger agreement, including the merger and FOR approval of adjournments or postponements of the special meeting.

Record Date; Shares Entitled to Vote; Quorum

Only holders of record of Shurgard common stock at the close of business on June 23, 2006, the Shurgard record date for the Shurgard special meeting, are entitled to notice of, and to vote at, the Shurgard special meeting and any reconvened meeting following an adjournment or postponement of the Shurgard special meeting. On the Shurgard record date, [ ] shares of Shurgard common stock were outstanding and held by approximately [ ] holders of record.

A quorum will exist at the Shurgard special meeting if a majority of all the shares of Shurgard common stock issued and outstanding on the Shurgard record date and entitled to vote at the Shurgard special meeting are represented at the Shurgard special meeting in person or by a properly executed proxy. Abstentions and broker non-votes (described below) will be treated as present at the Shurgard special meeting for purposes of determining the presence or absence of a quorum for the transaction of all business. In the event that a quorum is not present at the Shurgard special meeting, it is expected that the meeting will be adjourned or postponed to solicit additional proxies. Holders of record of Shurgard common stock on the Shurgard record date are entitled to one vote per share on each matter submitted to a vote at the Shurgard special meeting.

Vote Required

The approval of the merger agreement and the transactions contemplated by the merger agreement, including the merger, requires the affirmative vote of the holders of a majority of the outstanding shares of

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Shurgard common stock on the Shurgard record date. Because the required vote of Shurgard shareholders is based on the number of outstanding shares of Shurgard common stock entitled to vote, rather than on the number of shares actually voted, the failure by a shareholder to submit a proxy or to vote in person at the Shurgard special meeting, including abstentions and broker non-votes, will have the same effect as a vote against approval of the merger agreement and the merger.

Approval of adjournments or postponements of the special meeting requires the affirmative vote of the holders of a majority of shares of Shurgard common stock present, in person or by proxy, and entitled to vote at the special meeting. As a result, abstentions will have the same effect as a vote against the approval of adjournments or postponements whereas broker non-votes, which are not entitled to vote, will have the effect of reducing the aggregate number of votes required to adjourn or postpone the meeting.

In accordance with the merger agreement, Shurgard s Series C and Series D Preferred Stock have been called for redemption, subject to satisfaction or waiver of all the conditions of the merger. See *Risk Factors Risks Relating to the Merger and Public Storage s Business There may be unexpected delays in the consummation of the merger.*

Shares Owned by Shurgard Directors and Executive Officers

At the close of business on the Shurgard record date, directors and executive officers of Shurgard beneficially owned and were entitled to vote [ ] shares of Shurgard common stock, which represented approximately [ ]% of the shares of Shurgard common stock outstanding on that date. In connection with the merger agreement, Charles K. Barbo has entered into a voting agreement with Public Storage, pursuant to which Mr. Barbo has agreed, among other things, to vote all of the shares of Shurgard common stock beneficially owned by him, representing approximately 3% of the outstanding shares, in favor of the approval of the merger agreement and the transactions contemplated thereby, including the merger.

Voting of Proxies

Shareholders of record may vote their shares by attending the Shurgard special meeting and voting their shares in person at the meeting, or by completing the enclosed proxy card, signing and dating it and mailing it in the enclosed postage pre-paid envelope. Shareholders also may submit their proxy by telephone by following the instructions provided in the enclosed proxy card. If a proxy card is signed by a shareholder of record and returned without specific voting instructions, the shares represented by the proxy will be voted FOR the proposals presented at the Shurgard special meeting.

Shareholders whose shares are held in street name must either instruct the record holder of their shares how to vote their shares or obtain a proxy from the record holder to vote at the Shurgard special meeting. Please check the voting form used by your bank, broker, nominee, fiduciary or other custodian for information on how to submit your instructions to them. Failure to provide voting instructions to your record holder will result in a broker non-vote for those shares held in street name. Shares represented by broker non-votes will not be voted FOR or AGAINST the proposals, but will be counted in determining whether or not a quorum exists.

The persons named as proxies by a shareholder may propose and vote for one or more adjournments of the Shurgard special meeting, including adjournments to permit further solicitations of proxies. Any adjournment may be made at any time by shareholders representing a majority of the votes present in person or by proxy at the Shurgard special meeting, whether or not a quorum exists, without further notice other than by an announcement made at the meeting. Shurgard does not currently intend to seek an adjournment of the Shurgard special meeting. No proxy voted against the proposal to approve the merger agreement and the merger will be voted in favor of any adjournment or postponement.

Shurgard does not expect that any matter other than the proposal to approve the merger agreement and the merger will be brought before the Shurgard special meeting. If, however, other matters are properly brought before the Shurgard special meeting, or any reconvened meeting following an adjournment or postponement, the persons named as proxies will vote in accordance with their judgment.

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Revocability of Proxies

Shareholders of record may revoke their proxy at any time prior to the time it is voted at the meeting. Shareholders of record may revoke their proxy by:

- executing a later-dated proxy card relating to the same shares and delivering it to Shurgard s Corporate Secretary by telephone or mail before the taking of the vote at the Shurgard special meeting;
- using the telephone as described in the instructions included with your proxy card(s) or voting instruction card(s);
- filing with Shurgard s Corporate Secretary before the taking of the vote at the Shurgard special meeting a written notice of revocation bearing a later date than the proxy card; or
- attending the Shurgard special meeting and voting in person (although attendance at the Shurgard special meeting will not, in and of itself, revoke a proxy).

Any written revocation or subsequent proxy card should be delivered to Shurgard Storage Centers, Inc., 1155 Valley Street, Suite 400, Seattle, Washington 98109, Attention: Corporate Secretary, or hand delivered to Shurgard s Corporate Secretary or her representative before the taking of the vote at the Shurgard special meeting.

Solicitation of Proxies

Shurgard is soliciting proxies for the Shurgard special meeting and will bear all expenses in connection with such solicitation of proxies of its shareholders. Upon request, Shurgard will pay banks, brokers, nominees, fiduciaries or other custodians their reasonable expenses for sending proxy material to, and obtaining instructions from, persons for whom they hold shares.

Shurgard has retained MacKenzie Partners, Inc. to assist with the solicitation of proxies. MacKenzie Partners, Inc. will receive customary fees as compensation for its services and MacKenzie Partners, Inc. expects to solicit proxies primarily by mail, but directors, officers and other employees of Shurgard or MacKenzie Partners, Inc. may also solicit proxies in person or by Internet, telephone or mail. No additional compensation will be paid to directors, officers or other employees of Shurgard in connection with this solicitation.

Shurgard shareholders who receive more than one proxy card or voting instruction form have shares registered in different forms or in more than one account. Please complete, sign, date and return all proxy cards and provide instructions for all voting instruction forms received to ensure that all of your shares are voted.

Shurgard shareholders should not send stock certificates with their proxies. A transmittal form with instructions for the surrender of Shurgard common stock certificates will be mailed to Shurgard shareholders shortly after completion of the merger.

Adjournment and Postponement

Shareholders may be asked to vote on a proposal to adjourn or postpone the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the merger agreement.

Any adjournment may be made from time to time by approval of the shareholders holding a majority of the voting power present, in person or by proxy, at the special meeting, whether or not a quorum exists, without further notice other than by announcement made at the special meeting. In addition, if the adjournment of the special meeting is for more than 120 days or if after the adjournment a new record date is otherwise fixed for an adjourned meeting, notice of the adjourned meeting must be given to each shareholder of record entitled to vote at such special meeting. If a quorum is not present at the special meeting, shareholders may be asked to vote on a proposal to adjourn or postpone the special meeting to solicit additional proxies. If a quorum is present at the special meeting but there are not sufficient votes at the time of the special meeting to approve the proposal to approve the merger agreement, holders of common stock may also be asked to vote on a proposal to

approve the adjournment or postponement of the special meeting to permit further solicitation of proxies.

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THE PUBLIC STORAGE ANNUAL MEETING

General

This joint proxy statement/prospectus is being provided to Public Storage shareholders as part of a solicitation of proxies by the Public Storage board of directors for use at the annual meeting of Public Storage shareholders and at any adjournment or postponement thereof. This joint proxy statement/prospectus is first being furnished to shareholders of Public Storage on or about [ ], 2006. This joint proxy statement/prospectus provides Public Storage shareholders with the information they need to know to be able to vote or instruct their vote to be cast at the annual meeting of Public Storage shareholders.

Date, Time and Place of the Public Storage Annual Meeting

The annual meeting of Public Storage shareholders will be held at 9:00 a.m., (PDT), on Wednesday July 26, 2006, at The Hilton Glendale, 100 West Glenoaks Boulevard, Glendale, California

Purposes of the Public Storage Annual Meeting

At the Public Storage annual meeting, Public Storage shareholders will be asked:

- to approve the merger agreement and the transactions contemplated thereby, including the issuance of Public Storage common stock;
- to elect ten members of Public Storage s board of directors;
- to ratify the appointment of Ernst & Young LLP as Public Storage s independent registered public accounting firm for the fiscal year ending December 31, 2006;
- to approve adjournments or postponements of the Public Storage annual meeting, if necessary to permit further solicitation of proxies if at the time of the Public Storage annual meeting to approve the above proposals; and
- to consider and act on any other business that may properly come before the Public Storage annual meeting or any reconvened meeting following an adjournment or postponement of the Public Storage annual meeting.

Record Date; Outstanding Shares; Shares Entitled to Vote

Only shareholders of record of (a) Public Storage common stock, (b) depositary shares each representing 1/1,000 of a share of Public Storage equity stock, series A or (c) Public Storage equity stock, series AAA at the close of business on the record date of June 23, 2006 will be entitled to vote at the meeting, or at any reconvened meeting following an adjournment or postponement of the meeting. Each depositary share of Public Storage equity stock, series A represents 1/1,000 of one share of Public Storage equity stock, series A. The Public Storage equity stock, series A has been deposited with Computershare Trust Company, N.A. (formerly known as EquiServe Trust Company, N.A.) as Depositary. On the record date, Public Storage had approximately [ ] shares of Common Stock, 8,744,193 Depositary Shares representing 8,744.193 shares of equity stock, series A, and 4,289,544 shares of equity stock, series AAA issued and outstanding. Based on the number of shares of Public Storage and Shurgard common stock outstanding on their respective record dates, after completion of the merger, Public Storage expects to issue approximately [ ] million shares of Public Storage common stock and former Shurgard shareholders will own approximately [ ]% of the then-outstanding shares of Public Storage common stock.

If your shares are held in the name of a bank, broker or other nominee and you plan to attend Public Storage annual meeting, you will need to bring proof of ownership, such as a recent bank or brokerage account statement.

A complete list of Public Storage shareholders entitled to vote at the Public Storage annual meeting will be available for inspection at the executive offices of Public Storage during regular business hours for a period of no less than ten days before the annual meeting.

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Voting Your Proxy

Your vote is important. Whether or not you plan to attend the Public Storage annual meeting, we urge you to vote your proxy promptly.

If you are a shareholder of record (that is, you hold shares of Public Storage stock in your own name), you may vote your shares by proxy by completing, signing, dating and returning the enclosed proxy card in the postage-prepaid envelope provided.

If your shares of Public Storage common stock are held by a broker, bank or other nominee in street name, you will receive voting instructions from the record holder that you must follow in order to have your shares voted at the Public Storage annual meeting.

If you hold your shares as a participant in the PS 401(k)/Profit Sharing Plan, your proxy will serve as a voting instruction for the trustee of the plan with respect to the amount of shares of common stock credited to your account as of the record date. If you provide voting instructions via your proxy/instruction card with respect to your shares held in the plan, trustee will vote those shares of common stock in the manner specified. The trustee will vote any shares for which it does not receive instructions in the same proportion as the shares for which voting instructions have been received, unless the trustee is required by law to exercise its discretion in voting such shares. To allow sufficient time for the trustee to vote your shares, the trustee must receive your voting instructions by [ ], 2006.

If a proxy/instruction card in the accompanying form is properly executed and is received before the voting and not revoked, the persons designated as proxies will vote the shares of common stock represented thereby, if any, in the manner specified, and the Depositary will vote the equity stock underlying the depositary shares represented thereby, if any, in the manner specified. **If you do not indicate how your shares should be voted on a matter, the shares represented by your properly completed proxy/instruction card will be voted as the Public Storage board of directors recommends.** The persons designated as proxies and the Depositary reserve full discretion to cast votes for other persons if any of the nominees for director become unavailable to serve and to cumulate votes selectively among the nominees as to which authority to vote has not been withheld.

Revoking Your Proxy

You may revoke your proxy/instruction card at any time before it is voted at the annual meeting. To revoke your proxy/instruction card, you may send a written notice of revocation to the Corporate Secretary at Public Storage, Inc., 701 Western Ave., Glendale, CA 91201 or to the Depositary before the annual meeting. You may also revoke your proxy by submitting another signed proxy with a later date, or by voting in person at the annual meeting.

Recommendations of the Public Storage Board of Directors

If you submit the proxy card but do not indicate your voting instructions, the persons named as proxies on your proxy card will vote in accordance with the recommendations of the Public Storage board of directors. The Public Storage board of directors recommends that you vote:

FOR the approval of the merger agreement and the transactions contemplated thereby, including the issuance of Public Storage common stock as discussed in Proposal 1;

FOR the election of the nominees for director identified in Proposal 2;

FOR ratification of the appointment of Ernst & Young LLP as Public Storage s registered public accountants for fiscal year 2006 as discussed in Proposal 3; and

FOR the approval of adjournments or postponements of the Public Storage annual meeting, if necessary to permit further solicitation of proxies if at the time of the Public Storage annual meeting to approve the above proposals.

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Quorum

The presence at the meeting in person or by proxy of the holders of a majority of the voting power represented by the outstanding shares of Public Storage common stock and Public Storage equity stock, counted together as a single class, will constitute a quorum for the transaction of business. Abstentions and broker non-votes are counted for purposes of whether a quorum exists.

A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received voting instructions from the beneficial owner. If the shareholders present or represented by proxy at the meeting constitute holders of less than a majority of the shares entitled to vote, Public Storage s meeting may be adjourned to a subsequent date for the purpose of obtaining a quorum.

Voting Rights

Holders of Public Storage common stock and holders of Public Storage equity stock, series A vote together as one class, except with respect to the to approval of the merger agreement and the transactions contemplated thereby, including the issuance of Public Storage common stock, on which Public Storage common shareholders vote as one class and holders of Public Storage equity stock, series A and equity stock, series AAA vote together as another class. With respect to the election of directors, (i) each holder of Public Storage common stock on the record date is entitled to cast as many votes as there are directors to be elected multiplied by the number of shares registered in the holder s name on the record date, and (ii) each holder of depository shares representing Public Storage equity stock, series A is entitled to cast as many votes as there are directors to be elected multiplied by 100 times the number of shares of Public Storage equity stock, series A registered in its name (equivalent to 1/10 the number of depositary shares registered in the holder s name). The holder may cumulate its votes for directors by casting all of its votes for one candidate or by distributing its votes among as many candidates as it chooses. However, no shareholder shall be entitled to cumulate votes unless the candidate s name has been placed in nomination prior to the voting and the shareholder, or any other shareholder, has given notice at the Public Storage annual meeting prior to the voting of the intention to cumulate the shareholder s votes. With respect to all other matters, Public Storage shareholders can cast one vote for each share of Public Storage common stock and 100 votes for each share of Public Storage equity stock, series A (equivalent to 1/10 of a vote for each depositary shares) registered in their name. Holders of Public Storage equity stock, series AAA are entitled to one vote for each share that they own but are only entitled to vote with regard to the approval of the merger agreement and the transactions contemplated thereby.

Entities controlled by Public Storage have the right to cast a majority of the votes of the equity stock with respect to the merger and intend to vote those shares in favor of the approval of the merger agreement and the transactions contemplated thereby, including the issuance of Public Storage common stock.

Required Vote

To approve the merger agreement and the transactions contemplated thereby, including the issuance of Public Storage common stock: The affirmative vote of both (i) the holders of at least a majority of outstanding shares of Public Storage common stock and (ii) the holders of at least a majority of outstanding Public Storage equity stock is required to approve the merger agreement and the transactions contemplated thereby, including the issuance of Public Storage common stock.

Because the affirmative vote required to approve the merger agreement and the transactions contemplated thereby is based upon the total number of outstanding shares of Public Storage common stock and equity stock, the failure to submit a proxy/voting instruction card or to vote at the annual meeting will have the same effect as a vote against the approval of the merger agreement and the transactions contemplated thereby, including the issuance of Public Storage common stock. Brokers holding shares of Public Storage stock will not have discretionary authority to vote those shares in the absence of

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instructions from the beneficial owners of those shares, so the failure to provide voting instructions to your broker will also have the same effect as a vote against the proposal to approve the merger agreement and the transactions contemplated thereby, including the issuance of Public Storage common stock.

Election of Directors: The ten candidates who receive the most votes will be elected directors of Public Storage. Shares of common stock or equity stock not voted (whether by abstention or otherwise) will not affect the vote.

Ratification of Independent Auditors: This proposal requires the affirmative vote of the holders of at least a majority of the votes cast. Any Public Storage shares not voted (whether by abstention or otherwise) will not affect the vote.

Voting by Public Storage s Directors and Executive Officers

As of the record date for the Public Storage annual meeting, Public Storage s directors and executive officers had the right to vote approximately [ ] shares of the then outstanding Public Storage common stock at the Public Storage annual meeting. As of the record date of the Public Storage annual meeting, these shares represented approximately [ ]% of the Public Storage common stock outstanding and entitled to vote at the meeting. The Hughes family, which owns approximately 36% of outstanding Public Storage common stock, has agreed to vote in favor of the merger. See *Agreements Related to the Merger The Voting Agreements Hughes Family Voting Agreement*.

As of the record date for the Public Storage annual meeting, Public Storage s directors and executive officers had the right to vote approximately [ ] shares of the then outstanding depositary shares representing Public Storage equity stock, series A at the Public Storage annual meeting. As of the record date of the Public Storage annual meeting, these shares represented approximately [ ]% of the depositary shares representing Public Storage equity stock, series A outstanding and entitled to vote at the meeting.

As of the record date for the Public Storage annual meeting, a subsidiary of Public Storage had the right to vote all 4,289,544 shares of the then outstanding equity stock, series AAA at the annual meeting.

Proxy Solicitation Costs

Public Storage will pay the cost of soliciting proxies. In addition to solicitation by mail, certain directors, officers and regular employees of the Public Storage and its affiliates may solicit the return of proxies by telephone, personal interview or otherwise. Public Storage may also reimburse brokerage firms and other persons representing the beneficial owners of its stock for their reasonable expenses in forwarding proxy solicitation materials to such beneficial owners. MacKenzie Partners, Inc., a proxy soliciting firm, has been retained to assist Public Storage in the solicitation of proxies, for which MacKenzie Partners, Inc. will receive normal and customary fees and expenses estimated at [$].

Description of Items of Business for the Annual Meeting

ITEM 1 THE APPROVAL OF THE MERGER AGREEMENT AND THE TRANSACTIONS CONTEMPLATED THEREBY, INCLUDING THE ISSUANCE OF PUBLIC STORAGE COMMON STOCK

As discussed elsewhere in this joint proxy statement/prospectus, Public Storage shareholders are considering and voting on a proposal to approve the merger agreement and the transactions contemplated thereby, including the issuance of Public Storage common stock. Public Storage shareholders should read carefully this joint proxy statement/prospectus in its entirety for more detailed information concerning the merger agreement and the merger. In particular, Public Storage shareholders are directed to the merger agreement, which is attached as *Annex A* to this joint proxy statement/prospectus.

The Public Storage board of directors recommends a vote FOR approval of the merger agreement and the transactions contemplated thereby and your proxy will be so voted unless you specify otherwise.

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ITEM 2 ELECTION OF DIRECTORS

Ten directors, constituting the entire Public Storage board of directors, are to be elected at the Public Storage annual meeting, to hold office until the next annual meeting and until their successors are elected and qualified. When the accompanying proxy/instruction card is properly executed and returned before the voting, the persons designated as proxies and the trustee will vote the shares of Public Storage common stock represented thereby, if any, and the depositary will vote the Public Storage equity stock, series A underlying the depositary shares represented thereby, if any, in the manner indicated on the proxy/instruction card. If any nominee below becomes unavailable to serve before the meeting, the shares of Public Storage common stock and/or the shares of Public Storage equity stock underlying depositary shares represented by a proxy/instruction card voted for that nominee, will be voted for the person, if any, designated by the Public Storage board of directors to replace the nominee. However, the Public Storage board of directors has no reason to believe that any nominee will be unavailable.

For information regarding the directors nominated for reelection, and regarding the Public Storage board of directors as a whole, see *Information about Public Storage Election of Directors*.

The Public Storage board of directors recommends that Public Storage shareholders vote FOR the election of the nominees named above. Proxies solicited by the Public Storage board

will be so voted unless you specify otherwise.

ITEM 3 RATIFICATION OF APPOINTMENT OF INDEPENDENT

REGISTERED PUBLIC ACCOUNTANTS

The Audit Committee of the Public Storage board of directors, under authority granted by the Public Storage board of directors, has appointed Ernst & Young LLP, as its independent registered public accounting firm, to audit the accounts of Public Storage for the fiscal year ending December 31, 2006. Public Storage s bylaws do not require that shareholders ratify the appointment of Ernst & Young LLP as Public Storage s independent registered public accounting firm. Public Storage is asking its shareholders to ratify this appointment because it believes such a proposal is a matter of good corporate practice. If the shareholders do not ratify the appointment of Ernst & Young LLP, the Audit Committee will reconsider whether or not to retain Ernst & Young LLP as Public Storage s independent registered public accounting firm, but may determine to do so. Even if the appointment of Ernst & Young LLP is ratified by the shareholders, the Audit Committee may change the appointment at any time during the year if it determines that a change would be in the best interest of Public Storage and its shareholders. See *Information about Public Storage Ratification of Independent Registered Public Accountants*.

The Public Storage board of directors recommends that Public Storage shareholders vote FOR the ratification of the appointment of Ernst & Young LLP, and your proxy will be so voted unless you specify otherwise.

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THE MERGER

Background of the Merger and Prior Contacts

From time to time, Public Storage initiated discussions with Shurgard regarding a possible business combination between the two companies, in the belief that a combination could be in the best interests of the shareholders of both companies. In exploring a possible transaction, there were intermittent contacts between representatives of Public Storage and Shurgard prior to 2004. During this period, the two companies never reached any agreement for a business combination between the two companies.

In November 2003, Ronald L. Havner, Jr., Chief Executive Officer of Public Storage, called Charles K. Barbo, Chief Executive Officer of Shurgard, and suggested that the two meet. A meeting was subsequently scheduled for January 27, 2004.

On January 27, 2004, Mr. Havner and Mr. Barbo, together with the in-house counsel for both companies, met in Seattle. At the meeting, those present engaged in a general discussion of the self-storage industry and of the two companies. Mr. Havner suggested a potential combination of the two companies. Mr. Barbo expressed a general willingness to explore a possible transaction but stated that the timing was currently inopportune for Shurgard, given that Shurgard had recently changed auditors and was in the process of preparing its financial statements for inclusion in its annual reports on Form 10-K for the years ended December 31, 2002 and December 31, 2003, respectively, and having those financial statements audited by PricewaterhouseCoopers LLP, Shurgard s new auditors. There were no further discussions between representatives of Public Storage and Shurgard regarding a potential combination of the two companies until June 2005.

On April 1 and 2, 2005, Public Storage s directors and senior management held a strategic planning session. At the session, the Public Storage board of directors concluded that exploring a combination of Public Storage and Shurgard would be beneficial to Public Storage s shareholders. In April 2005, Public Storage engaged Wachtell, Lipton, Rosen & Katz as special counsel in connection with its consideration of a potential transaction with Shurgard.

On May 5, 2005, the Public Storage board of directors met with members of Public Storage s senior management. Mr. Havner reviewed with the Public Storage board of directors management s review and analysis of Shurgard, based solely on publicly available information.

On May 19, 2005, the Public Storage board of directors met with members of Public Storage s senior management to discuss a possible transaction with Shurgard. Mr. Havner presented the results of management s further review and analysis, including drive-by inspections of certain of Shurgard s properties and described management s view of the potential benefits and detriments of a transaction with Shurgard. Mr. Havner suggested that the directors consider the matters discussed at the meeting and indicated that there would be another meeting the following week to consider further a possible transaction with Shurgard.

On May 25, 2005, the Public Storage board of directors again met with members of Public Storage s senior management to discuss a possible transaction with Shurgard. After discussion, the directors agreed that management should seek to effectuate a combination of Shurgard with Public Storage within the parameters discussed at the meeting and to use management s discretion as to how to proceed to accomplish this objective.

In June 2005, Mr. Havner called Mr. Barbo and suggested that representatives from the two companies meet again. A meeting between the representatives for the two companies was subsequently scheduled for July 7, 2005. In June 2005, Shurgard requested that Willkie Farr & Gallagher LLP and Perkins Coie LLP provide legal advice in connection with discussions with Public Storage and related matters.

On June 30, 2005, at a meeting of the Public Storage board of directors, Mr. Havner informed the Board that a meeting with Shurgard was scheduled for July 7, 2005.

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On July 7, 2005, Mr. Havner and Harvey Lenkin, a director of Public Storage, met with Mr. Barbo and David K. Grant, President of Shurgard. The participants engaged in a general discussion of the self-storage industry and of the businesses of the two companies. Mr. Havner and Mr. Lenkin again expressed Public Storage s interest in pursuing a combination of Shurgard and Public Storage. Mr. Barbo informed Messrs. Havner and Lenkin that, consistent with their fiduciary duties, Messrs. Barbo and Grant would inform the Shurgard board of directors of the substance of the meeting.

In July 2005, Citigroup Global Markets Inc. and Banc of America Securities LLC were retained as Shurgard s financial advisors in connection with the Public Storage indication of interest and related matters.

On July 8, 2005, Mr. Havner sent the following letter to Messrs. Barbo and Grant:

July 8, 2005

Mr. Charles Barbo, CEO and Chairman of the Board

Mr. David Grant, President and COO

Shurgard

1155 Valley Street, Suite 400

Seattle, Washington 98109

Dear Chuck,

Thank you for taking the time to meet with Harvey and me. We enjoyed catching up and reminiscing about the evolution of the self-storage industry and its prospects. The similarity of our corporate cultures is amazing.

We thought it would be helpful for you to have in writing some of the benefits we perceive for both companies by merging. We recognize that you have a business plan that we assume is shareholder value driven. We think a merger of our two companies would accelerate and enhance the benefits to your plan, delivering an immediate increase in value to your shareholders and also allowing them to participate in the enhanced upside of the combined business.

The benefits of a merger are totally shareholder value driven. The benefits to your shareholders would include:

- a combined company with ownership interests in over 2,000 quality properties in 38 states and seven European countries
- a more active trading market for their securities
- enhanced credit ratings and access to capital
- reduced overall leverage
- the combined company s financial resources and strong financial position will facilitate expanded career opportunities for the best people

lower general and administrative expenses

a more secure common dividend with greater upside potential

greater concentration of properties in faster growing markets, such as Southern California and South Florida

higher FFO per share growth

financial capacity, post merger, to significantly grow in Europe and the United States without jeopardizing the company s credit rating

significant opportunities for revenue and expense synergies

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We believe that the use of our national telephone reservation system, as well as media advertising programs, which will be more cost effective with a larger number of properties in major markets, will drive revenue growth of Shurgard s properties. In addition, valuable and important ancillary businesses, such as tenant reinsurance, merchandise sales and truck rentals, could be expanded. Furthermore, by spreading property level costs over a larger number of properties in the same markets, we would be able to reduce a number of cost items for the properties of both Shurgard and Public Storage, including television and yellow pages advertising, casualty and liability insurance and supervisory payroll. Through economies of scale, we can also improve cost efficiencies of certain support functions, such as HR, payroll and national telephone reservation system.

In short, we believe a combined company will deliver superior returns, in which Shurgard shareholders will participate through their ongoing equity interest in the combined enterprise.

As we stated in the meeting, we would hope that David Grant would accept the role of President in the new combined enterprise.

We have structured a transaction that offers an immediate premium to your current trading price and affords your shareholders the opportunity to potentially increase the value of their existing investment in a company with greater liquidity and increased geographic diversification. We believe that this transaction will be enthusiastically received by your shareholders. Our proposed structure is:

Shurgard shareholders would receive 0.8 shares of our common stock for each share of Shurgard common stock (an implied value of $52.74 per share of Shurgard stock based on today s close). This represents a 12% premium to the Shurgard stock price at today s close and a 24% premium to the average Shurgard closing price over the past six months.

So that the combined company would have the benefit of a step-up in tax basis and therefore the enhanced ability to retain free cash flow for growth, we propose that the combination be structured as a taxable transaction.

We have been talking about combining our two great companies for nearly a decade. The time is now. Combined, we can produce even greater returns for our owners and even greater opportunities for our employees. In addition, our lenders, both debt and preferred, would benefit from the enhanced credit-worthiness of the combined enterprise and our owners would accordingly enjoy a lower cost of capital.

The transaction we propose would not be subject to any unusual governmental or third party approvals, or any other significant contingencies. We believe that this transaction can be completed expeditiously.

This transaction has our full attention and highest priority. We hope that you will be as excited as we are about the benefits of this combination for both our companies and our respective shareholders, and we want to work with your board and senior management towards the prompt consummation of a negotiated transaction. We have engaged the law firm of Wachtell, Lipton, Rosen & Katz to assist us in completing this transaction in an expeditious manner. They and we are prepared to start immediately to negotiate an agreement. Thank you for your prompt consideration.

Sincerely,

/s/ Ronald L. Havner, Jr.

Ronald L. Havner, Jr.

Chief Executive Officer

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After discussions with the Shurgard board of directors and Shurgard s legal advisors, Mr. Barbo determined that the July 8, 2005 letter from Mr. Havner warranted an in-person meeting of the Shurgard board of directors and proceeded to schedule such meeting. On July 12, 2005, after receiving advice from Shurgard s legal advisors, Mr. Barbo responded by letter to Mr. Havner s letter as follows:

July 12, 2005

Mr. Ron Havner

Chief Executive Officer

Public Storage

701 Western Avenue, Suite 200

Glendale, CA 91201-2397

Dear Ron,

I received your letter dated July 8, 2005.

We will convene a meeting of Shurgard s board of directors as promptly as possible, likely in the upcoming week or two, to consider your proposal.

We will respond to you promptly thereafter.

Sincerely,

/s/ Charles Barbo

Charles Barbo

Chairman and Chief Executive Officer

On July 13, 2005, Mr. Havner sent the following letter to each of the members of the Shurgard board of directors, enclosing the letter that he sent to Messrs. Barbo and Grant on July 8, 2005:

July 13, 2005

Dear [Director]:

I was pleased to learn from Chuck yesterday, that you and the rest of the Shurgard Board of Directors will soon be considering our proposal to merge our two great companies. I wanted to take this opportunity to thank you for your prompt consideration of this transaction. For your convenience, I have enclosed a copy of the letter I sent to Charles Barbo and David Grant which summarizes our meeting and proposal.

At Public Storage, we have long believed that there are compelling reasons, both financial and strategic, to combine our two companies. We believe that the time to act is now, and I assure you that this transaction has our full attention and highest priority. Our Board of Directors and senior management team are fully committed to this merger.

I would be pleased to discuss the proposal with you individually or with your board as a group. Please do not hesitate to contact me directly.

Sincerely,

/s/ Ronald L. Havner, Jr.

Ronald L. Havner, Jr.

Chief Executive Officer

cc: Charles Barbo

David Grant

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On July 14, 2005, Mr. Havner and Mr. Barbo discussed by telephone Mr. Havner s letter of July 13, 2005. During this conversation, Mr. Barbo informed Mr. Havner that the Shurgard board of directors would consider Public Storage s proposal promptly and that Mr. Havner did not need to send separate correspondence to Shurgard s independent directors. On July 15, 2005, Mr. Barbo sent the following letter to Mr. Havner:

July 15, 2005

Mr. Ron Havner

Chief Executive Officer

Public Storage

701 Western Avenue, Suite 200

Glendale, CA 91201-2397

Dear Ron,

It is not conducive to friendly or cooperative relations between our companies if you presume to communicate directly to our Board of Directors on a subject which I had assured you just yesterday we would consider in the very near future.

You will hear from me promptly after the Board has considered your letter and decided what is in the best interest of Shurgard s shareholders.

Sincerely,

/s/ Charles Barbo

Charles Barbo

Chairman and Chief Executive Officer

On July 22, 2005, all members of the Shurgard board of directors met with Shurgard s legal and financial advisors and representatives of Shurgard s senior management team to discuss Public Storage s acquisition proposal and Shurgard s past and current business operations, financial condition and prospects. The representatives from Shurgard s senior management team made presentations and responded to questions regarding Shurgard s business, the progress on Shurgard s strategic business plan and Shurgard s historical financial results and projected future results. Shurgard s legal advisors discussed with the Shurgard board the fiduciary duties of the directors and presented the board with an overview of the terms of Public Storage s acquisition proposal and related legal matters. The financial advisors then reviewed financial aspects of Public Storage s proposal with the Shurgard board. After thorough discussion, the independent directors met separately to discuss the acquisition proposal. The full Shurgard board then reconvened with certain of its advisors and certain members of management. After further discussion, the Shurgard board, by the unanimous vote of all directors, determined to reject Public Storage s acquisition proposal and decided that further discussions with Public Storage regarding an acquisition proposal would not be productive at that time. In arriving at this conclusion, the Shurgard board of directors considered a number of factors, including its belief that the market and Public Storage s proposal significantly undervalued Shurgard s common stock as Shurgard s European investments had begun to generate positive cash flow and Shurgard was poised to reap the benefits of these investments, and Shurgard s accounting issues were in the process of being resolved, and its belief that greater long-term value would thus be delivered to Shurgard shareholders through continued execution of Shurgard s strategic business plan. The Shurgard board also authorized the delivery of a letter to Public Storage communicating the results of its deliberations.

Mr. Barbo sent the following letter to Mr. Havner on July 26, 2005:

July 26, 2005

Mr. Ron Havner

Chief Executive Officer

Public Storage, Inc.

701 Western Avenue, Suite 200

Glendale, CA 91201-2397

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Dear Ron,

I write in response to your letter of July 8. The Board of Directors of Shurgard met to consider Public Storage s proposal to acquire all of the outstanding shares of Shurgard.

The Board, with the assistance of financial advisors and legal counsel, conducted a thorough review of your proposal. The Board unanimously decided that the Company is not for sale and, therefore, rejected your proposal. The Board determined that combining our companies in a transaction as outlined in your July 8 letter would not be in the best interests of Shurgard s shareholders.

Sincerely,

/s/ Charles K. Barbo

Charles K. Barbo

Chairman and Chief Executive Officer

On August 1, 2005, following receipt of Mr. Barbo s letter of July 26, 2005, Public Storage publicly disclosed its proposal to enter into a business combination with Shurgard, and further disclosed the contents of the July 8, 2005 and July 26, 2005 letters described above. Also, on August 1, 2005, following Public Storage s publicized acquisition proposal, Shurgard publicly disclosed its rejection of the acquisition proposal.

On August 4, 2005, at a meeting of the Public Storage board of directors, Public Storage s senior management updated the board on the status of the potential Shurgard transaction. The board discussed the investor and analyst reaction to Public Storage s proposal and authorized Public Storage to retain an investment banking firm to assist with a potential Shurgard transaction.

Pursuant to a letter agreement dated August 16, 2005, Public Storage engaged Goldman Sachs to act as its financial advisor in connection with a potential Shurgard transaction.

On August 30, 2005, all the members of the Shurgard board of directors except for Jerry L. Calhoun met with Shurgard s legal and financial advisors and the representatives of Shurgard s senior management team. The financial advisors reviewed with the board recent events related to the Public Storage proposal, research analyst, shareholder and market reactions to the proposal, and Shurgard s stock price performance and trading patterns following Public Storage s acquisition proposal. Possible strategic alternatives available to Shurgard were also discussed. These alternatives included continued pursuit of Shurgard s strategic business plan, entering into one or more joint ventures, recapitalizing a portion or all of Shurgard s operations, conducting a merger or sale transaction for all or part of Shurgard s business, merging Shurgard s European business with another public company, selling the European business for cash, launching an initial public offering of the European business or spinning-off the European business to Shurgard s shareholders.

During August and September 2005, Shurgard received several letters from shareholders related to the Public Storage proposal. On September 13, 2005, all the members of the Shurgard board of directors except for Mr. Calhoun met and discussed appropriate responses to these letters. The Shurgard board advised representatives of Shurgard s senior management team to meet with certain Shurgard shareholders to discuss the Public Storage proposal and Shurgard s response. Over a period of two weeks in September 2005, Messrs. Barbo and Grant, along with Shurgard s financial advisors, met with numerous Shurgard shareholders to discuss the Public Storage proposal.

During September 2005, members of Public Storage s senior management met with certain Shurgard shareholders to discuss Public Storage s proposal and the potential benefits of the combination.

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On September 23, 2005, Mr. Havner sent the following letter to each of the members of the Shurgard board of directors:

September 23, 2005

Dear [Director],

In July we proposed a combination of Public Storage and Shurgard through a merger in which each share of Shurgard common stock would be exchanged for .80 shares of Public Storage common stock. In response to our premium offer, you informed us and your shareholders that Shurgard is not for sale. We urge you to reconsider your position.

We met recently with Shurgard shareholders who collectively own more than 50% of your outstanding shares. Based on these conversations, the feedback we received was clear: your shareholders strongly endorse a transaction with Public Storage and hope you will facilitate a merger of our two companies.

We suspect you have heard the same message too. As we have repeatedly stated, it is our preference to enter into a negotiated transaction with Shurgard. This will save both of our companies the time and expense of special meetings, proxy contests, litigation, unilateral exchange offers and other expensive and time-consuming measures.

As you can understand, we based our offer of .80 shares exclusively on public information. Nevertheless, because you believe our price is insufficient, we will consider any non-public information which you can provide us to help justify a higher valuation. We are also willing to consider alternative forms of consideration and transaction structures.

In exercising your fiduciary duties, we are hopeful that you will listen to the appeals of your own shareholders, recognize the value of our proposal and appreciate our willingness to negotiate with you in a flexible and open-minded spirit. We are prepared to meet with you at any time to discuss this mutually beneficial business combination.

I look forward to hearing from you.

Sincerely,

/s/ Ronald L. Havner, Jr.

Ronald L. Havner, Jr.

Chief Executive Officer

On September 26, 2005, Public Storage issued a press release publicly disclosing the September 23, 2005 letters to Shurgard s directors.

On October 3, 2005, all the members of the Shurgard board of directors except for Howard P. Behar met via teleconference with Shurgard s legal and financial advisors and Shurgard s senior management team to discuss management s meetings with certain of Shurgard s shareholders. Messrs. Barbo and Grant reported that the general consensus among Shurgard s shareholders was that the offer price, based on Public Storage s proposed exchange ratio of 0.80 shares of Public Storage common stock for each outstanding share of Shurgard common stock, was too low. As of October 3, 2005, this proposed offer price represented a value of approximately $53.62 per share of Shurgard common stock, as compared with the then-current price of Shurgard common stock, which closed at $55.98 on October 3, 2005, based on the closing price of Public Storage common stock on that date. Messrs. Barbo and Grant also reported that certain shareholders were in favor of Shurgard beginning an auction process through which it could solicit offers from other interested parties. Following this discussion, Shurgard s financial advisors outlined for the Shurgard board the mechanics of an auction process and possible parties which might be interested in participating in such process. At the end of this meeting, the Shurgard board authorized the financial advisors to solicit indications of interests from selected third parties in the U.S. regarding a possible combination or alternative transaction with Shurgard.

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On October 5, 2005, at a meeting of the Public Storage board of directors, Public Storage s senior management updated the board on the status of the potential Shurgard transaction. Mr. Havner briefed the board on the reaction of Shurgard s major institutional investors to Public Storage s proposal. Following Mr. Havner s update, the directors discussed the potential transaction with Shurgard.

During the months of October and November 2005, indications of interests were solicited from selected third parties, which included both strategic and financial buyers, regarding a possible combination or alternative transaction with Shurgard. Shurgard entered into confidentiality agreements with certain of these third parties, and subsequently members of Shurgard s senior management team met with and discussed possible transactions with several of these third parties. Certain of the parties were primarily interested in a transaction for either Shurgard s U.S. operations or its European operations.

On October 11, 2005, all members of the Shurgard board of directors except for Mr. Grant and Anna Karin Andrews met via teleconference with Shurgard s legal and financial advisors and Shurgard s senior management team to review the status of discussions with parties interested in a potential combination or alternative transaction with Shurgard. In light of the fact that certain of the parties were primarily interested in a transaction for either Shurgard s U.S. operations or its European operations, the Board authorized the financial advisors to begin contacting selected third parties in Europe to solicit indications of interest in a potential separate sale of the European operations.

On October 21, 2005, Shurgard s legal and financial advisors updated all the members of the Shurgard board of directors except for Mr. Grant on the results of the solicitation for indications of interest.

On October 26, 2005, at a telephonic meeting of the Shurgard board of directors at which all directors were present except for Richard P. Fox and Raymond A. Johnson, the board determined to proceed with a formal search for strategic alternatives. The Shurgard board of directors subsequently executed a unanimous written consent authorizing Shurgard, with the assistance of financial advisors and legal counsel, to explore any strategic alternatives reasonably available to Shurgard, including, but not limited to, a sale of Shurgard, formation of asset joint ventures with strategic partners, a sale of certain of Shurgard s assets or operations, and continued implementation of Shurgard s strategic business plan.

On October 27, 2005, Shurgard issued a press release announcing that the Shurgard board of directors had authorized senior management and Shurgard s financial advisors to explore strategic alternatives reasonably available to Shurgard to maximize shareholder value, including, but not limited to, a sale of Shurgard, formation of asset joint ventures with strategic partners, a sale of certain of Shurgard s assets or operations, and continued implementation of Shurgard s strategic business plan.

During Public Storage board of directors meetings held on October 27, 2005, October 31, 2005, and November 23, 2005, Mr. Havner and other members of Public Storage s senior management team updated the Board and engaged in a discussion with the directors about the potential transaction with Shurgard.

On November 10, 2005, at a meeting of the Shurgard board of directors at which all directors were present except for Mr. Calhoun, Shurgard s legal and financial advisors and Shurgard s senior management team updated the Shurgard board of directors on the strategic alternatives process.

On November 28, 2005, Shurgard and Public Storage signed a confidentiality agreement in connection with Shurgard s process of exploring its strategic alternatives, and Shurgard and Public Storage publicly disclosed the agreement. As part of the confidentiality agreement, Public Storage agreed to a standstill providing that it would not pursue the acquisition of Shurgard (other than pursuant to Shurgard s strategic alternatives process) until April 27, 2006. The standstill would terminate earlier than April 27, 2006 if Shurgard entered into a definitive agreement with a third party for a business combination or disclosed that it had concluded its exploration of strategic alternatives. The standstill would also terminate if a third party commenced an

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unsolicited tender offer or exchange offer for Shurgard s securities that was not publicly rejected by Shurgard s board of directors, or if Shurgard mailed a notice or publicly disclosed the date of its annual meeting. The confidentiality agreement also stated that it was not intended to restrict Public Storage s ability to identify and solicit individuals to be nominated to serve as directors of Shurgard or to nominate any such individuals for election as directors of Shurgard at Shurgard s next regularly scheduled annual meeting of shareholders. The agreement also stated that, on or before January 15, 2006, Shurgard would invite Public Storage to submit a non-binding indication of interest to acquire Shurgard.

On November 30, 2005, Shurgard opened an electronic data room to interested parties which previously had signed confidentiality agreements with Shurgard, including Public Storage and its financial and legal advisors, and indicated that it expected preliminary non-binding indications of interest from participants in its strategic alternatives process by January 12, 2006. During the months of December 2005 and January 2006, Public Storage conducted due diligence on Shurgard.

During the month of December 2005, indications of interests continued to be solicited from various third parties regarding a possible combination or alternative transaction with Shurgard. During the course of the entire process of soliciting indications of interest, over 100 potentially interested parties were contacted and approximately 36 parties entered into confidentiality agreements with Shurgard. During December 2005, Shurgard offered to conduct management presentations (both in the U.S. and in Europe) for parties which had executed confidentiality agreements, and conducted such presentations during December 2005 and January 2006 for interested parties. Shurgard also permitted interested parties to visit Shurgard s properties both in the U.S. and in Europe.

On December 12, 2005, at a meeting of the Shurgard board of directors at which all directors were present except for Mr. Fox, Shurgard s legal and financial advisors and the Shurgard senior management team updated the Shurgard board of directors on the strategic alternatives process.

On December 15, 2005, representatives of Shurgard conducted a management presentation in Seattle for Public Storage, and from January 10 through January 12, 2006, Shurgard conducted management presentations in Europe for Public Storage.

On January 10, 2006, the Public Storage board of directors met with members of Public Storage s senior management team to discuss a potential preliminary bid for Shurgard. Mr. Havner advised the board that Public Storage s management and its advisors had reviewed financial and other due diligence information maintained in the online data room provided by Shurgard. Mr. Havner also noted that Public Storage s real estate group management had visited many of Shurgard s U.S. properties and Public Storage s senior real estate group management was currently in Europe visiting certain of Shurgard s European properties. Mr. Havner reviewed the terms of the draft first round proposal letter that had been previously distributed to the board. The board then authorized management to submit the proposal letter.

On January 12, 2006, Public Storage delivered a non-binding preliminary bid, in which Public Storage offered to acquire the U.S. operations of Shurgard in a transaction in which each Shurgard common shareholder would receive 0.64 of a share of Public Storage common stock for each share of Shurgard common stock held by such shareholder, which would be worth $46.82 per share based on the closing price of Public Storage common stock as of January 12, 2006. Public Storage also indicated that it would be willing to acquire all of Shurgard in a transaction in which each Shurgard common shareholder would receive 0.80 of a share of Public Storage common stock for each share of Shurgard common stock held by such shareholder, which would be worth $58.53 per share, as compared with the then-current Shurgard common stock price, which closed at $60.33 on January 12, 2006, based on the closing price of Public Storage common stock on that date. The letter also stated that Public Storage was ready to begin negotiations immediately and would be willing to enter into a definitive agreement promptly.

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Also on January 12, 2006, Shurgard received five additional non-binding preliminary bids from third parties, two of which were for the entire company and three of which were for only Shurgard s European operations. Each of these additional preliminary bids for the entire company was for a price per share less than Shurgard s current market price and less than the price per share represented by Public Storage s bid for the entire company (based on the closing price of Public Storage common stock on January 12, 2006), and the consideration for each such bid consisted entirely of cash. Each of the three preliminary bids for Shurgard s European operations was for consideration consisting solely of cash. Public Storage did not submit a separate bid for Shurgard s European operations.

On January 17, 2006, all of the members of the Shurgard board of directors met with Shurgard s financial and legal advisors to discuss the preliminary bids that had been received and to review Shurgard s recent stock price performance. The financial advisors reviewed the extent of the strategic alternatives process conducted to date, noting that more than 100 potentially interested parties had been contacted. The board then reviewed its possible next steps, including beginning to negotiate a transaction with Public Storage, continuing the auction process, liquidating certain of Shurgard s properties in the U.S. or Europe or terminating the auction process and continuing with Shurgard s strategic business plan. The independent directors then met separately, together with Shurgard s legal counsel, to discuss the results of the strategic alternative process so far. Following this discussion, Shurgard s legal counsel summarized (1) certain proposed technical amendments to Shurgard s business combination agreements with senior management, which generally clarify any amounts that will be paid following certain terminations of employment that occur within two and one half (2 1/2) years following a corporate transaction (including the merger), and also provide that Shurgard (or its successor) will pay for any reasonable legal fees that result from a dispute with respect to enforcement of the business combination agreement, unless the executive s position is found to be frivolous or in bad faith, and (2) certain proposed amendments to Shurgard s long-term incentive plans, pursuant to which the definition of corporate transaction in the long-term incentive plans was amended so that it conformed with the pre-existing definition of business combination in the business combination agreements. After thorough discussion, the board approved these amendments.

Later on January 17, 2006, Messrs. Barbo and Grant contacted representatives of Willkie Farr & Gallagher LLP to discuss the possibility of leading an acquisition group to pursue a transaction for Shurgard or Shurgard s European operations. Messrs. Barbo and Grant were advised to make a formal request to Shurgard s board of directors.

On January 18, 2006, all of the independent directors of Shurgard met via teleconference with Shurgard s legal advisors to discuss the possibility of an acquisition group which includes Messrs. Barbo and Grant, submitting a proposal for the purchase of Shurgard or Shurgard s European operations. The Shurgard board determined that any proposal that had the possibility of maximizing shareholder value should be encouraged and considered. Messrs. Barbo and Grant would recuse themselves and have no further involvement in the Shurgard board s discussions and deliberations related to the strategic alternatives process.

On January 20, 2006, all of the independent directors of Shurgard except Mr. Behar met via teleconference with Shurgard s legal and financial advisors to discuss the status of the search for strategic alternatives and current indications of interest, including recent discussions with Public Storage s financial advisors. At this time Shurgard s advisors informed the Shurgard independent directors that Messrs. Barbo and Grant would be partnering with two large financial institutions and would be pursuing a transaction only for Shurgard s European operations.

On January 23, 2006, the financial advisors for Public Storage and Shurgard met to discuss Public Storage s bid for Shurgard. At this time, Public Storage s financial advisor notified Shurgard s financial advisors that Public Storage was willing to raise its bid for all of Shurgard to 0.8175 of a share of Public Storage common stock for each outstanding share of Shurgard common stock, representing a value of approximately $57.98 per share of Shurgard common stock, based on the closing price of Public Storage common stock on January 23, 2006, as compared with the then-current price of Shurgard common stock, which closed at $58.92 on that date.

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On January 24, 2006, Ms. Andrews and Messrs. Fox, W. Thomas Porter and Gary E. Pruitt met via teleconference with Shurgard s legal and financial advisors to discuss the recent changes to Public Storage s acquisition proposal and the status of the strategic alternatives process. The financial advisors reviewed their recent discussions with Public Storage s financial advisor and the increase in Public Storage s bid price.

On January 27, 2006, the acquisition group of which Messrs. Barbo and Grant were a part submitted a non-binding preliminary bid for Shurgard s European operations. Also on that day, another of the interested parties in Shurgard s strategic alternative process informed Shurgard s financial advisors that it would not be pursuing a transaction with Shurgard. Later that day, all of the independent directors of Shurgard met via teleconference with Shurgard s legal and financial advisors to discuss the next phase of the strategic alternatives process. The Shurgard board reviewed the bid submitted by the acquisition group of which Messrs. Barbo and Grant were a part and discussed the logistics of conducting a separate transaction for Shurgard s European portfolio. The board determined that, consistent with the intent of the strategic alternatives process, if separate sales of Shurgard s U.S. operations to Public Storage and Shurgard s European operations to the acquisition group of which Messrs. Barbo and Grant were a part would yield maximum shareholder value, then the board would pursue both transactions. During this discussion, the board considered possible drawbacks to a bifurcated sale process, including heightened execution risk, additional closing conditions and regulatory approvals, and potential delay.

On January 30, 2006, the acquisition group of which Messrs. Barbo and Grant were a part submitted a revised non-binding preliminary bid for Shurgard s European operations. The material differences between this revised bid and the original bid were that in the revised bid the total purchase price was increased and the requirement that the purchased assets include a certain U.S. property was omitted.

On February 1, 2006, four of the parties which had submitted preliminary indications of interest, including Public Storage and the acquisition group of which Messrs. Barbo and Grant were a part, were invited by Shurgard to participate in the second phase of Shurgard s strategic alternatives process, with final bids due on February 28, 2006. Concurrent with the commencement of the second round of the auction process, Shurgard made additional legal and corporate due diligence materials available to the bidders in Shurgard s online data room. Public Storage and its advisors conducted further due diligence on Shurgard until March 6, 2006.

On February 2, 2006, the Public Storage board of directors met with members of Public Storage s senior management team to discuss the status of negotiations with Shurgard. On the same day, all of the independent directors of Shurgard except for Mr. Fox met via teleconference with Shurgard s legal and financial advisors to discuss the status of the strategic alternatives process. The Shurgard board of directors determined that the most viable offers were the offers made by Public Storage and the acquisition group of which Messrs. Barbo and Grant were a part, and the board focused its discussions on these options.

On February 6, 2006, another of the interested parties in Shurgard s strategic alternatives process other than Public Storage and the acquisition group of which Messrs. Barbo and Grant were a part, informed Shurgard s financial advisors that they would not be pursuing a transaction with Shurgard.

On February 7, 2006, all of the independent directors of Shurgard met via teleconference with Shurgard s financial and legal advisors to discuss potential transaction alternatives to a merger with Public Storage. These alternatives included entering into a business combination transaction with one or more U.S. strategic partners, selling the European business separately and selling the remaining U.S. business to Public Storage or merging the remaining U.S. business with a strategic partner, or selling the European business separately with the U.S. business remaining as a standalone company. After discussion, the Shurgard board determined to continue to pursue discussions with Public Storage.

On February 9, 2006, Shurgard s legal advisors distributed a draft purchase agreement to the acquisition group of which Messrs. Barbo and Grant were a part, for the acquisition of interests in Shurgard s European

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subsidiaries. On February 17, 2006, representatives from Willkie Farr & Gallagher LLP and counsel to this acquisition group held a teleconference call to discuss significant issues on the purchase agreement, including indemnification and break up fee provisions that the acquisition group desired in the purchase agreement.

On February 16, 2006, the financial advisors for Public Storage and Shurgard met and discussed primarily the proposed exchange ratio and whether Public Storage would consider offering a combination of stock and cash as part of the consideration to be paid in the proposed transaction. At this meeting, Public Storage s financial advisor relayed that Public Storage may be willing to increase the proposed exchange ratio for all of Shurgard to 0.82 of a share of Public Storage common stock for each outstanding share of Shurgard common stock, which would be worth $62.34 per share, as compared with the then-current Shurgard common stock price, which closed at $62.10 on February 16, 2006, based on the closing price of Public Storage common stock on that date. On the evening of February 16, 2006, Shurgard s legal advisors sent Public Storage s legal advisors two copies of a draft merger agreement, one assuming all stock consideration and the other assuming mixed consideration of cash and stock. Public Storage advised Shurgard that it was not interested in a transaction involving a mix of cash and stock.

On February 17, 2006, all of the independent directors of Shurgard except for Mr. Johnson met via teleconference with Shurgard s legal and financial advisors to discuss the recent discussions between the financial advisors of Public Storage and Shurgard. The financial advisors relayed Public Storage s possible willingness, as previously indicated by Public Storage s financial advisor, to increase the proposed exchange ratio to 0.82 of a share of Public Storage common stock for each outstanding share of Shurgard common stock. This exchange ratio represented a value of approximately $62.94 per share of Shurgard common stock, as compared with the then-current Shurgard common stock price, which closed at $62.88 on February 17, 2006, based on the closing price of Public Storage common stock on that date.

On February 20, 2006, Shurgard s legal and financial advisors held a teleconference call with representatives of the acquisition group of which Messrs. Barbo and Grant were a part and the group s advisors. Representatives of the group indicated that the price indicated in the group s non-binding bid letter would likely decrease in the final bid due to tax, acquisition financing and structuring matters. The representatives of the group also requested additional time to submit the final bid letter in order to complete the group s due diligence examination.

On February 21, 2006, the remaining interested party in Shurgard s strategic alternatives process other than Public Storage and the acquisition group of which Messrs. Barbo and Grant were a part, informed Shurgard s financial advisors that it was no longer interested in pursuing a transaction with the Shurgard. Later that day, all of the independent directors of Shurgard except for Mr. Fox met via teleconference with Shurgard s legal and financial advisors to discuss recent developments in the strategic alternatives process. The financial advisors reported that the last remaining bidder, other than Public Storage and the acquisition group of which Messrs. Barbo and Grant were a part, had dropped out of the process. The financial advisors also reported that representatives of the acquisition group of which Messrs. Barbo and Grant were a part had indicated that they believed that the prior bid from that acquisition group would likely be reduced and had requested an extension of the deadline for final bids. The directors then discussed the current status of negotiations with Public Storage. On the evening of February 21, 2006, Public Storage s legal advisors sent Shurgard s legal advisors proposed revisions to the draft merger agreement.

On February 22, 2006, Public Storage s legal advisors and Shurgard s legal advisors discussed the merger agreement. Among the issues discussed were the payment of dividends, the representations and warranties of the parties to the merger agreement, Shurgard s operating covenants, the nature and scope of benefit coverage to Shurgard s employees, the definition of the term material adverse effect, and the conditions under which a termination fee would be payable and the amount of the termination fee.

Also on February 22, 2006, Shurgard extended the deadline for final bids until March 3, 2006. At that time, the proposed exchange ratio of 0.82 of a share of Public Storage common stock for each outstanding share of

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Shurgard common stock would be worth $63.51 per share, as compared with the then-current Shurgard common stock price, which closed at $63.45 on February 22, 2006, based on the closing price of Public Storage common stock on that date.

On February 23, 2006, the Public Storage board of directors met with members of Public Storage senior management to discuss the potential transaction with Shurgard. The directors and members of senior management discussed the status of negotiations. Mr. Havner informed the board that Public Storage s financial and legal advisors would participate in a meeting the next day. It was noted that Shurgard was requesting that Mr. Hughes, B. Wayne Hughes, Jr. and Tamara Hughes Gustavson sign a voting agreement obligating them to vote their shares for approval of the merger agreement and the transactions contemplated thereby and restricting their ability to sell or transfer shares of Public Storage stock until the merger. At this meeting, the board waived the ownership limitation set forth in Public Storage s charter and in Public Storage s shareholders agreement with the Hughes family, contingent on the closing of the merger. After closing, the waiver would allow the Hughes family to buy shares of Public Storage common stock in an amount such that their total ownership of Public Storage common stock, as a percentage of all outstanding shares, after the closing of the merger will be equal to their collective total ownership of Public Storage common stock, as a percentage of all outstanding shares, as of the approval of the merger agreement by Public Storage s board of directors.

On the evening of February 23, 2006, Shurgard s legal advisors sent Public Storage s legal advisors further proposed revisions to the draft merger agreement.

On February 24, 2006, the legal and financial advisors for both Public Storage and Shurgard met to discuss the Public Storage acquisition proposal and the draft merger agreement. At this meeting Public Storage s advisors informed Shurgard s advisors that Public Storage was unwilling to increase the proposed exchange ratio above 0.82 of a share of Public Storage common stock for each outstanding share of Shurgard common stock, which ratio represented a value of approximately $63.48 per share of Shurgard common stock, based on the closing price of Public Storage common stock on February 24, 2006, as compared with the then-current Shurgard common stock price, which closed at $63.04 on that date.

Later that day, all of the independent directors of Shurgard except for Mr. Calhoun met via teleconference with Shurgard s legal and financial advisors to discuss the latest meeting between the advisors for Public Storage and Shurgard, the proposed exchange ratio and the status of negotiations with respect to the draft merger agreement. During the course of this meeting, the independent directors of Shurgard instructed Shurgard s financial advisors to make an additional attempt to obtain a higher exchange ratio from Public Storage. At the conclusion of this meeting, the independent directors of Shurgard determined that, given the advanced stage of the transaction negotiations with Public Storage, it would be beneficial to inform Messrs. Barbo and Grant of the status of these negotiations and to involve them in finalizing a transaction with Public Storage. The Shurgard board determined that, depending on the progress of negotiations with Public Storage over the weekend of February 25-26, 2006, Messrs. Barbo and Grant should be invited to participate in subsequent discussions of the negotiations with Public Storage, provided Messrs. Barbo and Grant would agree not to disclose any information obtained through such discussions with the other members of their acquisition group. Later that day Public Storage s financial advisors contacted Shurgard s financial advisors and informed them that Public Storage would not agree to increase the proposed exchange ratio above 0.82 of a share of Public Storage common stock for each outstanding share of Shurgard common stock.

Also on February 24, 2006, the Public Storage board of directors met with members of Public Storage s senior management and Public Storage s legal and financial advisors. Mr. Havner and other members of Public Storage s senior management reviewed with the board information regarding Public Storage, Shurgard and the terms of the proposed transaction. Representatives of Goldman Sachs made a presentation to the board regarding Goldman Sachs financial analysis of the proposed transaction, which addressed matters set forth in *Opinion of Public Storage s Financial Advisor*. After the presentation, representatives of Goldman Sachs engaged in a discussion with the board about the financial analysis. Public Storage s senior management also apprised the

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board of the results of its due diligence investigations of Shurgard. Wachtell, Lipton, Rosen & Katz, counsel to Public Storage, discussed with the board the legal standards applicable to its decisions and actions with respect to the proposed transaction and reviewed the legal terms of the proposed merger. Following these presentations, the board meeting continued with discussions and questions among the members of the board, management and Public Storage s legal and financial advisors. After further discussion, and taking into consideration the factors described under *Public Storage s Reasons for the Merger* and *Recommendation of Public Storage s Board of Directors*, the directors present authorized Public Storage to enter into a merger agreement with Shurgard on substantially the terms presented to it at the meeting, subject to the receipt of the written opinion of Goldman Sachs as to the fairness from a financial point of view to Public Storage of the exchange ratio in the merger. The board then directed members of Public Storage s senior management and Public Storage s legal and financial advisors to finalize the terms of the proposed merger agreement and agreed to reconvene in the coming days.

During the course of the negotiations between Shurgard and Public Storage, representatives of Shurgard requested access to certain business and financial information about Public Storage. On February 27, 2006, Shurgard entered into a confidentiality agreement with Public Storage in which Shurgard agreed to refrain from disclosing certain confidential information received from Public Storage. Between February 27, 2006 and March 2, 2006, Shurgard and its legal and financial advisors conducted a due diligence investigation of Public Storage s business and financial condition. As part of this investigation, on February 28, 2006, Shurgard s financial advisors met with Mr. Havner and other members of Public Storage s senior management in Glendale, California.

On February 25, 2006, at the instruction of the Shurgard independent directors, Messrs. Barbo and Grant were informed by Shurgard s legal counsel as to the advanced status of the negotiations with Public Storage, but were not informed as to the economic terms of Public Storage s then current proposal, and it was requested that they assist the rest of the management team in attempting to finalize a transaction with Public Storage. Messrs. Barbo and Grant each agreed to not disclose to the other members of their acquisition group any information obtained through these discussions or in providing this assistance (including in connection with participating in meetings of the Shurgard board of directors). On February 28, 2006, Messrs. Barbo and Grant were invited to participate in the meeting of the Shurgard board of directors to be held that day. Later that day, the entire Shurgard board of directors except for Mr. Calhoun met via teleconference with Shurgard s legal and financial advisors to discuss the current status of the negotiations with Public Storage. After extensive discussions, the independent directors then met separately with Shurgard s legal advisors to discuss further these matters.

On March 2, 2006, the Public Storage board of directors again met with members of Public Storage s senior management and Public Storage s legal and financial advisors. Mr. Havner and other members of Public Storage s senior management updated the board on the status of negotiations between the two companies. Representatives from Goldman Sachs noted that Shurgard had lowered its FFO estimate for 2006 and then made a presentation to the Public Storage board of directors regarding Goldman Sachs financial analysis of the proposed transaction. Goldman Sachs noted that its analysis had been updated since the meeting on February 24, 2006 but was substantially unchanged. Wachtell, Lipton, Rosen & Katz provided an update on the merger agreement and other legal and due diligence matters. The board meeting continued with discussions and questions among the members of the board, management and Public Storage s legal and financial advisors. After further discussion, the directors present reaffirmed their approval of the merger with Shurgard, subject to the receipt of the written opinion of Goldman Sachs as to the fairness from a financial point of view to Public Storage of the exchange ratio in the merger.

Also on March 2, 2006, all members of the Shurgard board of directors except for Mr. Calhoun met with Shurgard s legal and financial advisors to review the current status of the proposed transaction with Public Storage. Shurgard s legal advisors reviewed with the Shurgard board the key provisions and terms of the proposed merger and unresolved points of negotiation in the draft merger agreement and addressed directors questions with respect thereto. Shurgard s financial advisors discussed with the board the nature of the due diligence that they had performed on Public Storage. The financial advisors also reviewed their preliminary

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financial analysis of the proposed exchange ratio and each informed the board that, assuming no material changes in the terms of the merger or in the information considered in connection with their financial analysis, it believed it would be in a position to render to the board, at the time the board approved the merger, an opinion to the effect that, as of the date of its opinion and based on and subject to the matters described in its opinion, the proposed exchange ratio was fair, from a financial point of view, to the holders of Shurgard s common stock, other than Public Storage, Merger Sub and their respective affiliates. The board then asked Mr. Barbo and Mr. Grant for their views on the proposed transaction with Public Storage. The board also asked Mr. Barbo, in connection with the possible execution of a merger agreement by Shurgard with Public Storage, to enter into an agreement, pursuant to which he would agree to vote all of the shares of Shurgard common stock owned by him in favor of a merger with Public Storage, to which he subsequently agreed. The independent directors then met separately with Shurgard s legal advisors to discuss further the proposed merger with Public Storage.

Later on March 2, 2006, Shurgard and Public Storage agreed that if they did not enter into a definitive merger agreement by 11:59 p.m. on Sunday, March 5, 2006, Public Storage would have at least twenty business days from that date to validly nominate candidates to be elected as Shurgard directors at the next meeting of Shurgard s shareholders at which directors were to be elected. At that time, the proposed exchange ratio of 0.82 of a share of Public Storage common stock for each outstanding share of Shurgard common stock would be worth $64.18 per share, as compared with the then-current Shurgard common stock price, which closed at $63.70 on March 2, 2006, based on the closing price of Public Storage common stock on that date.

On March 2 and March 3, 2006, members of senior management of both Public Storage and Shurgard spoke to discuss remaining due diligence issues and to discuss the operating covenants in the draft of the merger agreement.

On the evening of March 3, 2006, the acquisition group of which Messrs. Barbo and Grant were a part submitted a revised bid for the acquisition of Shurgard s European operations, which bid was lower than the bid previously submitted.

At 12:00 p.m. on March 5, 2006, all members of the Shurgard board of directors, together with Shurgard s legal and financial advisors, met via teleconference to discuss the revised bid for Shurgard s European operations by the acquisition group of which Messrs. Barbo and Grant were a part. The independent directors then met separately with Shurgard s legal counsel and determined that, based in part on the revised bid for Shurgard s European operations from the acquisition group of which Messrs. Barbo and Grant were a part and the then current value of the proposed transaction with Public Storage for the entire company (representing a value of approximately $64.26 per share of Shurgard common stock, based on the closing price of Public Storage common stock on March 3, 2006, the last prior trading day, as compared with the then-current Shurgard common stock price, which closed at $63.42 on that date), a separate sale of Shurgard s European operations (together with a subsequent merger or sale transaction of Shurgard s U.S. operations to Public Storage or another third party, or with the U.S. operations remaining as a standalone company) would be unlikely to yield a higher value for Shurgard shareholders than the proposed merger with Public Storage. The independent directors determined that, pending resolution of negotiations with Public Storage, Shurgard should take no further action with respect to the revised bid from the acquisition group of which Messrs. Barbo and Grant were a part. The Shurgard board then discussed the status of negotiations with Public Storage. The board requested that it be updated regularly on the status of these negotiations throughout the afternoon and evening of March 5, 2006. Accordingly, the board convened three additional teleconference meetings at which Shurgard s legal and financial advisors updated the board on the status of negotiations. Throughout the night of March 5, 2006 Public Storage s and Shurgard s respective legal advisors and senior management teams continued to negotiate the unresolved issues in the draft merger agreement.

On the morning of March 6, 2006, all members of the Shurgard board of directors except for Messrs. Calhoun and Fox again convened by teleconference, together with Shurgard s legal and financial advisors, and received updates on the negotiations with respect to the merger agreement. At a meeting of the

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independent directors of Shurgard held at 7:30 p.m. on the evening of March 6, 2006, at which all of the independent directors were present except for Mr. Behar, the Shurgard board of directors received confirmation from Shurgard s senior management team and Shurgard s legal advisors that the merger agreement had been finalized. Shurgard s legal advisors then reviewed with the directors the fiduciary duties applicable to the board s decisions and other legal matters relating to the proposed merger agreement. Also at this meeting, Shurgard s financial advisors updated their financial analysis of the exchange ratio preliminarily reviewed with the board on March 2, 2006 and each rendered to Shurgard s board of directors an oral opinion, which was confirmed by delivery of a written opinion dated March 6, 2006, to the effect that, as of that date and based on and subject to the matters described in such opinion, the exchange ratio provided for in the merger agreement was fair, from a financial point of view, to the holders of Shurgard common stock, other than Public Storage, Merger Sub and their respective affiliates. The meeting continued with discussion among the members of the board, management and Shurgard s legal and financial advisors. After further discussion, and taking into consideration the factors described under *Shurgard s Reasons for the Merger and Recommendation of Shurgard s Board of Directors*, the Shurgard board of directors approved the merger with Public Storage and authorized management to enter into the merger agreement on substantially the terms presented to it.

Also on the morning of March 6, 2006, representatives of Goldman Sachs circulated to the Public Storage board of directors Goldman Sachs financial analysis of the proposed transaction and delivered Goldman Sachs oral opinion to Mr. Havner, subsequently confirmed in writing, to the effect that, as of the date of the written fairness opinion and based on and subject to the factors and assumptions set forth therein, the exchange ratio of 0.82 shares of Public Storage common stock to be issued in exchange for each share of Shurgard common stock pursuant to the merger agreement was fair from a financial point of view to Public Storage.

On the evening of March 6, 2006, Public Storage and Shurgard entered into the merger agreement, and issued a joint press release with respect thereto on March 7, 2006.

Public Storage s Reasons for the Merger and Recommendation of Public Storage s Board of Directors

The Public Storage board of directors has approved the merger agreement and determined that the transactions contemplated by the merger agreement are advisable and fair to, and in the best interests of, Public Storage and its shareholders. Public Storage s board of directors recommends that Public Storage shareholders vote FOR the approval of the merger agreement and the transactions contemplated thereby, including the issuance of Public Storage common stock.

In reaching its conclusion to approve the merger agreement and the transactions contemplated by the merger agreement, including the issuance of Public Storage common stock, and to recommend that Public Storage shareholders approve the merger agreement and the transactions contemplated by the merger agreement, including the issuance of Public Storage common, the Public Storage board considered the following factors as generally supporting its decision to enter into the merger agreement.

Strategic Considerations. The Public Storage board believes that the merger will provide a number of significant strategic opportunities and benefits, including the following, all of which it viewed as generally supporting its decision:

The combination, by increasing the net rentable square feet of Public Storage s self-storage facilities in the United States by approximately 36%, will further solidify Public Storage s position as the largest owner and operator of self-storage facilities in the United States;

The combined company will eliminate duplicative general and administrative expenses and should eliminate certain other duplicative expenses in the United States, such as yellow page advertisements, as well as improve cost efficiencies of certain support functions, such as human resources, payroll and national telephone reservation system resulting in economies of scale and cost efficiencies. These amounts were not quantified for the board s consideration and the board did not address the specific timing of the future benefits;

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With Shurgard s existing European portfolio and an in-place infrastructure and management team, the combination will provide Public Storage with a platform for international expansion, which would provide Public Storage with geographic and financial diversification;

A taxable combination will provide Public Storage with a step-up in basis in Shurgard s assets, providing for increased depreciation deductions to facilitate internal growth; and

The acquisition will increase Public Storage s equity market capitalization, which may increase the liquidity for Public Storage shareholders and potentially enhance Public Storage s long-term financial flexibility.

Other Factors Considered by the Public Storage Board of Directors. In addition to considering the strategic factors outlined above, the Public Storage board of directors considered the following additional factors, all of which it viewed as generally supporting its decision to approve the merger:

Historical information concerning Shurgard s and Public Storage s respective businesses, financial performance and condition, operations, management, competitive positions and stock performance, which comparisons generally informed the Public Storage board of directors determination as to the relative values of Shurgard, Public Storage and the combined companies;

The results of the due diligence review of Shurgard s businesses and operations;

The presentation by representatives of Goldman Sachs, and Goldman Sachs oral opinion, subsequently confirmed in writing, to the effect that, as of the date of the written fairness opinion and based upon and subject to the factors and assumptions set forth therein, the exchange ratio of 0.82 shares of Public Storage common stock to be issued in exchange for each share of Shurgard common stock pursuant to the merger agreement was fair from a financial point of view to Public Storage (the written opinion of Goldman Sachs is attached as Annex D to this joint proxy statement/prospectus and discussed in detail under *Opinion of Public Storage s Financial Advisor*); and

Management s assessment that the proposed merger was likely to meet certain criteria they deemed necessary for a successful merger strategic fit, acceptable execution risk, and financial benefits to Public Storage and its shareholders.

Potential Risks Considered by the Public Storage Board. Public Storage s board of directors also considered the potential risks of the merger including the following:

The Shurgard debt to be assumed or repaid by Public Storage in the combination, the borrowings required in connection with the redemption of Shurgard preferred stock and the out-of-pocket costs incurred in the transaction would increase Public Storage s indebtedness by about $2 billion in the absence of Public Storage raising additional capital, including issuances of preferred stock;

The size of the transaction may make integration of Public Storage and Shurgard difficult, expensive and disruptive, affecting the combined company s earnings, and implementation of merger integration efforts may divert management s attention from other strategic priorities;

Shurgard s European operations have not been profitable to date and may not become profitable, and the acquisition of Shurgard s European properties may create currency risks, potentially adverse tax burdens, burdens of complying with a variety of foreign laws, obstacles to the repatriation of earnings and cash, local, regional and national political uncertainty, economic slowdown and/or downturn in foreign markets, and potential difficulties in staffing and managing international operations;

As a share of overall operations, particularly in Europe, Shurgard has more recently developed properties whose occupancies have not stabilized and more construction activity than Public Storage, and delays in construction and fill up could create additional costs and expenses;

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As a share of overall operations, particularly in Europe, Shurgard has more joint venture facilities and more facilities located on leased land than Public Storage. Joint venture facilities and leased facilities present additional risks, such as loss of control or additional financial commitments in respect of the facilities;

As a result of the combination, some of Shurgard s facilities could be subject to property tax reappraisal; and

The merger will be dilutive to Public Storage shareholders as described under *Risk Factors Risks Relating to the Merger and Public Storage s Business Public Storage shareholders will incur immediate dilution*.

The foregoing discussion of the information and factors considered by the Public Storage board of directors is not meant to be exhaustive but is believed to include all material factors considered by it in connection with its determination that the merger is in the best interests of Public Storage and its shareholders. In view of the wide variety of factors considered in connection with its evaluation of the merger and the complexity of these matters, the Public Storage board of directors did not find it useful, and did not attempt, to quantify, rank or otherwise assign relative weights to these factors. In considering the factors described above, individual members of the Public Storage board of directors may have given different weight to different factors (except as noted above, the anticipated negative impact on Public Storage was not quantified). The Public Storage board of directors conducted an overall analysis of the factors described above, including thorough discussions with Public Storage s management and Public Storage s legal and financial advisors, and considered the factors overall to be favorable to, and to support, its determination.

Opinion of Public Storage s Financial Advisor

Goldman Sachs delivered its opinion to the Public Storage board of directors that, as of the date of the written fairness opinion and based upon and subject to the factors and assumptions set forth therein, the exchange ratio of 0.82 shares of Public Storage common stock to be issued in exchange for each share of Shurgard common stock pursuant to the merger agreement was fair from a financial point of view to Public Storage.

The full text of the written opinion of Goldman Sachs, dated March 6, 2006, which sets forth assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Annex D to this joint proxy statement/prospectus. Goldman Sachs provided its opinion for the information and assistance of the Public Storage board of directors in connection with its consideration of the merger. The Goldman Sachs opinion is not a recommendation as to how any holder of the Public Storage common stock should vote with respect to the merger.

In connection with rendering the opinion described above and performing its related financial analyses, Goldman Sachs reviewed, among other things:

the merger agreement;

annual reports to stockholders and Annual Reports on Form 10-K of Public Storage and Shurgard for the five fiscal years ended December 31, 2004;

certain interim reports to stockholders and Quarterly Reports on Form 10-Q of Public Storage and Shurgard;

certain other communications, including proxy statements, current reports on Form 8-K and press releases, from Public Storage and Shurgard to their respective stockholders;

certain internal financial analyses and forecasts for Shurgard prepared by its management, as reviewed and approved for use by Goldman Sachs by the management of Public Storage (the Forecasts);

certain internal financial analyses for Public Storage prepared by the management of Public Storage; and

certain research analyst estimates of the future performance of Public Storage.

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Goldman Sachs also held discussions with members of the senior managements of Public Storage and 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 Public Storage regarding their assessment of the strategic rationale for, and the potential benefits of, the merger and the past and current business operations, financial condition, and future prospects of Public Storage. In addition, Goldman Sachs reviewed the reported price and trading activity for the shares of Public Storage common stock and the shares of Shurgard common stock, compared certain financial and stock market information for Public Storage 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 it considered appropriate.

Goldman Sachs relied upon the accuracy and completeness of all of the financial, accounting, legal, tax and other information discussed with or reviewed by it and assumed such accuracy and completeness for purposes of rendering the opinion described above. In that regard, Goldman Sachs assumed with the consent of Public Storage that the Forecasts have been reasonably prepared by Shurgard and reflect the best currently available estimates and judgments of Public Storage and Shurgard, as the case may be. As instructed by Public Storage, for purposes of rendering its opinion, Goldman Sachs review of the expected future financial performance of Public Storage included discussions with the senior management of Public Storage regarding certain research analyst estimates of the future financial performance of Public Storage and certain internal financial analyses for Public Storage prepared by the management of Public Storage and Goldman Sachs review of such research analyst estimates and such internal financial analyses. Goldman Sachs has also assumed that all governmental, regulatory or other consents and approvals necessary for the consummation of the merger will be obtained without any adverse effect on Public Storage or Shurgard or on the expected benefits of the merger in any way meaningful to its analysis. In addition, Goldman Sachs has not made an independent evaluation or appraisal of the assets and liabilities (including any contingent, derivative or off-balance sheet assets and liabilities) of Public Storage, Shurgard or any of their respective subsidiaries and has not been furnished with any such evaluation or appraisal.

Goldman Sachs opinion does not address the underlying business decision of Public Storage to engage in the merger, nor is Goldman Sachs expressing any opinion as to the prices at which shares of Public Storage common stock will trade at any time. The opinion described above is necessarily based on economic, monetary, market and other conditions as in effect on, and the information made available to Goldman Sachs as of, the date thereof. Goldman Sachs advisory services and the opinion described above were provided for the information and assistance of the board of directors of Public Storage in connection with its consideration of the merger and such opinion does not constitute a recommendation as to how any holder of shares of Public Storage common stock should vote with respect to the merger.

The following is a summary of the material financial analyses delivered by Goldman Sachs to the board of directors of Public Storage in connection with rendering the opinion described above. The following summary, however, does not purport to be a complete description of the financial analyses performed by Goldman Sachs, nor does the order of analyses described represent relative importance or weight given to those analyses by Goldman Sachs. Some of the summaries of the financial analyses include information presented in tabular format. The tables must be read together with the full text of each summary and are alone not a complete description of Goldman Sachs financial analyses. Except as otherwise noted, the following quantitative information, to the extent that it is based on market data, is based on market data as it existed on or before March 3, 2006 and is not necessarily indicative of current market conditions.

Exchange Ratio Analysis.

Goldman Sachs calculated the historical exchange ratios of Shurgard common stock to Public Storage common stock: (i) based on the closing prices of Shurgard common stock and Public Storage common stock on March 3, 2006, (ii) based on the average closing prices of Shurgard common stock and Public Storage common stock during the one-year period ending March 3, 2006, (iii) based on the closing prices of Shurgard common

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stock and Public Storage common stock on July 29, 2005, the last trading day prior to Public Storage s public announcement of its proposal to acquire all of the outstanding common stock of Shurgard, (iv) based on the average closing prices of Shurgard common stock and Public Storage common stock during the period from the announcement by Public Storage of its proposal to acquire all of the outstanding common stock of Shurgard on August 1, 2005 until March 3, 2006 and (v) based on the average closing prices of Shurgard common stock and Public Storage common stock during the period from the release by Public Storage of its 2005 Fourth Quarter results on February 7, 2006 until March 3, 2006.

In addition, Goldman Sachs calculated the implied exchange ratios of Shurgard common stock to Public Storage common stock based on certain research analysts estimates of net asset value (NAV) per share of common stock for both companies.

Goldman Sachs also calculated the implied exchange ratio of Shurgard common stock to Public Storage common stock based on an illustrative dividend discounted cash flow analysis. The illustrative dividend discounted cash flow analysis was based on projected dividend payments per share of Public Storage common stock and Shurgard common stock for the three years from 2006 through 2008 and illustrative residual values based on multiples of 20.0x 2008E funds from operations (FFO) per share of common stock of Public Storage and Shurgard. The projected dividend payments and the illustrative residual values derived from this analysis were then discounted to an illustrative present value using discount rates of 11.0% for Public Storage and 10.0% for Shurgard. This analysis was based on the Forecasts for Shurgard and principally on research analyst forecasts for Public Storage.[(1)] The following table presents the results of these analyses:

Exchange Ratio Summary (per share amounts)

	Shurgard	Public Storage	Implied Exchange Ratio
Current Share Price (3-Mar-06)	$ 63.42	$ 78.36	0.8093 x
1 Year Average Share Price	$ 51.29	$ 65.52	0.7828 x
29-Jul-2005 Stock Prices	$ 46.90	$ 66.75	0.7026 x
Average Stock Price Since Announcement (1-Aug-05 Onwards)	$ 56.93	$ 68.84	0.8270 x
Average Since Public Storage 4Q 2005 Results (7-Feb-06 Onwards)	$ 62.60	$ 76.21	0.8214 x
Consensus NAV	$ 52.69	$ 58.00	0.9085 x
Green Street NAV	$ 53.00	$ 59.50	0.8908 x
Dividend DCF	$ 55.69	$ 72.74	0.7657 x

(1) Public Storage 2006E dividend based on 2005 fourth quarter dividend annualized. Public Storage 2007E-2008E dividends based on a constant 2005 FFO payout ratio. Public Storage 2008E FFO based on 2007 estimates for FFO per share grown at average 2005-2007 FFO growth rate.

Illustrative Dividend Discount Analysis.

Goldman Sachs performed an illustrative dividend discount analysis in order to generate illustrative indications of the implied present value per share of each of Shurgard common stock and Public Storage common stock based on the projected future dividend stream of each of Shurgard and Public Storage during the years 2006 through 2008.

For Shurgard, the illustrative dividend discount analysis was based on the Forecasts. The analysis was based on a range of discount rates from 9.0% to 12.0% and a terminal value of Shurgard s common stock based on a forward FFO multiple range of 19.0x to 22.0x, applied to Shurgard s estimated 2008E FFO. The results of this analysis are presented below:

	Illustrative Per Share Value Indications	
Shurgard	$50.50	$62.32

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For Public Storage, the illustrative dividend discount analysis was based on research analyst estimates for 2006E and 2007E FFO and on an estimated 2008E FFO obtained by applying average FFO per share growth rates for 2005-2007 to the 2007E FFO estimate. Public Storage dividend forecasts were estimated by annualizing the fourth quarter 2005 dividend for 2006E and by applying the 2005 FFO dividend payout ratio to 2007E-2008E FFO estimates for 2007E and 2008E dividends. The analysis was based on a range of discount rates from 10.0% to 13.0% and a terminal value of Public Storage s common stock based on a forward FFO multiple range of 19.0x to 22.0x, applied to Public Storage s estimated 2008 FFO. The results of this analysis are presented below:

	Illustrative Per Share Value Indications	
Public Storage	$65.84	$81.61

Contribution Analysis.

Goldman Sachs analyzed and compared the relative contributions to be made by each of Public Storage, based on research analyst forecasts, and Shurgard, based on the Forecasts to the 2006E earnings before interest, tax, depreciation, and amortization (EBITDA) and FFO of the combined company following the merger, assuming no synergies or cost savings.

For comparison purposes, Goldman Sachs then calculated the relative implied ownership of the combined company based on Public Storage s closing stock price on March 3, 2006 of $78.36 and using the exchange ratio of 0.82 shares of Public Storage common stock to be issued in exchange for each share of Shurgard common stock pursuant to the merger agreement. The following table presents the results of this analysis:

Contribution Analysis

2006E	Shurgard %	Public Storage %
FFO	19.30%	80.70%
EBITDA[(1)]	25.79%	74.21%
Shares - 0.82x Exchange Ratio	23.45%	76.55%

(1) EBITDA was derived from research analyst forecasts for Public Storage and the Forecasts for Shurgard.

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Historical Stock Trading Analysis.

Based on the closing price of Public Storage common stock on March 3, 2006, and the exchange ratio of 0.82 shares of Public Storage common stock to be issued in exchange for each share of Shurgard common stock pursuant to the merger agreement, Goldman Sachs calculated the implied purchase price to be received for each share of Shurgard common stock in the merger. Goldman Sachs then calculated the premium of this implied purchase price relative to the average closing prices of Shurgard common stock during the one-week, one-month, three-month, six-month, one-year, two-year, three-year and five-year periods ending March 3, 2006, and the March 3, 2006 and July 29, 2005 closing price for shares of Shurgard common stock. The following table presents the results of this analysis:

Share Premium Analysis

0.82x Exchange Ratio Implied Purchase Price of $64.26

Time Period	Shurgard Share Price	Transaction Premium 0.82x / $64.26
As of March 3, 2006	$ 63.42	1.3%
As of July 29, 2005	$ 46.90	37.0%
1-Week Average	$ 63.72	0.8%
1-Month Average	$ 62.32	3.1%
3-Month Average	$ 59.99	7.1%
6-Month Average	$ 57.63	11.5%
1-Year Average	$ 51.29	25.3%
2-Year Average	$ 45.23	42.1%
3-Year Average	$ 41.75	53.9%
5-Year Average	$ 37.50	71.3%

Selected Transactions Analysis.

Goldman Sachs analyzed certain information relating to the following public transactions in the REIT industry that have closed since February 28, 2005, and that involved the use of common stock as consideration for the acquisition:

Prentiss Properties Trust sale to Brandywine Realty Trust, effective as of January 5, 2006

Catellus Development Corporation sale to ProLogis, effective as of September 15, 2005

Cornerstone Realty Income Trust, Inc. sale to Colonial Properties Trust, effective as of April 1, 2005

Summit Properties Inc. sale to Camden Property Trust, effective as of February 28, 2005

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For each of the selected transactions and for the proposed merger, Goldman Sachs compared the price per share paid in the transaction to: (i) the closing price of the target s common stock on the day before the announcement of the transaction, (ii) the average closing price of the target s common stock during the one-month period prior to the announcement of the transaction, (iii) the average closing price of the target s common stock during the three-month period prior to the announcement of the transaction, (iv) the Street Average NAV estimates for the target and (v) the Green Street NAV estimates for the target. For each of the selected transactions, Goldman Sachs also calculated the forward FFO multiple based on Institutional Brokers Estimate System median FFO estimates, and for the proposed merger, Goldman Sachs also calculated the forward FFO multiple based on the Forecasts for Shurgard. The following table presents the results of this analysis:

Selected Public REIT Transactions (assumes $64.26 purchase price per share of Shurgard common stock)

		Selected Transactions			
	Shurgard (0.82x)	**Prentiss Properties**	**Catellus**	**Cornerstone**	**Summit Properties**
Premium on Announcement	**1.3%**	5.8%	16.3%	8.2%	14.0%
Premium to 30-day Average	**3.1%**	9.5%	18.8%	10.2%	16.9%
Premium to 90-day Average	**7.1%**	11.9%	22.1%	15.8%	20.6%
Premium to Street Average NAV[(1)]	**21.9%**	22.2%	6.6%	6.3%	28.8%
Premium to Green Street NAV[(2)]	**21.2%**	4.8%	12.6%	22.8%	9.0%
Transaction 1 Year FFO Multiple	**26.1x**	14.5x	20.9x	13.3x	17.6x

(1) Reflects the average of research analyst NAV estimates for Shurgard and SNL Interactive estimates for selected transactions.

(2) Represents premium of offer price to Green Street NAV, except for Catellus transaction, which represents premium of price on day prior to announcement of the transaction to Green Street NAV.

Implied Capitalization Rate and Implied Value per Square Foot Analysis.

Goldman Sachs calculated Shurgard s implied capitalization rate on 2006E net operation income (NOI) based on: (i) the exchange ratio of 0.82 shares of Public Storage common stock to be issued in exchange for each share of Shurgard common stock pursuant to the merger agreement, (ii) the number of shares of Shurgard common stock outstanding, on a fully diluted basis, (iii) the March 3, 2006 closing price for shares of Public Storage common stock, (iv) relevant preliminary balance sheet data for Shurgard as of December 31, 2005 and (v) relevant preliminary income statement data for Shurgard for the year ended December 31, 2005. Shurgard s 2006E NOI was based on the Forecasts. The following table presents the results of this analysis:

Capitalization Rate Analysis ($ in millions)

	Shurgard as of 12/31/05
Exchange Ratio	0.82 x
Total Market Capitalization & Other Liabilities	$ 5,426.6
Net Value of Non-Operating Assets	$ 142.2
Net Value of Other Income	$ 25.1
Implied Gross Operating Asset Value (Market Cap + Other Liab. Other Assets Other Inc.)	$ 5,079.0
Implied Cap Rate on 2006E NOI	5.6%

Goldman Sachs also calculated and compared the value per square foot of real estate owned by Shurgard (excluding fee-managed properties) and Public Storage (excluding non self-storage center operations), respectively, based on: (i) the exchange ratio of 0.82 shares of Public Storage common stock to be issued in

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exchange for each share of Shurgard common stock pursuant to the merger agreement, (ii) the number of shares of Shurgard and Public Storage common stock outstanding, on a fully diluted basis, (iii) the March 3, 2006 closing price for shares of Public Storage common stock, (iv) relevant preliminary balance sheet data for Shurgard and balance sheet data for Public Storage as of December 31, 2005 and (v) the square footage of real estate owned by Shurgard (excluding fee-managed properties) and the approximate square footage of real estate owned by Public Storage (excluding non self-storage center operations), as of December 31, 2005. The following table presents the results of this analysis:

Value per Square foot Analysis ($ in millions, except square feet)

	Shurgard at 0.82x Exchange Ratio	Public Storage
Total Market Capitalization	$ 5,246.3	$ 12,795.3
Applicable Square Feet (000 s)	39,776.0	92,000.0
Value Per Square Foot	$ 131.9	$ 139.1

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analyses or of the summary set forth above, without considering the analyses as a whole, could create an incomplete view of the processes underlying Goldman Sachs opinion. In arriving at its fairness determination, Goldman Sachs considered the results of all of its analyses and did not attribute any particular weight to any factor or analysis considered by it. Rather, Goldman Sachs made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all of its analyses. No company or transaction used in the above analyses as a comparison is directly comparable to Public Storage, Shurgard or the contemplated merger.

Goldman Sachs prepared these analyses for purposes of Goldman Sachs providing its opinion to the board of directors of Public Storage as to the fairness from a financial point of view to Public Storage of the exchange ratio of 0.82 shares of Public Storage common stock to be issued in exchange for each share of Shurgard common stock pursuant to the merger agreement. These analyses do not purport to be appraisals nor do they necessarily reflect the prices at which businesses or securities actually may be sold. Analyses based upon forecasts of future results are not necessarily indicative of actual future results, which may be significantly more or less favorable than suggested by these analyses. Because these analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors, none of Public Storage, Shurgard, Goldman Sachs or any other person assumes responsibility if future results are materially different from those forecasted.

The exchange ratio of 0.82 shares of Public Storage common stock to be issued in each for each share of Shurgard common stock was determined through arms -length negotiations between Public Storage and Shurgard and was approved by the board of directors of Public Storage. Goldman Sachs provided advice to Public Storage during these negotiations. Goldman Sachs did not, however, recommend any specific exchange ratio to Public Storage or its board of directors or that any specific exchange ratio constituted the only appropriate exchange ratio for the merger.

As described above, Goldman Sachs opinion to the board of directors of Public Storage was one of many factors taken into consideration by the board of directors of Public Storage in making its determination to approve the merger. The foregoing summary does not purport to be a complete description of the analyses performed by Goldman Sachs in connection with its fairness opinion and is qualified in its entirety by reference to the written opinion of Goldman Sachs attached as Annex D.

Goldman Sachs 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

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securities, private placements and other transactions as well as for estate, corporate and other purposes. Goldman Sachs has acted as financial advisor to Public Storage in connection with, and have participated in certain of the negotiations leading to, the contemplated merger. In addition, Goldman Sachs has provided certain investment banking services to Public Storage 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 Public Storage 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 Public Storage in November 2003, (iii) co-managing underwriter of a public offering of 4,000,000 depositary shares of 6.25% Series Z Cumulative Preferred Stock of Public Storage 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 Public Storage 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 Public Storage 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 Public Storage 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 Public Storage in December 2005, (viii) co-managing underwriter of a public offering of 4,000,000 depositary shares of 6.95% Series H Cumulative Preferred Stock of Public Storage in January 2006 and (ix) co-managing underwriter of a public offering of 18,000,000 depositary shares of 7.25% Series I Cumulative Preferred Stock of Public Storage in April 2006. Goldman Sachs also may provide investment banking services to Public Storage, Shurgard and their respective affiliates in the future. In connection with the above-described services Goldman Sachs has received, and may receive, compensation. The aggregate fees received by Goldman Sachs from the investment banking services it rendered to Public Storage and its affiliates as described above were approximately $464 thousand (excluding fees in connection with the merger).

Goldman Sachs 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 and its affiliates may provide such services to Public Storage, Shurgard and their respective affiliates, may actively trade the debt and equity securities (or related derivative securities) of Public Storage, 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.

The board of directors of Public Storage selected Goldman Sachs as its financial advisor because it is an internationally recognized investment banking firm that has substantial experience in transactions similar to the merger. Pursuant to a letter agreement dated August 16, 2005, Public Storage engaged Goldman Sachs to act as its financial advisor in connection with the merger. Pursuant to the terms of this engagement letter, Public Storage has agreed to pay Goldman Sachs a transaction fee of $7 million, all of which is payable upon consummation of the merger. In addition, Public Storage has agreed to reimburse Goldman Sachs for its expenses, including attorneys fees and disbursements, and to indemnify Goldman Sachs and related persons against various liabilities, including certain liabilities under the federal securities laws.

Shurgard s Reasons for the Merger and Recommendation of Shurgard s Board of Directors

Shurgard s board of directors approved the merger agreement and the transactions contemplated by the merger agreement, including the merger, on March 6, 2006, and determined that the transactions contemplated by the merger agreement are advisable and fair to, and in the best interests of, Shurgard and its shareholders. Shurgard s board of directors recommends that you vote FOR the approval of the merger agreement and the transactions contemplated by the merger agreement, including the merger and FOR approval of adjournments or postponements of the special meeting.

In reaching its decision to approve the merger agreement and the merger and recommend that Shurgard s shareholders vote to approve the merger agreement and the transactions contemplated thereby, the Shurgard board of directors considered a number of factors, including the following:

Completion of Strategic Alternatives Process. The Shurgard board of directors, with the assistance of outside advisors, conducted a comprehensive strategic alternatives process designed to maximize value

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to Shurgard s shareholders. In conducting this strategic alternatives process, the Shurgard board of directors evaluated strategic alternatives reasonably available to Shurgard, including a sale of Shurgard, the formation of one or more asset joint ventures with strategic partners, a sale of certain of Shurgard s assets or operations, and continued implementation of Shurgard s strategic business plan.

Market Price. The Shurgard board of directors considered the value of the merger consideration to be received by Shurgard s shareholders in the merger, and noted that, based upon the closing price of Public Storage s common stock on March 6, 2006, the exchange ratio of 0.82 of a share of Public Storage common stock for each share of Shurgard common stock represented a premium of approximately 39% over Shurgard s closing stock price on July 29, 2005, the last trading day prior to Public Storage s publicized acquisition proposal, and a premium of approximately 52% over the average closing price of Shurgard s common stock during the six months prior to Public Storage s publicized acquisition proposal.

Form of Merger Consideration. The Shurgard board of directors considered that the all-stock merger consideration will permit Shurgard s shareholders to exchange their shares of Shurgard common stock for shares of Public Storage common stock and retain an equity interest in the combined enterprise with the related opportunity to share in its future growth, synergies from the combination and any economies of scale. The Shurgard board of directors also reviewed Public Storage s current and historical results of operations, the trading prices for Public Storage common stock and considered its future prospects.

Terms of the Merger Agreement. The Shurgard board of directors, with the assistance of its legal advisors, reviewed the terms of the merger agreement, the termination fees of $125 million payable under certain circumstances described below and the outside termination date of December 31, 2006. In addition, the Shurgard board of directors considered the ability of Shurgard s management and employees to continue to run the business consistent with past practices in the period between the signing of the merger agreement and the closing of the merger.

Likelihood of Consummation of the Merger. The Shurgard board of directors considered the likelihood of consummation of the merger, including the terms and conditions of the merger agreement and the conditions to the consummation of the merger.

Business, Condition and Prospects. The Shurgard board of directors considered information with respect to Shurgard s financial condition, results of operations, business, competitive position, relationships with regulators, outstanding legal proceedings and business prospects, on both a historical and prospective basis, as well as current industry, economic, government regulatory and market conditions and trends.

Improved Liquidity. The Shurgard board of directors considered the fact that the combined company would have a significantly larger market capitalization resulting in an enhanced ability for current Shurgard shareholders to sell their shares of common stock of the combined company.

Financing Related to the Merger. The Shurgard board of directors considered the fact that the merger with Public Storage would not be contingent on any financing condition.

Strategic Advantages. The Shurgard board of directors considered the fact that the merger with Public Storage would offer numerous strategic advantages to Shurgard s shareholders going forward, including:

- the ability to participate in expanded growth opportunities as a result of forming the largest self-storage owner/operator in the world, with significant platforms in the U.S. and Europe suitable for continued expansion;

the ability to derive enhanced property and geographical diversification in the United States and an enlarged footprint improving the risk profile of the combined company s property portfolio;

enhanced access to capital through a combination with a larger entity with stronger credit ratings and less financial leverage than Shurgard;

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the taxable nature of the merger would create a step-up in the tax basis of Shurgard s assets so as to enhance the combined company s growth prospects through the retention of free cash flow (see also the potential tax risks arising from the taxable nature of the merger, discussed below under *Potential Risks*);

the ability to derive significant synergies, including the ability to lower the combined company s general and administrative costs through the elimination of redundancies in back office support staff, executive infrastructure and the reduction in compliance costs related to the Sarbanes-Oxley Act of 2002;

the ability to lower the combined company s operating costs through the implementation of scalable financial systems, realization of economies of scale in media, call centers and supervisory personnel, and the reduction in duplicate expenses of advertising and management information systems; and

the ability of the combined company to increase revenues through participation in national media and promotional programs and the expansion of ancillary businesses, such as tenant reinsurance.

Ability to Accept a Superior Proposal Upon Payment of a Termination Fee. The Shurgard board of directors considered Shurgard s ability to terminate the merger agreement under certain circumstances prior to shareholder approval of the merger agreement in order to enter into an alternative transaction in response to a superior proposal. In this regard, Shurgard may not solicit competing offers and would be required to pay a $125 million termination fee in connection with accepting a superior proposal.

Potential Risks. The Shurgard board of directors considered a number of potential risks, as well as related mitigating factors, in connection with its evaluation of the merger, including:

the possibility that the merger might not be completed as a result of the failure to satisfy certain closing conditions, including securing approvals from shareholders of both Shurgard and Public Storage, which failure to complete the merger could result in significant distractions to Shurgard s employees, and to date Shurgard has already paid fees to its advisors in connection with its search for strategic alternatives and negotiation and execution of the merger agreement with Public Storage of approximately $14.5 million;

the risk that the Hughes family will be able to significantly influence the outcome of matters submitted to a vote of the combined company s shareholders, due to their current aggregate ownership of approximately 36% of all of the outstanding shares of Public Storage common stock and Public Storage s 2% ownership limit;

the risk that prior to the completion or abandonment of the merger, Shurgard is required to conduct its business only in the ordinary course consistent with past practice and subject to certain operational restrictions that could damage Shurgard s business if the merger were not consummated;

the uncertainties involved in a change of control environment impose difficulties in retaining key management and store personnel and motivating employees facing uncertainties about the future ownership and direction of Shurgard;

the fact that Public Storage historically has paid a lower dividend to its common shareholders than Shurgard has paid to its common shareholders;

the risk that after the merger Shurgard shareholders will have an interest in a combined entity with a potentially lower proportion of growth properties than Shurgard on a stand-alone basis, as Public Storage has a more mature property portfolio;

the fact that the fully taxable nature of the transaction will cause Shurgard s common shareholders to recognize gain from the receipt of Public Storage common stock, and such shareholders will not receive any cash as part of the merger consideration in order to pay taxes on this gain;

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the risks arising from the challenges of integrating the businesses, management teams, strategies, cultures and organizations of the two companies, including the risks associated with the integration of Shurgard s European operations into Public Storage;

the possibility that Shurgard would be required to pay a termination fee of $125 million if the merger agreement is terminated under specified circumstances and Shurgard later agrees to or consummates a different acquisition proposal, and the possibility that Shurgard would be required to pay up to $10 million of Public Storage s expenses if Shurgard s common shareholders do not vote to approve the merger agreement and another acquisition proposal is publicly proposed or publicly announced at that time; and

the fact that the stock price of the Public Storage common stock had appreciated significantly during period between the publicized acquisition proposal and the entry into the merger agreement and was trading near its then all-time high upon entry into the merger agreement, and the fact that, given the fixed exchange ratio of 0.82 of a share of Public Storage common stock for each share of Shurgard common stock, if the stock price of Public Storage were to decline between the date of execution of the merger agreement and the closing date of the merger, the value of the merger consideration to be received by a Shurgard common shareholder would be reduced.

In the judgment of the Shurgard board, however, these potential risks were more than offset by the potential benefits of the merger discussed above.

Opinions of Financial Advisors. The Shurgard board of directors considered the joint financial presentation of Citigroup and Banc of America Securities, including the separate opinions, each dated March 6, 2006, of Citigroup and Banc of America Securities to the Shurgard board of directors as to the fairness, from a financial point of view and as of the date of such opinion, of the exchange ratio provided for in the merger agreement, as more fully described below under the caption *Opinions of Shurgard s Financial Advisors*.

Additional Considerations. In the course of its deliberations on the merger agreement and the merger, the Shurgard board of directors consulted with members of Shurgard management and Shurgard s legal, financial, accounting and tax advisors on various legal, business and financial matters. Additional factors considered by the Shurgard board of directors in determining whether to approve the merger agreement and the merger and recommend that Shurgard s shareholders vote to approve the merger agreement and the merger included:

the existence of severance and other benefits under Shurgard s employee benefits plans for those employees whose employment may terminate under certain circumstances following the execution of the merger agreement; and

the fact that Shurgard s shareholders will have an opportunity to vote on the merger on the terms provided in the merger agreement.

The foregoing discussion is not intended to be exhaustive, but Shurgard believes it addresses the material information and factors considered by the Shurgard board of directors in its consideration of the merger, including factors that may support the merger as well as factors that may weigh against it. In view of the variety of factors and the amount of information considered, the Shurgard board of directors did not find it practicable to, and did not make specific assessments of, quantify or otherwise assign relative weights to, the specific factors considered in reaching its determination. In addition, the Shurgard board of directors did not undertake to make any specific determination as to whether any particular factor, or any aspect of any particular factor, was favorable or unfavorable to its ultimate determination, and individual members of Shurgard s board of directors may have given different weights to different factors. Except as noted above, the possible negative impact on Shurgard was not quantified.

In considering the recommendation of the Shurgard board of directors to approve the merger agreement and the merger, Shurgard s shareholders should be aware that certain executive officers and directors of Shurgard

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have certain interests in the merger that may be different from, or in addition to, the interests of Shurgard shareholders generally. The Shurgard board of directors was aware of these interests and considered them when adopting the merger agreement and the merger and recommending that Shurgard s shareholders vote to approve the merger agreement and the merger. See *Interests of Shurgard Directors and Executive Officers in the Merger.*

Opinions of Shurgard s Financial Advisors

Shurgard has retained Citigroup and Banc of America Securities as financial advisors to Shurgard in connection with the proposed merger. Each of Citigroup and Banc of America Securities is an internationally recognized investment banking firm which regularly engages in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. Shurgard selected Citigroup and Banc of America Securities as financial advisors in connection with the proposed merger based on their reputation, experience and familiarity with Shurgard and its businesses.

In connection with their engagement, Shurgard s board of directors requested that Citigroup and Banc of America Securities evaluate the fairness, from a financial point of view, to the holders of Shurgard common stock, other than Public Storage, Merger Sub and their respective affiliates, of the exchange ratio provided for in the merger agreement. On March 6, 2006, at a meeting of Shurgard s board of directors held to evaluate the merger, Citigroup and Banc of America Securities each rendered to Shurgard s board of directors an oral opinion, which was confirmed by delivery of a written opinion dated the same date, to the effect that, as of that date and based on and subject to the various assumptions, limitations and other matters described in such opinion, the exchange ratio provided for in the merger agreement was fair, from a financial point of view, to the holders of Shurgard common stock, other than Public Storage, Merger Sub and its affiliates.

The full text of the written opinions of Citigroup and Banc of America Securities to Shurgard s board of directors, each dated March 6, 2006, which describe, among other things, the assumptions made, procedures followed, matters considered and limitations on the review undertaken, are attached to this joint proxy statement/prospectus as Annex E and Annex F, respectively, and incorporated by reference in their entirety into this joint proxy statement/prospectus. Holders of Shurgard common stock are encouraged to read these opinions carefully in their entirety. The following summaries of the opinions are qualified in their entirety by reference to the full text of the opinions. Citigroup s and Banc of America Securities respective opinions were provided to Shurgard s board of directors for the benefit and use of Shurgard s board of directors in connection with and for purposes of its evaluation of the exchange ratio and relate only to the fairness, from a financial point of view, of the exchange ratio. These opinions do not address any other terms, aspects or implications of the merger and do not constitute a recommendation to any shareholder as to how such shareholder should vote or act on any matters relating to the proposed merger. Although subsequent developments may affect their opinions, Citigroup and Banc of America Securities assume no obligation to update, revise or reaffirm their opinions.

Opinion of Citigroup Global Markets Inc.

In arriving at its opinion, Citigroup:

- reviewed the merger agreement;
- held discussions with senior officers, directors and other representatives and advisors of Shurgard concerning Shurgard s businesses, operations and prospects;
- held discussions with senior officers, directors and other representatives and advisors of Shurgard and senior officers and other representatives and advisors of Public Storage concerning Public Storage s business, operations and prospects;
- examined publicly available business and financial information and other information and data relating to Shurgard provided to or discussed with Citigroup by Shurgard s management, including financial forecasts and other information and data relating to Shurgard prepared by Shurgard s management;

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examined publicly available business and financial information relating to Public Storage, including certain publicly available consensus research analysts estimates relating to Public Storage which were discussed with Citigroup by Public Storage, and reviewed a draft of Public Storage s Annual Report on Form 10-K for the fiscal year ended December 31, 2005;

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;

analyzed financial, stock market and other publicly available information relating to the businesses of other companies whose operations Citigroup considered relevant in evaluating those of Shurgard and Public Storage;

considered, to the extent publicly available, the financial terms of other transactions which Citigroup considered relevant in evaluating the merger;

evaluated potential pro forma financial effects of the merger on Public Storage;

considered the fact that Shurgard publicly had announced that it would explore its strategic alternatives and the third party solicitation process that had been undertaken on behalf of Shurgard; and

conducted other analyses and examinations and considered other information and financial, economic and market criteria as Citigroup deemed appropriate in arriving at its opinion.

In rendering its opinion, Citigroup assumed and relied, without assuming any responsibility for independent verification, on the accuracy and completeness of all financial and other information and data publicly available or provided to, or otherwise reviewed by, or discussed with, it and on the assurances of the managements of Shurgard and Public Storage that they were not aware of any relevant information that was omitted or remained undisclosed to Citigroup with respect to its respective company. With respect to financial forecasts and other information and data provided to, or otherwise reviewed by, or discussed with, Citigroup relating to Shurgard, Citigroup was advised by Shurgard s management and assumed, with Shurgard s consent, that the forecasts and other information and data were reasonably prepared on bases that reflected the best currently available estimates and judgments of Shurgard s management as to the future financial performance of Shurgard. Citigroup was not provided with, or given access to, internal financial forecasts relating to Public Storage prepared by Public Storage s management and, accordingly, Citigroup utilized, with Shurgard s consent, publicly available consensus research analysts estimates relating to Public Storage for purposes of certain of its analyses. With respect to these publicly available consensus estimates, Citigroup was advised by Public Storage s management that such consensus estimates were reasonable estimates of the future financial performance of Public Storage when compared with Public Storage s annualized fourth quarter 2005 financial performance and assumed, with Shurgard s consent, that such consensus estimates reflected reasonable estimates and judgments as to the future financial performance of Public Storage. Citigroup also assumed, with Shurgard s consent, that the merger would 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 would be imposed that would have an adverse effect on Shurgard, Public Storage or the merger. Citigroup was advised by Shurgard s and Public Storage s managements that each of Shurgard and Public Storage operated in conformity with the requirements for qualification as a real estate investment trust, or REIT, for federal income tax purposes since its formation as a REIT, and Citigroup assumed, with Shurgard s consent, that the merger would not adversely affect the status or operations of Shurgard or Public Storage as a REIT. In connection with Citigroup s engagement and at the direction of Shurgard s board of directors, Citigroup was requested to approach, and Citigroup held discussions with, third parties to solicit indications of interest in the possible acquisition of all or a part of Shurgard.

Citigroup did not express 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

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stock will trade at any time. Citigroup did not make, and it was not provided with, an independent evaluation or appraisal of the assets or liabilities, contingent or otherwise, of Shurgard or Public Storage, and Citigroup did not make any physical inspection of the properties or assets of Shurgard or Public Storage. Citigroup s opinion does not address any terms or other aspects or implications of the merger, other than the exchange ratio to the extent expressly specified in its opinion, including, without limitation, the form or structure of the merger or tax or accounting aspects of the merger. Citigroup expressed no view as to, and its opinion does not address, Shurgard s underlying business decision 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. Citigroup s opinion was necessarily based on information available to Citigroup, and financial, stock market and other conditions and circumstances existing and disclosed to Citigroup, as of the date of its opinion. Except as described above, Shurgard imposed no other instructions or limitations on Citigroup with respect to the investigations made or procedures followed by Citigroup in rendering its opinion.

Citigroup will receive for its financial advisory services in connection with the merger an aggregate fee of $14.4 million, portions of which were payable upon its engagement, in connection with the acquisition proposal previously made by Public Storage in July 2005 and in connection with the delivery of its opinion or execution of the merger agreement, and $7.2 million of which is contingent on the consummation of the merger. Shurgard also has agreed to reimburse Citigroup for reasonable travel and other expenses incurred by Citigroup in performing its services, including reasonable fees and expenses of its legal counsel, and to indemnify Citigroup and related persons against liabilities, including liabilities under the federal securities laws, arising out of its engagement.

Citigroup and its affiliates in the past have provided services to Shurgard and Public Storage unrelated to the proposed merger, for which services Citigroup and its affiliates have received compensation, including having acted as lead or co-manager for certain securities offerings of Shurgard, as a financial advisor to Shurgard in connection with an acquisition transaction in 2003 and as sole bookrunner for various preferred stock offerings of Public Storage in 2004 and 2005. In addition, one of Citigroup s 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. Since January 1, 2004, Citigroup and its affiliates have received from Shurgard aggregate fees for corporate and investment banking services unrelated to the merger of approximately $23.2 million. In the ordinary course of business, Citigroup and its affiliates may actively trade or hold the securities of Shurgard and Public Storage for their own account or for the account of customers and, accordingly, may at any time hold a long or short position in those securities. In addition, Citigroup and its affiliates, including Citigroup Inc. and its affiliates, may maintain relationships with Shurgard, Public Storage and their respective affiliates.

Opinion of Banc of America Securities LLC

For purposes of its opinion, Banc of America Securities:

- reviewed publicly available financial statements and other business and financial information of Shurgard and Public Storage;
- reviewed internal financial statements and other financial and operating data concerning Shurgard;
- reviewed a draft of Public Storage s Annual Report on Form 10-K for the fiscal year ended December 31, 2005;
- reviewed financial forecasts relating to Shurgard prepared by Shurgard s management;
- reviewed publicly available consensus research analysts estimates for Public Storage;
- discussed the past and current operations, financial condition and prospects of Public Storage with senior executives of Shurgard and Public Storage

discussed the past and current operations, financial condition and prospects of Shurgard with senior executives of Shurgard;

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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;

reviewed the reported prices and trading activity for Shurgard common stock and Public Storage common stock;

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 which Banc of America Securities deemed relevant;

compared financial terms of the merger to financial terms, to the extent publicly available, of other business combination transactions which Banc of America Securities deemed relevant;

participated in discussions and negotiations among representatives of Shurgard, Public Storage and their respective advisors;

reviewed the merger agreement;

considered Banc of America Securities efforts to solicit, at Shurgard s direction, 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

performed other analyses and considered other factors as Banc of America Securities deemed appropriate.

Banc of America Securities assumed and relied on, without independent verification, the accuracy and completeness of the financial and other information reviewed by it for the purposes of its opinion. Banc of America Securities assumed, at Shurgard s direction, that the financial forecasts it reviewed relating to Shurgard prepared by Shurgard s management were reasonably prepared on bases that reflected the best currently available estimates and good faith judgments of Shurgard s management as to Shurgard s future financial performance. Banc of America Securities was not provided with, and did not have access to, any financial forecasts relating to Public Storage prepared by Public Storage s management. Accordingly, with Shurgard s consent, Banc of America Securities used publicly available consensus research analysts estimates for Public Storage in certain of its analyses. Banc of America Securities was advised by Public Storage s management that such consensus estimates were reasonable estimates of the future financial performance of Public Storage when compared with Public Storage s annualized fourth quarter 2005 financial performance and assumed, with Shurgard s consent, that these consensus estimates were a reasonable basis on which to evaluate the future financial performance of Public Storage. Banc of America Securities did not make any independent valuation or appraisal of the assets or liabilities, contingent or otherwise, of Shurgard or Public Storage and Banc of America Securities was not furnished with any valuations or appraisals. Banc of America Securities assumed, with Shurgard s consent, that the merger would be consummated as provided in the merger agreement, with full satisfaction of all covenants and conditions set forth in the merger agreement and without any waivers thereof. Banc of America Securities also assumed, with Shurgard s consent, that all governmental, regulatory or other consents and approvals necessary for the consummation of the merger would be obtained without any adverse effect on Shurgard, Public Storage or the merger. Banc of America Securities was advised by the managements of Shurgard and Public Storage that each of Shurgard and Public Storage operated in conformity with the requirements for qualification as a REIT for federal income tax purposes since its formation as a REIT and Banc of America Securities further assumed, with Shurgard s consent, that the merger would not adversely affect the status or operations of Shurgard or Public Storage as a REIT.

Banc of America Securities expressed no view or opinion as to any terms or aspects of the merger other than the exchange ratio to the extent expressly specified in its opinion, including, without limitation, the form or structure of the merger or tax or accounting aspects of the merger. In addition, Banc of America Securities expressed no opinion 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 did Banc of America Securities express any opinion as to the

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underlying business decision of Shurgard s board of directors to proceed with or effect the merger. Banc of America Securities expressed no opinion as to what the value of Public Storage common stock will be when issued or the prices at which Public Storage common stock or Shurgard common stock will trade at any time. Banc of America Securities opinion was necessarily based on economic, market and other conditions as in effect on, and the information made available to Banc of America Securities as of, the date of its opinion. Except as described above, Shurgard imposed no other limitations on the investigations made or procedures followed by Banc of America Securities in rendering its opinion.

Shurgard has agreed to pay Banc of America Securities for its financial advisory services in connection with the merger an aggregate fee of $9.6 million, portions of which were payable upon its engagement, in connection with the acquisition proposal previously made by Public Storage in July 2005 and upon rendering its opinion or the execution of the merger agreement, and $5.7 million of which is contingent on the consummation of the merger. Shurgard also agreed to reimburse Banc of America Securities for all reasonable expenses, including reasonable fees and disbursements of Banc of America Securities counsel, incurred in connection with Banc of America Securities engagement and to indemnify Banc of America Securities, any controlling person of Banc of America Securities and each of their respective directors, officers, employees, agents, affiliates and representatives against specified liabilities, including liabilities under the federal securities laws.

Banc of America Securities or its affiliates have provided and currently are providing financial advisory and financing services to Shurgard unrelated to the merger, for which services Banc of America Securities or its affiliates have received and will receive compensation, including having acted as (i) book-running manager, lead arranger, administrative agent and lender for certain 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. Since January 1, 2004, Banc of America Securities and its affiliates have received aggregate fees from Shurgard for corporate and investment banking services unrelated to the merger of approximately $8.6 million. In addition, Banc of America Specialist Inc., an affiliate of Banc of America Securities, currently acts as a specialist for Shurgard common stock and Public Storage common stock on the New York Stock Exchange. In the ordinary course of its businesses, Banc of America Securities and its affiliates may actively trade or hold the securities or loans of Shurgard and Public Storage for their own account or for the accounts of customers and, accordingly, Banc of America Securities or its affiliates may at any time hold long or short positions in those securities or loans.

Summary of Joint Financial Analyses

In preparing their respective opinions, Citigroup and Banc of America Securities jointly performed a variety of financial and comparative analyses, including those described below. The discussion set forth below is a summary of the material financial analyses presented by Citigroup and Banc of America Securities to Shurgard s board of directors in connection with their respective opinions and is not a comprehensive description of all analyses undertaken by Citigroup and Banc of America Securities. The preparation of a financial opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, a financial opinion is not readily susceptible to partial analysis or summary description. Neither Citigroup nor Banc of America Securities assigned any specific weight to any of the analyses described below. Citigroup and Banc of America Securities each arrived at its ultimate opinion based on the results of all analyses undertaken by it and assessed as a whole, and did not draw, in isolation, conclusions from or with regard to any one factor or method of analysis for purposes of its opinion. Accordingly, Citigroup and Banc of America Securities believe that the analyses must be considered as a whole and that selecting portions of the analyses and factors or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying the analyses and their respective opinions.

In performing their analyses, Citigroup and Banc of America Securities considered industry performance, general business, economic, market and financial conditions and other matters existing as of the date of the

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opinions, many of which are beyond the control of Shurgard and Public Storage. No company, business or transaction used in those analyses as a comparison is identical to Shurgard, Public Storage or the merger, and an evaluation of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies, business segments or transactions analyzed.

The estimates contained in or underlying Citigroup s and Banc of America Securities analyses and the valuation ranges resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those estimates or those suggested by the analyses. In addition, analyses relating to the value of businesses or securities do not necessarily purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold or may trade at any time in the future. These analyses were prepared solely as part of Citigroup s and Banc of America Securities analysis of the financial fairness of the exchange ratio provided for in the merger agreement, and were provided to Shurgard s board of directors in connection with the delivery of Citigroup s and Banc of America Securities respective opinions. Accordingly, the estimates used in, and the results derived from, Citigroup s and Banc of America Securities analyses are inherently subject to substantial uncertainty and should not be taken to be Citigroup s or Banc of America Securities view of the actual value of Shurgard or Public Storage.

The type and amount of consideration payable in the merger were determined through negotiations between Shurgard and Public Storage and approved by Shurgard s board of directors. The decision to enter into the merger agreement was solely that of Shurgard s board of directors. Citigroup s and Banc of America Securities opinions were only one of many factors considered by Shurgard s board of directors in its evaluation of the merger and should not be viewed as determinative of the views of Shurgard s board of directors or Shurgard s management with respect to the merger or the exchange ratio.

The following represents a brief summary of the material financial analyses jointly presented by Citigroup and Banc of America Securities to Shurgard s board of directors in connection with Citigroup s and Banc of America Securities respective opinions, each dated March 6, 2006, to Shurgard s board of directors. The financial analyses summarized below include information presented in tabular format. In order to fully understand the financial analyses performed by Citigroup and Banc of America Securities, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses performed by Citigroup and Banc of America Securities. Considering the data in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the financial analyses performed by Citigroup and Banc of America Securities.

Shurgard Analyses

Selected Companies Analysis. Citigroup and Banc of America Securities reviewed publicly available financial and stock market information for the following four selected publicly held companies in the self-storage industry:

Public Storage

Extra Space Storage, Inc.

U-Store-It Trust

Sovran Self Storage Inc.

Citigroup and Banc of America Securities reviewed, among other things, closing stock prices of the selected companies on March 6, 2006 as a multiple of calendar years 2006 and 2007 estimated funds from operations, or FFO, per share. Citigroup and Banc of America Securities then applied a selected range of calendar years 2006 and 2007 estimated FFO per share multiples derived from the selected companies to corresponding financial data

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of Shurgard attributable to Shurgard s assets and operations in the United States, which we refer to in this joint proxy statement/prospectus as Shurgard U.S. Estimated financial data for the selected companies were based on FirstCall consensus estimates. Estimated financial data for Shurgard U.S. were based on internal estimates of Shurgard s management. Based on the results of this analysis and the discounted cash flow analysis of Shurgard s assets and operations in Europe, which we refer to in this joint proxy statement/prospectus as Shurgard Europe, summarized below, Citigroup and Banc of America Securities derived implied per share equity reference ranges for Shurgard. This indicated the following approximate implied per share equity reference ranges for Shurgard, as compared to the implied per share value of the merger consideration based on the exchange ratio of 0.82x and the closing per share price of Public Storage common stock on March 6, 2006:

Implied Per Share Equity Reference Ranges for Shurgard				Implied Per Share Value of Merger Consideration
2006E FFO		2007E FFO		
$49.32	$58.04	$48.71	$57.65	$65.16

Selected Transactions Analysis. Using publicly available information, Citigroup and Banc of America Securities reviewed the purchase prices paid in the following 11 selected transactions announced since June 2005 involving publicly held REITs, nine of which were all-cash transactions and two of which involved a combination of cash and stock consideration:

Announcement Date	Acquiror	Target
2/21/06	Blackstone Real Estate Partners V L.P.	Meristar Hospitality Corporation
2/16/06	Morgan Stanley Real Estate / Onex Real Estate / Sawyer Realty Holdings LLC	The Town and Country Trust
2/11/06	LBA Realty LLC	Bedford Property Investors, Inc.
12/22/05	GE Commercial Finance Real Estate	Arden Realty, Inc.
12/7/05	CalEast Industrial Investors, LLC	Centerpoint Properties Trust
10/24/05	Morgan Stanley Real Estate Prime Property Fund	AMLI Residential Properties Trust
10/3/05	Brandywine Realty Trust	Prentiss Properties Trust
9/6/05	DRA Advisors LLC	Capital Automotive REIT
6/17/05	DRA Advisors LLC	CRT Properties, Inc.
6/7/05	ING Clairon Partners, LLC	Gables Residential Trust
6/6/05	ProLogis	Catellus Development Corporation

Citigroup and Banc of America Securities reviewed purchase prices in the selected transactions as a multiple of one-year forward estimated FFO. Citigroup and Banc of America Securities then applied a selected range of one-year forward estimated FFO multiples derived from the selected transactions to the calendar year 2006 estimated FFO of Shurgard attributable to Shurgard U.S. Multiples for the selected transactions were based on publicly available financial information at the time of announcement of the relevant transaction. Estimated financial data for Shurgard U.S. were based on internal estimates of Shurgard s management. Based on the results of this analysis and the discounted cash flow analysis of Shurgard Europe summarized below, Citigroup and Banc of America Securities derived an implied per share equity reference range for Shurgard. This indicated the following approximate implied per share equity reference range for Shurgard, as compared to the implied per share value of the merger consideration based on the exchange ratio of 0.82x and the closing per share price of Public Storage common stock on March 6, 2006:

Implied Per Share Equity Reference Range for Shurgard		Implied Per Share Value of Merger Consideration
$51.48	$62.36	$65.16

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Citigroup and Banc of America Securities also noted that the implied calendar year 2006 estimated FFO multiple for Shurgard based on the implied per share value of the merger consideration was 25.8x, as compared to the one-year forward estimated FFO multiples implied in the selected transactions based on the purchase prices paid in such transactions of 11.4x to 21.0x.

Net Asset Valuation Analysis. Citigroup and Banc of America Securities performed a net asset valuation of Shurgard U.S. s portfolio of existing storage centers, new storage centers projected to open in calendar year 2006 and other assets and liabilities. The estimated value of Shurgard U.S. s existing storage centers was calculated by applying a selected range of capitalization rates to Shurgard s estimated calendar year 2006 net operating income attributable to such storage centers. The estimated value of Shurgard U.S. s new storage centers was calculated by applying a selected range of premiums to the estimated acquisition and development cost for such storage centers. Other asset and liability values were calculated as follows:

- in the case of assets under construction and assets held for sale, by applying a selected range of premiums to the cost of those assets;
- in the case of minority interests in joint ventures, based on the book value of those interests adjusted for the estimated value of storage centers operated by such joint ventures assuming market capitalization rates; and
- in the case of other assets and liabilities, based on the book values of such assets and liabilities as reflected on Shurgard s preliminary and unaudited balance sheet as of December 31, 2005 prepared by Shurgard s management.

Based on the results of this analysis and the discounted cash flow analysis of Shurgard Europe summarized below, Citigroup and Banc of America Securities derived an implied per share equity reference range for Shurgard. This indicated the following approximate implied per share equity reference range for Shurgard, as compared to the implied per share value of the merger consideration based on the exchange ratio of 0.82x and the closing per share price of Public Storage common stock on March 6, 2006:

Implied Per Share Equity Reference Range for Shurgard	Implied Per Share Value of Merger Consideration
$52.21 $64.31	$65.16

Shurgard Europe Discounted Cash Flow Analysis. Citigroup and Banc of America Securities performed a discounted cash flow analysis of Shurgard Europe to calculate the estimated present value of the standalone unlevered, after-tax free cash flows that Shurgard Europe s storage center portfolio could generate for calendar years 2006 through 2012 based on internal estimates of Shurgard s management. Estimated terminal values for Shurgard Europe s storage center portfolio were calculated by applying a selected range of capitalization rates to Shurgard Europe s calendar year 2012 estimated net operating income. The unlevered, after-tax free cash flows and terminal values for Shurgard Europe s store portfolio were then discounted to present value using discount rates ranging from 8.0% to 10.0%. Estimated terminal values for joint venture interests held by Shurgard Europe and for Shurgard Europe s service business also were calculated and discounted to present value. This analysis indicated an implied estimated enterprise value reference range for Shurgard Europe of approximately 918 million to 1,096 million.

Pro Forma Accretion/Dilution Analysis

Citigroup and Banc of America Securities analyzed the potential pro forma financial effect of the merger on Public Storage s estimated FFO per share for calendar years 2006 and 2007, assuming that, in connection with the merger, Shurgard s domestic line of credit and existing term loan were repaid, Shurgard s remaining debt was assumed and all outstanding shares of Shurgard preferred stock were redeemed. Estimated financial data for Public Storage were based on FirstCall consensus estimates. Estimated financial data for Shurgard were based both on internal estimates of Shurgard s management and, in the case of calendar year 2006 FFO per share,

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FirstCall consensus estimates. This analysis did not take into account potential synergies that may result from the merger (specific estimates for which were not provided to Citigroup or Banc of America Securities, although Shurgard s management believed potential synergies could be significant). This analysis indicated that the merger could be dilutive to Public Storage s calendar years 2006 and 2007 estimated FFO per share. The actual results achieved by the combined company may vary from projected results and the variations may be material.

Public Storage Financial and Stock Market Considerations

Citigroup and Banc of America Securities reviewed and considered financial and stock market information of Public Storage, including historical trading prices and total returns on investment of Public Storage common stock and Public Storage s historical one-year forward estimated FFO per share trading multiples. Citigroup and Banc of America Securities also reviewed Public Storage s historical financial performance, its net operating income margin for the first three quarters of calendar year 2005 and its credit rating and noted that the financial performance of Public Storage had met or exceeded publicly available consensus research analysts estimates for the last seven consecutive quarters and that Public Storage had either the highest or one of the highest net operating income margins and credit ratings among selected publicly held self-storage companies and selected publicly held REITs. In addition, Citigroup and Banc of America Securities reviewed calendar years 2006 and 2007 estimated FFO per share trading multiples of Public Storage, and Public Storage s leverage as a percentage of its enterprise value, relative to corresponding multiples and percentages of Shurgard and the publicly held companies in the self-storage industry referred to above under *Shurgard Analyses Selected Companies Analysis* (other than Public Storage).

Certain Information

Neither Public Storage nor Shurgard as a matter of course publicly discloses detailed forecasts or internal projections as to future revenues, earnings or financial condition. However, in the course of Shurgard s exploration of strategic alternatives, Shurgard prepared and made available to potential bidders (including Public Storage) and Shurgard s financial advisors certain business and financial data concerning projected future performance that Shurgard believes was not publicly available.

Shurgard prepared and made available to potential bidders and Shurgard s financial advisors the following projections as of February 2, 2006:

Shurgard Projections

(in thousands, except per share amounts)

	Years ending December 31,		
	2006	**2007**	**2008**
Total Revenues	$ 539,056	$ 592,710	$ 660,202
Net Income (1) (2)	$ 26,977	$ 48,863	$ 69,882
Depreciation and amortization (2) (3)	95,876	96,600	101,632
FFO (4)	122,853	145,463	171,514
Preferred distribution and other	(3,964)		
FFO attributable to common shareholders	$ 118,889	$ 145,463	$ 171,514
Weighted average Shares Outstanding Basic	47,155	49,307	51,616
Per share amounts:			
Net Income available to common shareholders Basic	$ 0.48	$ 0.99	$ 1.36

(1) Projected net income was not derived in accordance with GAAP. Net income was derived consistent with Shurgard s historical net income, except with regards to costs incurred by Shurgard in connection with its

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pursuit of its strategic alternative process and the merger, unanticipated property abandonment and impairment costs, fluctuations in foreign currencies, fluctuations in interest rates and derivatives gains and losses. In addition, the projections were developed without giving effect to Statement of Financial Accounting Standards No. 123(R), Share-Based Payment (FAS 123(R)), an amendment of FAS No. 123, Accounting for Stock-Based Compensation, which is effective for the fiscal year beginning January 1, 2006.

(2) Subsequent to providing these projections to potential bidders, Shurgard identified an error in its calculation of projected depreciation and amortization for the years ended December 31, 2007 and 2008. Projected depreciation and amortization (in thousands) should have been $99,407 for 2007 and $104,436 for 2008. Accordingly, projected net income (in thousands) should have been $46,056 for 2007 and $67,078 for 2008. This error had no impact on projected FFO for any period presented.

(3) Excludes depreciation related to non-real estate assets and minority interests in depreciation and amortization.

(4) Funds from Operations (FFO, as defined on page 191) is a non-GAAP financial measure. This non-GAAP financial measure was provided to potential bidders (including Public Storage) and Shurgard s financial advisors. However, this measure does not provide a complete picture of Shurgard s operations. Non-GAAP measures are not prepared in accordance with GAAP, and should not be considered a substitute for or superior to GAAP results. Shurgard believes FFO is a meaningful financial measure 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.

While these projections were prepared in good faith by Shurgard s management, no assurance can be made regarding future events. The estimates and assumptions underlying the projections involve judgments with respect to, among other things, future economic, competitive and financial market conditions and future business decisions that may not be realized and are inherently subject to significant business, economic, competitive and regulatory uncertainties, all of which are difficult to predict and many of which are beyond the control of Shurgard and will be beyond the control of Public Storage. Specifically, items or events which could have affected or may affect these projections include, without limitation, costs incurred by Shurgard in conjunction with its pursuit of its strategic alternative process and this merger, unanticipated property abandonment and impairment costs, costs resulting from unforeseen natural disasters, delays in property developments due to weather, unforeseen conditions, labor shortages, scheduling problems with contractors, subcontractors or suppliers, foreign exchange and derivatives losses related to intercompany debt, fluctuations in interest rates, and fluctuations in foreign currencies used in Shurgard Europe s operations. Accordingly, there can be no assurance that the projected results would be realized or that actual results would not differ materially from those presented in the financial information. Such projections cannot, therefore, be considered a guaranty of future operating results, and this information should not be relied on as such. These projections were not prepared with a view toward public disclosure or with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, published guidelines of the SEC regarding forward-looking statements, or U.S. generally accepted accounting principles. In the view of Shurgard s management, the information was prepared on a reasonable basis. However, this information is not fact and should not be relied upon by readers of this joint proxy statement/prospectus as being necessarily indicative of future results.

See cautionary statements regarding forward-looking information under *Special Note Regarding Forward-Looking Statements.*

The projections relating to Shurgard included in this document were prepared by, and are the responsibility of Shurgard management. Neither PricewaterhouseCoopers LLP nor Ernst & Young LLP has examined or compiled the accompanying prospective financial information and, accordingly, both PricewaterhouseCoopers LLP and Ernst & Young LLP express no opinion or any other form of assurance with respect thereto. The

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Ernst & Young LLP report and the PricewaterhouseCoopers LLP report included in this document relate to Public Storage s historical financial information and Shurgard s historical financial information, respectively. They do not extend to the prospective financial information and should not be considered to do so.

These projections were developed in a manner consistent with Shurgard s management s internal budgeting and forecasting process, and are generally consistent with Shurgard s existing accounting policies and were based upon certain assumptions, as set forth below, that Shurgard s management believes are reasonable in the circumstances. These projections assume that Shurgard continues as a separate public company and would make independent decisions. The assumptions underlying these projections were based on such factors as historical trends and performance, industry expectations, and significant input from Shurgard s operations management. No assurance can be given that such projected results will actually be achieved.

Principal Assumptions of Projections

Shurgard s management made the following principal assumptions in developing these projections, which are summarized below.

Capitalized terms in this section have the same meanings as referred to in Shurgard s consolidated financial statements for the year ended December 31, 2005, the notes thereto, or as described earlier in this document.

U.S. Operations

The following assumptions were made with respect to Shurgard s U.S. operations:

- Of Shurgard s existing 484 facilities as of December 31, 2005, 462 facilities are designated as Same Store commencing in 2006. These facilities are projected on average to experience growth of 6.6% in both revenue and operating expense in 2006, and a 5% annual growth rate in revenue and a 4% growth rate in operating expense in 2007 and 2008.

- The remaining 22 existing facilities are designated as New Store and are projected to achieve revenue and operating expense increases based upon management s best estimate for each individual facility, based principally upon the progress of the stabilization process thus far. These facilities contribute 24% to the overall projected domestic revenue growth from 2005 to 2006.

- Capital improvements are approximately $13.5 million in 2006, $14.0 million in 2007, and $14.7 million in 2008.

- Fourteen newly developed facilities are completed in 2006 at an average cost of $5.7 million per facility, 13 newly developed facilities are completed in 2007 at an average development cost of $5.9 million per facility, and 18 newly developed facilities are completed in 2008 at an average development cost of $6.1 million per facility. These facilities take approximately 30 months to reach a stabilized level of revenue and net operating income. Following the stabilization period, their growth rates in revenue and operating expense are the same as with respect to the Same Store facilities.

European Operations

The following assumptions were made with respect to Shurgard s European operations:

- All dollar amounts that follow are converted based on a constant exchange rate of $1.20 per euro and constant exchange rates between the euro and the functional currencies of entities operating in non-euro countries.

- Of Shurgard s existing 149 facilities as of December 31, 2005, 123 facilities are designated as Same Store commencing in 2006. Projections were compiled at the level of the individual facilities within this group. Revenue growth is projected on average at

approximately 14% in 2006, 8% in 2007, and 6% in 2008. Operating expenses are projected to increase by an average of 2.0% in 2006, 2.7% in 2007, and 3.4% in 2008.

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The remaining 26 existing facilities are designated as New Store and are projected to achieve revenue and operating expense increases based on management s best estimate for each individual facility, based principally on the progress of the stabilization process thus far. Due primarily to the timing of openings, Shurgard would expect the total revenue and operating expenses in 2006 for this group to double or triple compared to actual revenues contributed during the period these facilities were open during 2005.

Capital expenditures to maintain facilities total $5.1 million in 2006, $7.3 million in 2007, and $8.4 million in 2008.

Sixteen newly developed facilities are completed in 2006 at an average cost of $5.9 million per facility, 20 newly developed facilities are completed in 2007 at an average development cost of $6.3 million per facility, and 20 newly developed facilities are completed in 2008 at an average development cost of $6.5 million per facility. These facilities take approximately 30 months to reach a stabilized level of revenue and net operating income. Following the stabilization period, their growth rates in revenue and operating expense are the same as with respect to the Same Store facilities.

The first $168.0 million of these developments are funded in accordance with its agreement with existing joint ventures as described in notes 3 and 5 to Shurgard s December 31, 2005 consolidated financial statements. Subsequent development and acquisition is funded by expected additional joint venture agreements, with parties to be determined at a future time, with substantially the same economic terms underlying the Second Shurgard joint venture. The terms of debt of this expected future additional joint venture agreement is based upon current market conditions as of January 2006.

Funding, Capital, and Other Assumptions

Future capital needs are financed using short and long-term financing, including debt, joint venture financing, and other such sources, consistent with management s historical practices and policies, with rates and terms based upon market conditions.

Average short term interest rates under our domestic revolver and term loan facility are assumed to increase by approximately 1% from 2005 to 2008.

Long term interest rates for issuance of approximately $636 million of unsecured fixed rate debt range from 6.3% in 2006 to 6.7% in 2008. These borrowings are used to refinance short term variable rate debt, fund developments and to redeem Shurgard s Series C and D preferred stock. No provision has been made for redemption costs for preferred stock.

The projections assume issuances of Shurgard common stock of $100 million in each of the years 2006 through 2008, the proceeds of which are used to pay down debt and fund development in the US.

Dividends declared are estimated at $2.28 per share in 2006, $2.32 per share in 2007, and $2.36 in 2008.

There are no dispositions of real estate facilities or other assets during 2006, 2007 or 2008.

Consolidated general and administrative expenses decline through 2006 and 2007 as announced by management in previous public releases, such that fourth quarter 2007 expense is reduced to approximately 4% of total revenue.

Neither Public Storage nor Shurgard intends to update or otherwise revise the prospective financial information to reflect circumstances existing since its preparation or to reflect the occurrence of unanticipated events, even in the event that any or all of the underlying assumptions are shown to be in error. Furthermore, neither Public Storage nor Shurgard intends to update or revise the prospective financial information to reflect changes in general economic or industry conditions.

These projections are not included in this document in order to induce any shareholder to vote in favor of the approval of the merger agreement or to acquire securities of Public Storage or to elect not to seek appraisal for his or her Shurgard common stock.

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Interests of Shurgard Directors and Executive Officers in the Merger

In considering the recommendation of the Shurgard board of directors with respect to the merger, Shurgard shareholders should be aware that, as described below, certain executive officers and directors of Shurgard have certain interests in the merger that may be different from, or in addition to, the interests of Shurgard shareholders generally. The Shurgard board of directors was aware of the interests described below and considered them, among other matters, when approving the merger and recommending that Shurgard shareholders vote to approve the merger agreement and the transactions contemplated by the merger agreement, including the merger.

Option Vesting; Conversion of Options and Restricted Stock.

As of the consummation of the merger, all outstanding stock options granted under the Shurgard Storage Centers, Inc. 1995 Long-Term Incentive Compensation Plan, the Shurgard Storage Centers, Inc. 2000 Long-Term Incentive Plan and the Shurgard Storage Centers, Inc. 2004 Long-Term Incentive Plan, which plans we refer to in this section collectively as the stock plans, will become fully vested and will be converted into options to acquire the number of shares of Public Storage common stock multiplied by 0.82 (and rounded down to the nearest share). The Public Storage options will have the same general terms and conditions as the Shurgard options from which they were converted, except that the per share exercise price of each option to acquire shares of Public Storage common stock will be determined by dividing the exercise price of each Shurgard option by 0.82 (and rounding up to the nearest cent). As of the Shurgard record date, the executive officers and directors of Shurgard held in the aggregate outstanding options to purchase [ ] shares of Shurgard common stock that were granted pursuant to the stock plans. Of these, options to purchase [ ] shares of Shurgard common stock granted pursuant to the stock plans were unvested as of the Shurgard record date and will vest in full upon the consummation of the merger.

As of the consummation of the merger, all outstanding stock options granted under the Shurgard Storage Centers, Inc. Amended and Restated Stock Incentive Plan for Nonemployee Directors, which plan we refer to in this section as the director incentive plan, will terminate. 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. As of the Shurgard record date, directors of Shurgard held in the aggregate outstanding options to purchase [ ] shares of Shurgard common stock that were granted pursuant to the director incentive plan. Of these, options to purchase [ ] shares of Shurgard common stock granted pursuant to the director incentive plan were unvested as of the Shurgard record date.

Any outstanding restricted shares of Shurgard common stock held by employees and directors that were granted under the stock plans will be converted into the number of shares of Public Storage common stock obtained by multiplying such number of restricted shares of Shurgard common stock by 0.82. As of the Shurgard record date, the executive officers and directors of Shurgard held in the aggregate [ ] outstanding restricted shares of Shurgard common stock, which will vest in full upon the consummation of the merger.

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The following table sets forth the estimated potential benefit that each director and executive officer will derive as a result of the accelerated vesting of equity-based compensation that will occur in connection with the merger. All estimates are based on awards outstanding as of May 18, 2006 and assume a value of $63.60 per share of Shurgard common stock underlying the options and a value of $63.60 for each share of restricted stock (the value of a share of Shurgard common stock at the closing of the market on March 6, 2006).

Name	Unvested Options	Weighted Average Exercise Price of Unvested Options ($)	Benefit of Accelerated Vesting of Options ($)	Unvested shares of Restricted Stock	Benefit of Accelerated Vesting of Restricted Stock ($)	Total Potential Benefit of Accelerated Vesting ($)
Charles Barbo	121,503	46.57	2,069,767	27,881	1,773,231	3,842,999
Harrell Beck	46,249	46.72	780,535	10,399	661,376	1,441,912
Devasis Ghose	40,767	46.86	682,403	6,034	383,762	1,066,165
David Grant	118,102	46.80	1,984,303	24,194	1,538,738	3,523,041
Jane Orenstein	9,860	48.57	148,183	1,365	86,814	234,997
Steven Tyler	32,711	45.39	595,599	7,780	494,808	1,090,407
Anna Karin Andrews	6,000	57.71	35,340	800	50,880	86,220
Howard Behar	6,000	57.71	35,340	800	50,880	86,220
Jerry Calhoun	16,000	53.82	156,440	800	50,880	207,320
Richard Fox	6,000	57.71	35,340	800	50,880	86,220
Raymond Johnson	6,000	57.71	35,340	800	50,880	86,220
W. Thomas Porter	6,000	57.71	35,340	800	50,880	86,220
Gary Pruitt	13,500	49.04	196,590	800	50,880	247,470

Business Combination Agreements.

Consistent with Shurgard s general practice since 1996, Shurgard has over the years entered into a business combination agreement with each of its executive officers that provides for payments in the event that the executive s employment is terminated by Shurgard (or its successors) other than for cause, or by the executive for good reason, within two and one half (2 1/2) years after a business combination, including the consummation of the merger with Public Storage. If an executive s employment is terminated by Shurgard (or its successors) other than for cause, or by the executive for good reason, within two and one half (2 1/2) years after the consummation of the merger, he or she will be entitled to the following:

- an amount equal to two and one half (2 1/2) times the sum of (i) such executive s annual base salary and (ii) such executive s target bonus for the fiscal year of such termination, or, if greater, the target bonus in effect immediately prior to the date of the business combination;
- either, (i) continued welfare benefits for both the executive and his or her dependents at Shurgard s (or its successor s) sole expense for two and one half (2 1/2) years following the date of termination at the level for which the executive officer was eligible at the time of the termination of employment or immediately prior to the business combination, whichever provides coverage more favorable to the executive, or (ii) a lump sum payment equal to the then present value of the cost to Shurgard (or its successor) of such welfare benefits; and
- reimbursement of any golden parachute excise tax that may be payable by the executive officer under Section 4999 of the Internal Revenue Code of 1986, including any income taxes and further excise tax payable by the executive due to this reimbursement, with respect to the severance payments and other benefits paid to the executive officer and of any income and employment withholding taxes on the reimbursement payment.

An executive officer will have good reason to terminate his or her employment if, within two and one half (2 1/2) years after the consummation of the merger, without the executive s written consent, (i) the executive is assigned duties that are inconsistent with the executive s title, position, duties and responsibilities that existed immediately prior to the merger, (ii) the executive is removed or not re-elected to a position held immediately

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prior to the merger, (iii) the executive s annual base salary or bonus is reduced or not paid, (iv) the executive s principal place of employment is relocated to a location that is more than twenty-five miles further from his or her residence than is his or her principal place of business immediately prior to the merger, or (v) Shurgard (or its successor) breaches a material provision of the business combination agreement.

The business combination agreements also provide that the executive will be subject to a noncompetition covenant for one year following any termination of the executive s employment with Shurgard or its successor.

The following table sets forth the estimated benefit of the severance payments set forth in each executive officer s business combination agreement to which such individual will be entitled if his or her employment is terminated by Shurgard (or its successor) without cause, or by the executive for good reason, within two and one half (2 1/2) years following the consummation of the merger. The estimates are based on the executive officer s annual base salary and target bonus as in effect for the 2006 fiscal year. The chart does not include any estimate concerning the value of the continued welfare coverage or the amount of any gross-up payments that will be paid to the executive officer in connection with a termination of employment by Shurgard (or its successor) without cause, or by the executive officer for good reason, within two and one half (2 1/2) years following the consummation of the merger. In addition, 25 other officers and employees of Shurgard are also party to business combination agreements with Shurgard.

Name	Estimated Total Severance Payable Upon Certain Terminations
Charles Barbo	$ 1,487,500
Harrell Beck	1,104,500
Devasis Ghose	1,104,500
David Grant	2,231,250
Jane Orenstein	735,000
Steven Tyler	857,500

Continued Director and Officer Indemnification.

The merger agreement provides that Public Storage will honor all rights to indemnification, advancement of expenses and exculpation and release of liabilities now existing in favor of the officers and directors of Shurgard or any of its subsidiaries (including any person who was or becomes a director or officer prior to the effective time of the merger) under the Washington Business Corporation Act, or as provided in Shurgard s or any of its subsidiaries articles of incorporation, bylaws, resolutions or any other written agreement between them with respect to matters occurring at or prior to the effective time of the merger, and that all such rights survive the merger and will continue in full force and effect for a period of not less than six years after the effective time of the merger, or, in the case of claims or other matters occurring on or prior to the expiration of such six-year period that have not been resolved prior to the expiration of such six-year period, until such matters are finally resolved.

The merger agreement also requires that Public Storage maintain the current policies of the directors and officers liability insurance maintained by Shurgard for not less than six years from the effective time of the merger, provided that Public Storage will not be required to pay aggregate premiums for insurance in excess of 200% of the aggregate premiums paid by Shurgard in 2005 for that purpose, and, if the annual premiums of such insurance coverage exceed that amount, Public Storage must use its reasonable best efforts to obtain a policy with the greatest coverage available for a cost not exceeding that amount. Until the sixth anniversary of the effective time of the merger, Public Storage and its affiliates may not amend, modify or repeal the provisions for indemnification of directors or officers contained in the articles of incorporation or bylaws (or comparable charter documents) of the surviving company from the merger or any of its subsidiaries in such a manner as would adversely affect the rights of any individual who has served as a director or officer of Shurgard or any of its subsidiaries prior to the effective time of the merger to be indemnified in respect of their serving in such capacities prior to the effective time of the merger.

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Security Ownership of Certain Beneficial Owners and Management

The following table sets forth, as of May 18, 2006, certain information with respect to the beneficial ownership of Shurgard common stock by each director, Shurgard s five most highly compensated executive officers, including Shurgard s chief executive officer, and Shurgard s directors and executive officers as a group. It also sets forth, as of the dates noted, certain information with respect to Shurgard shareholders who beneficially own more than 5% of the outstanding shares of Shurgard common stock. Based on the information furnished by such owners, and except as otherwise noted, Shurgard believes that the beneficial owners of the shares of Shurgard common stock listed below have sole voting and investment power with respect to such shares of Shurgard common stock.

NAME AND ADDRESS OF BENEFICIAL OWNER[a]	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS
Cohen & Steers, Inc. 757 Third Avenue New York, NY 10017	3,483,472(b)	7.4%
Morgan Stanley 1585 Broadway New York, NY 10036	3,184,620(c)	6.7%
The Vanguard Group, Inc. 100 Vanguard Boulevard Malvern, PA 19355	2,363,280(d)	5.0%
David K. Grant	246,957(e)	*
Harrell L. Beck	386,263(f)	*
Devasis Ghose	17,385(g)	*
Jane A. Orenstein	12,862(h)	*
Steven K. Tyler	107,010(i)	*
Charles K. Barbo	2,083,823(j)	4.4%
Anna K. Andrews	35,167(k)	*
Howard P. Behar	26,400(l)	*
Jerry L. Calhoun	1,900	*
Richard P. Fox	18,300(m)	*
Raymond A. Johnson	56,250(n)	*
W. Thomas Porter	56,177(o)	*
Gary E. Pruitt	4,100(p)	*
All directors and executive officers as a group (13 persons)	3,057,252(q)	6.5%

* Less than 1%.

(a) Unless otherwise indicated, the address for each of the shareholders in the table above is c/o Shurgard Storage Centers, Inc., 1155 Valley Street, Suite 400, Seattle, Washington 98109.

(b) All information with respect to Cohen & Steers, Inc. is based solely on the Schedule 13G dated February 13, 2006, filed by Cohen & Steers, Inc. Cohen & Steers, Inc. has sole voting power over 3,043,446 shares (approximately 6.5% of the total outstanding shares), sole dispositive power over 3,464,946 shares (approximately 7.4% of the total outstanding shares) and shared voting power and shared dispositive power over 18,526 shares (less than 1% of the total outstanding shares). Cohen & Steers Capital Management Inc., a wholly owned subsidiary of Cohen & Steers, Inc., beneficially owns 3,464,946 shares. Of these shares, Cohen & Steers Capital Management, Inc.

has sole voting power over 3,043,446 shares and sole dispositive power over all of the shares. Houlihan Rovers SA, in which Cohen & Steers, Inc. holds a 50% ownership interest, has sole voting power and sole dispositive power over the 18,526 shares.

(c) All information with respect to Morgan Stanley is based solely on the Schedule 13G dated February 15, 2006, filed by Morgan Stanley. Morgan Stanley has sole voting power and sole dispositive power over 2,337,243 shares (approximately 5.0% of the total outstanding shares) and shared voting power and shared dispositive power over 1,020 shares (less than 1% of the total outstanding shares). Morgan Stanley

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Investment Management Inc., a wholly-owned subsidiary of Morgan Stanley, beneficially owns 2,946,630 shares (6.3% of the total outstanding shares). Of these shares, Morgan Stanley Investment Management, Inc. has sole voting power and sole dispositive power over 2,162,050 shares (4.6% of the total outstanding shares) that are owned by accounts that it manages on a discretionary basis.

(d) All information with respect to The Vanguard Group, Inc. is based solely on the Schedule 13G dated February 13, 2006, filed by The Vanguard Group, Inc. The Vanguard Group, Inc. has sole voting power over 15,302 shares (less than 1% of the total outstanding shares) and sole dispositive power over 2,363,280 shares (approximately 5.0% of the total outstanding shares).

(e) Includes 67,965 shares issuable on exercise of stock options currently exercisable or exercisable within 60 days, 200 shares held directly by Mr. Grant s child and 9,096 shares held for Mr. Grant s individual account under the employee stock ownership portion of Shurgard s Employee Retirement Savings Plan and Trust (the ESOP).

(f) Includes 321,277 shares issuable on exercise of stock options currently exercisable or exercisable within 60 days and 8,407 shares held for Mr. Beck s individual account under the ESOP.

(g) Includes 10,380 shares issuable on exercise of stock options currently exercisable or exercisable within 60 days and 65 shares held for Mr. Ghose s individual account under the ESOP.

(h) Includes 10,512 shares issuable on exercise of options currently exercisable or exercisable within 60 days and 451 shares held for Ms. Orenstein s individual account under the ESOP.

(i) Includes 51,688 shares issuable on exercise of stock options currently exercisable or exercisable within 60 days and 1,864 shares held for Mr. Tyler s individual account under the ESOP.

(j) Includes 873,922 shares issuable on exercise of stock options currently exercisable or exercisable within 60 days, 11,331 shares held for Mr. Barbo s individual account under the ESOP, 2,000 shares held by trusts of which Mr. Barbo is a trustee and 410 shares owned by a corporation controlled by Mr. Barbo.

(k) Includes 29,000 shares issuable on exercise of stock options currently exercisable or exercisable within 60 days.

(l) Includes 22,000 shares issuable on exercise of stock options currently exercisable or exercisable within 60 days.

(m) Includes 16,000 shares issuable on exercise of stock options currently exercisable or exercisable within 60 days.

(n) Includes 50,500 shares issuable on exercise of stock options currently exercisable or exercisable within 60 days.

(o) Includes 44,000 shares issuable on exercise of stock options currently exercisable or exercisable within 60 days.

(p) Includes 2,500 shares issuable on exercise of stock options currently exercisable or exercisable within 60 days.

(q) Includes an aggregate of 1,469,744 shares issuable on exercise of stock options currently exercisable or exercisable within 60 days.

Public Storage Board of Directors After the Merger

Public Storage has agreed to cause one of the current independent members of the Shurgard board of directors to be appointed to the Public Storage board of directors at the effective time of the merger.

Public Storage Executive Officers After the Merger

Public Storage currently anticipates that all of the current executive officers of Public Storage will remain executive officers of Public Storage following the merger. As of the date of this joint proxy statement/prospectus, Public Storage has not finalized any arrangements with current executive officers of Shurgard with respect to their employment by the combined company. If none of the current executive officers remains employed by Public Storage following the merger, it is anticipated that the associated severance costs would be approximately $9.8 million based on calculations made as of March 6, 2006.

Exchange of Shares; Exchange of Certificates; Withholding

Cancellation of Certain Stock. At the effective time of the merger, each share of Shurgard common stock owned by Public Storage, Merger Sub or any other subsidiary of Public Storage or Shurgard immediately prior to the effective time will be cancelled and retired without any payment.

Exchange of Shares. The exchange of all remaining shares of Shurgard common stock will occur automatically at the effective time of the merger. Each share of Shurgard common stock will automatically become the right to receive 0.82 shares of Public Storage common stock. In accordance with the merger agreement, Shurgard s Series C and Series D Preferred Stock have been called for redemption, subject to

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satisfaction or waiver of all the conditions of the merger. A delay in the redemption of the Shurgard preferred stock could delay the consummation of the merger. See *Risk Factors Risks Relating to the Merger and Public Storage s Business There may be unexpected delays in the consummation of the merger*.

Letter of Transmittal. As soon as reasonably practicable after the effective time of the merger, but in no event later than three business days after the effective time, the exchange agent will send a letter of transmittal to those persons who were record holders of shares of Shurgard common stock at the effective time of the merger. This mailing will contain instructions on how to surrender Shurgard shares in exchange for the consideration the holder is entitled to receive under the merger agreement. When you deliver to the exchange agent your properly completed letter of transmittal and any other required documents (including your Shurgard stock certificate(s) if you hold your shares in certificated form), your shares will be cancelled.

IF YOU HOLD YOUR SHARES IN CERTIFICATED FORM, DO NOT SUBMIT YOUR SHURGARD STOCK CERTIFICATES FOR EXCHANGE UNTIL YOU RECEIVE THE TRANSMITTAL INSTRUCTIONS AND LETTER OF TRANSMITTAL FROM THE EXCHANGE AGENT.

If a certificate for Shurgard common stock has been lost, stolen or destroyed, the exchange agent will issue the applicable merger consideration properly payable under the merger agreement upon compliance by the applicable shareholder with the replacement requirements established by Public Storage.

Fractional Shares. You will not receive fractional shares of Public Storage common stock in connection with the merger. No fractional shares of Public Storage common stock will be issued in the merger. All fractional shares of Public Storage common stock that Shurgard shareholders would otherwise be entitled to receive will be aggregated. As soon as practicable following the effective time of the merger, the aggregated shares will be sold at the prevailing prices on the NYSE. Any holder of shares of Shurgard common stock entitled to receive a fractional share of Public Storage common stock will be entitled to receive a cash payment in an amount equal to such holder s proportionate interest in the net proceeds from the sale or sales in the open market of the aggregated shares.

Withholding. Public Storage or the exchange agent will be entitled to deduct and withhold from the merger consideration otherwise payable to any Shurgard shareholder the amounts it is required to deduct and withhold under the Internal Revenue Code of 1986 or any provision of any federal, state, local or foreign tax law. To the extent that Public Storage or the exchange agent withholds any amounts and pays over such amounts to the appropriate taxing authority, these amounts will be treated for all purposes of the merger as having been paid to the shareholders in respect of whom such deduction and withholding were made.

Adjustments to Prevent Dilution. If, before the effective time of the merger, the issued and outstanding shares of Public Storage or Shurgard common stock change 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 will be appropriately adjusted to provide Public Storage, Merger Sub and Shurgard the same economic effect as contemplated by the merger agreement prior to such action.

Material United States Federal Income Tax Consequences of the Merger

The following is a summary of the material United States federal income tax consequences of the merger to holders of Shurgard common stock who hold their stock as a capital asset. This summary is based on current law, is for general information only, and is not tax advice. The summary is based on the Internal Revenue Code of 1986, as amended, referred to as the Code, Treasury regulations issued under the Code, and administrative and judicial interpretations thereof, each as in effect as of the date of this joint proxy statement/prospectus, all of which are subject to change at any time, possibly with retroactive effect. We have not requested, and do not plan to request, any rulings from the Internal Revenue Service (IRS) relating to this transaction concerning our tax

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treatment or the federal income tax consequences of the merger, and the statements in this proxy are not binding on the IRS or any court. As a result, neither Public Storage nor Shurgard can assure you that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax consequences set forth below.

For purposes of this discussion, the term U.S. holder means a beneficial owner of Shurgard common stock that is for United States federal income tax purposes:

- a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States or any of its political subdivisions;
- a trust that (i) is subject to the supervision of a court within the United States and the control of one or more United States persons or (ii) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person; or
- an estate that is subject to United States federal income tax on its income regardless of its source.

A holder of Shurgard common stock that is not a U.S. holder is referred to herein as a non-U.S. holder.

This summary is not a complete description of all the tax consequences of the merger and, in particular, may not address United States federal income tax considerations applicable to holders of Shurgard common stock who are subject to special treatment under United States federal income tax law (including, for example, financial institutions, dealers in securities, insurance companies or tax-exempt entities, holders who acquired Shurgard common stock pursuant to the exercise of an employee stock option or right or otherwise as compensation, partnerships or other pass-through entities (and persons holding Shurgard common stock through a partnership or other pass-through entity), broker-dealers, expatriates, United States persons that have a functional currency other than the United States dollar, persons subject to the alternative minimum tax, holders who hold Shurgard common stock as part of a hedge, straddle, conversion, constructive sale or other integrated transaction and, except to the extent specifically discussed below, non-U.S. holders). Except to the extent specifically discussed below, this summary does not address the tax consequences of any transaction other than the merger. This summary does not address the tax consequences to any non-United States person who actually or constructively owns five percent (5%) or more of Shurgard common stock. Also, this summary does not address United States federal income tax considerations applicable to holders of options or warrants to purchase Shurgard common stock, holders of debt instruments convertible into Shurgard common stock or holders of Shurgard preferred stock. In addition, no information is provided with respect to the tax consequences of the merger under applicable state, local or non-United States laws or United States federal tax laws other than federal income tax laws.

If a partnership holds Public Storage or Shurgard common stock, the tax treatment of a partner will generally depend on the status of the partners and the activities of the partnership. If a U.S. holder is a partner in a partnership holding Public Storage or Shurgard common stock, the U.S. holder should consult its tax advisors.

THIS SUMMARY OF UNITED STATES FEDERAL INCOME TAX CONSEQUENCES IS FOR GENERAL INFORMATION PURPOSES ONLY, IS NOT TAX ADVICE AND IS NOT INTENDED TO CONSTITUTE A COMPLETE DESCRIPTION OF ALL TAX CONSEQUENCES RELATING TO THE MERGER. WE URGE YOU TO CONSULT WITH YOUR TAX ADVISOR REGARDING THE APPLICABILITY TO YOU OF THE RULES DISCUSSED ABOVE AND THE PARTICULAR TAX EFFECTS TO YOU OF THE MERGER, INCLUDING THE APPLICATION OF STATE, LOCAL AND FOREIGN TAX LAWS.

Consequences to Shurgard of the Merger

Public Storage and Shurgard will treat the merger as if Shurgard had sold all of its assets to Merger Sub in a fully taxable transaction and then made a liquidating distribution of the merger consideration to the Shurgard shareholders in exchange for the outstanding Shurgard common stock.

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Consequences of the Merger to U.S. Holders

General. For Shurgard common shareholders, the merger effectively should be treated as a taxable sale by you of your Shurgard common stock in exchange for the merger consideration. As a result, U.S. holders should recognize gain or loss equal to the difference, if any, between the fair market value of Public Storage common stock plus the amount of any cash received in the merger for fractional shares and the holder s adjusted tax basis in the Shurgard common stock exchanged. Because the merger consideration consists solely of Public Storage common stock (other than cash received in the merger for fractional shares), holders of Shurgard common stock may need to sell shares of Public Storage common stock received in the merger, or raise cash from other sources, to pay any tax obligations resulting from the merger. Generally, any gain or loss recognized should be capital gain or loss and will constitute long-term capital gain or loss if you have held the Shurgard common stock for more than one year as of the effective time of the merger. If you hold blocks of shares of Shurgard common stock which were acquired separately at different times or prices, you must separately calculate your gain or loss for each block of shares.

Special Rule for U.S. Holders Who Have Held Shares Less than Six Months. A U.S. holder who has held Shurgard common stock for less than six months at the effective time of the merger, taking into account certain holding period rules, and who recognizes a loss on the exchange of shares of Shurgard common stock in the merger, will be treated as recognizing a long-term capital loss to the extent of any capital gain dividends received from Shurgard, or such holder s share of any designated retained capital gains, with respect to those shares.

Unrecaptured Section 1250 Gain. The IRS has the authority to prescribe regulations that would apply a capital gain tax rate of 25%, which is generally higher than the long-term capital gain tax rates for noncorporate holders, to the portion, if any, of the capital gain realized by a noncorporate holder on the sale of REIT shares to the extent that such gain is attributable to the REIT s unrecaptured Section 1250 gains (generally gain attributable to recapture of real property depreciation). The IRS has not yet issued such regulations, but it may in the future issue regulations that apply to the merger retroactively.

Consequences of the Merger to Non-U.S. Holders

General. A non-U.S. holder s gain or loss from the merger will be determined in the same manner as that of a U.S. holder. The United States federal income tax consequences of the merger to a non-U.S. holder will depend on various factors, including whether the receipt of the merger consideration is taxed under the provisions of the Foreign Investment in Real Property Tax Act of 1980, or FIRPTA, governing sales of REIT shares, or whether the receipt of the merger consideration is taxed under the provisions of FIRPTA governing distributions from REITs that have sold assets. The provisions governing distributions from REITs could apply because, for United States federal income tax purposes, the merger will be treated as a sale of Shurgard s assets followed by a liquidating distribution to Shurgard shareholders of the proceeds from the asset sale. Current law is unclear as to which provisions should apply, and both sets of provisions are discussed below. In general, the provisions governing the taxation of distributions by REITs are less favorable to non-U.S. holders, and non-U.S. holders should consult their tax advisors regarding the possible application of those provisions.

Subject to the discussion below regarding the treatment of some of the merger proceeds as a distribution, a non-U.S. holder should not be subject to federal income taxation on any gain recognized, unless (1) the gain is effectively connected with a U.S. trade or business of the non-U.S. holder, (2) the holder is an individual who has been present in the U.S. for 183 days or more during the taxable year of disposition and certain other conditions are satisfied, or (3) the holder s Shurgard common stock constitutes a U.S. real property interest, or USRPI, within the meaning of FIRPTA.

A non-U.S. holder whose gain is effectively connected with the conduct of trade or business in the United States will be subject to United States federal income tax on such gain on a net basis in the same manner as a U.S. holder. In addition, a non-U.S. holder that is a corporation may be subject to the 30% branch profits tax on such effectively connected gain.

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If the non-U.S. holder is an individual who has been present in the U.S. for 183 days or more during the taxable year of disposition and certain other conditions are satisfied, that holder will be subject to a 30% tax on the holder s capital gains. In addition, the non-U.S. holder may be subject to applicable alternative minimum taxes.

A non-U.S. holder s Shurgard common stock will constitute a USRPI if (1) Shurgard is not a domestically-controlled qualified investment entity at the effective time of the merger and (2) the selling non-U.S. holder owned (after application of certain constructive ownership rules) more than five percent (5%) of Shurgard common stock (based on the fair market value of Shurgard common stock) at any time during the five years preceding the sale or exchange. Shurgard would be a domestically controlled qualified investment entity at the effective time of the merger if non-U.S. holders held less than 50% of the value of Shurgard s outstanding equity interests at all times during the 5-year period ending with the effective time of the merger. Based on the record ownership of Shurgard s outstanding equity interests, Shurgard believes that it is a domestically-controlled qualified investment entity and shares of Shurgard common stock are not USRPIs. No assurances, however, can be given that the actual ownership of Shurgard s outstanding equity interests has been or will be sufficient for Shurgard to qualify as a domestically-controlled qualified investment entity at the effective time of the merger. If a non-U.S. holder s Shurgard common stock constitutes a USRPI within the meaning of FIRPTA, that holder will be subject to federal income tax generally at regular capital gains rates with respect to that gain.

U.S. Taxation of Non-U.S. Holders if Merger Taxed as a Distribution. The discussion above assumes that non-U.S. holders will be treated as selling their Shurgard common stock for purposes of the FIRPTA provisions of the Code. It is possible that the IRS could contend that, for purposes of applying the FIRPTA provisions of the Code, all or some portion of the merger proceeds should be treated as received by non-U.S. holders in a distribution from Shurgard rather than on a sale of such non-U.S. holder s Shurgard common stock. If the IRS were to make this argument successfully, a non-U.S. holder who owned (after application of certain constructive ownership rules) more than five percent (5%) of Shurgard common stock (based on the fair market value of Shurgard common stock) at any time during the 1-year period ending on the date on which the merger consideration is distributed would be subject to federal income tax at the capital gain rates described above on the merger consideration to the extent the distribution was attributable to gain that Shurgard recognized from the sale of USRPIs. This tax would apply whether or not (1) the non-U.S. holder conducted a U.S. trade or business, (2) the non-U.S. holder was present in the U.S. for 183 days or more during the taxable year of disposition, or (3) the Shurgard common stock constituted a USRPI.

U.S. Withholding Tax Under FIRPTA. As described above, it is unclear whether the receipt of the merger consideration will be treated as a sale of Shurgard common stock or as a distribution from Shurgard that is attributable to gain from the deemed sale of Shurgard s U.S. real estate assets in the merger. Accordingly, Shurgard intends to withhold U.S. federal income tax at a rate of 35% from the portion of the merger consideration that is attributable to gain from the sale of U.S. real property interests and paid to a non-U.S. holder unless such holder does not own more than 5% of Shurgard s common stock at any time during the one-year period ending on the date of the distribution (the 5% Exception). If the 5% Exception were to apply to a non-U.S. holder, the FIRPTA tax would not apply, but there is some risk that the merger consideration could be treated as an ordinary dividend distribution from Shurgard, in which case the merger consideration would be subject to United States federal income tax at a rate of 30%.

Treaties. If a non-U.S. holder is eligible for treaty benefits under an income tax treaty with the United States, the non-U.S. holder may be able to reduce or eliminate certain of the United States federal income tax consequences discussed above. Non-U.S. holders should consult their tax advisors regarding possible relief under an applicable income tax treaty.

Information Reporting and Backup Withholding. Information reporting and backup withholding may apply to payments made in connection with the merger. Backup withholding will not apply, however, to a holder who (a) in the case of a U.S. holder, furnishes a correct taxpayer identification number and certifies that it is not subject to backup withholding on the substitute IRS Form W-9 or successor form, (b) in the case of a non-U.S. holder, furnishes an applicable IRS Form W-8 or successor form, or (c) is otherwise exempt from backup

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withholding and complies with other applicable rules and certification requirements. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against such holder s United States federal income tax liability provided the required information is furnished to the IRS.

THE FOREGOING DISCUSSION OF UNITED STATES FEDERAL INCOME TAX CONSEQUENCES IS FOR GENERAL INFORMATION PURPOSES ONLY AND IS NOT INTENDED TO CONSTITUTE A COMPLETE DESCRIPTION OF ALL TAX CONSEQUENCES RELATING TO THE MERGER. TAX MATTERS ARE VERY COMPLICATED, AND THE TAX CONSEQUENCES OF THE MERGER TO YOU WILL DEPEND UPON THE FACTS OF YOUR PARTICULAR SITUATION. BECAUSE INDIVIDUAL CIRCUMSTANCES MAY DIFFER, WE URGE YOU TO CONSULT WITH YOUR TAX ADVISOR REGARDING THE APPLICABILITY TO YOU OF THE RULES DISCUSSED ABOVE AND THE PARTICULAR TAX EFFECTS TO YOU OF THE MERGER, INCLUDING THE APPLICATION OF STATE, LOCAL AND FOREIGN TAX LAWS.

Material United States Federal Income Tax Consequences Relating to Public Storage s Taxation as a REIT

General. Public Storage elected to be taxed as a REIT under the Code beginning with its taxable year ended December 31, 1981. Public Storage believes that it has been organized and has operated in a manner which allows it to qualify for taxation as a real estate investment trust under the Code commencing with its taxable year ended December 31, 1981. Public Storage intends to continue to operate, in a manner to qualify as a REIT. Qualification and taxation as a REIT depend upon Public Storage s ability to meet, through actual annual (or in some cases quarterly) operating results, requirements relating to income, asset ownership, distribution levels and diversity of share ownership, and the various other REIT qualification requirements imposed under the Code. Given the complex nature of the REIT qualification requirements, the ongoing importance of factual determinations and the possibility of future changes in its circumstances, neither Public Storage nor Shurgard can assure you that Public Storage has operated or will continue to operate in a manner so as to qualify or remain qualified as a REIT or provide any assurance that its actual operating results will satisfy the requirements for taxation as a REIT under the Code for any particular taxable year.

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

In connection with the filing of the registration statement, Public Storage s tax counsel has rendered an opinion that, based on the facts, representations and assumptions, and subject to the qualifications stated therein, Public Storage is organized and currently operates in conformity with the requirements for qualification and taxation as a REIT under the Code, and Public Storage s proposed method of operation will enable it to continue to meet the requirements for qualification and taxation as a REIT under Code (the REIT Opinion). Furthermore, as a condition to closing, Public Storage s tax counsel is required to render an opinion, dated as of the closing date of the merger, to the same effect as the REIT Opinion (the Closing REIT Opinion). Public Storage s tax counsel has no obligation to update either the REIT Opinion or the Closing REIT Opinion subsequent to the date it is issued. The REIT Opinion is attached to the registration statement as Exhibit 8.1.

The REIT Opinion will be based on various assumptions and representations made by Public Storage as to factual matters, including representations made by Shurgard in this joint proxy statement/prospectus and a factual certificate provided by one of Public Storage s officers. Moreover, Public Storage s qualification and taxation as a REIT depends upon Public Storage s ability to meet the various qualification tests imposed under the Code and discussed below, relating to Public Storage s actual annual operating results, asset diversification, distribution levels, and diversity of stock ownership, the results of which have not been and will not be reviewed by tax counsel. Accordingly, neither tax counsel nor Public Storage can assure you that the actual results of Public

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Storage s operation for any particular taxable year will satisfy the requirements for qualification and taxation as a REIT. Further, the anticipated income tax treatment described in this joint proxy statement/prospectus may be changed, perhaps retroactively, by legislative, administrative or judicial action at any time.

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

While Public Storage generally will not be subject to corporate income taxes on income that it distributes currently to shareholders, Public Storage will be subject to federal income tax as follows:

1. Public Storage will be taxed at regular corporate rates on any undistributed REIT taxable income. REIT taxable income is the taxable income of the REIT subject to specified adjustments, including a deduction for dividends paid.

2. Public Storage may be subject to the alternative minimum tax on its undistributed items of tax preference, if any.

3. If Public Storage has (1) net income from the sale or other disposition of foreclosure property that is held primarily for sale to tenants in the ordinary course of business, or (2) other non-qualifying income from foreclosure property, Public Storage will be subject to tax at the highest corporate rate on this income.

4. Public Storage s net income from prohibited transactions will be subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property held primarily for sale to tenants in the ordinary course of business other than foreclosure property.

5. If Public Storage fails to satisfy either the 75% gross income test or the 95% gross income test discussed below, but nonetheless maintains its qualification as a REIT because other requirements are met, Public Storage will be subject to a tax equal to the gross income attributable to the greater of either (1) the amount by which 75% of its gross income exceeds the amount of its income qualifying under the 75% test for the taxable year or (2) the amount by which 95% of its gross income exceeds the amount of its income qualifying for the 95% income test for the taxable year, multiplied in either case by a fraction intended to reflect Public Storage s profitability.

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

85% of Public Storage s REIT ordinary income for the year;

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95% of Public Storage s REIT capital gain net income for the year; and

any undistributed taxable income from prior taxable years.

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

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

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

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

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

Furthermore, notwithstanding Public Storage s status as a REIT, Public Storage also may have to pay certain state and local income taxes, because not all states and localities treat REITs in the same manner for state and local income tax purposes as they are treated for federal income tax purposes. Moreover, each of Public Storage s taxable REIT subsidiaries (as further described below) is subject to federal, state and local corporate income taxes on its net income. In addition, foreign entities will be subject to tax in the jurisdictions in which they are organized or operated.

If Public Storage is subject to taxation on its REIT taxable income or subject to tax due to the sale of a built-in gain asset that was acquired in a carry-over basis transaction from a non-REIT C corporation or from a partnership in which a non-REIT C corporation owns an interest, some of the dividends Public Storage pays to its shareholders during the following year may be subject to tax at the reduced capital gains rates, rather than taxed at ordinary income rates. See *Taxation of U.S. Shareholders Qualified Dividend Income*.

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

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

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

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(3) that would be taxable as a domestic corporation, but for Sections 856 through 860 of the Code;

(4) that is neither a financial institution nor an insurance company within the meaning of certain provisions of the Code;

(5) that is beneficially owned by 100 or more persons;

(6) not more than 50% in value of the outstanding shares or other beneficial interest of which is owned, actually or constructively, by five or fewer individuals (as defined in the Code to include certain entities and as determined by applying certain attribution rules) during the last half of each taxable year;

(7) that makes an election to be a REIT for the current taxable year, or has made such an election for a previous taxable year that has not been revoked or terminated, and satisfies all relevant filing and other administrative requirements established by the IRS that must be met to elect and maintain REIT status;

(8) that uses a calendar year for federal income tax purposes and complies with the recordkeeping requirements of the Code and the Treasury regulations promulgated thereunder; and

(9) that meets other applicable tests, described below, regarding the nature of its income and assets and the amount of its distributions.

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

Public Storage believes that it has been organized, has operated and has issued sufficient shares evidencing beneficial ownership with sufficient diversity of ownership to allow it to satisfy the above conditions. In addition, Public Storage s organizational documents contain restrictions regarding the transfer of Public Storage capital stock that are intended to assist Public Storage in continuing to satisfy the share ownership requirements described in conditions (5) and (6) above. The ownership restrictions in Public Storage s articles of incorporation and bylaws generally prohibit the actual or constructive ownership of more than 2% of the outstanding shares of common stock (excluding the interest held by the Hughes family) or more than 9.9% of the outstanding shares of each class or series of shares of preferred stock or equity stock, unless an exception is established by the board of directors. The restrictions provide that if, at any time, for any reason, those ownership limitations are violated or more than 50% in value of Public Storage s outstanding stock otherwise would be considered owned by five or fewer individuals, then a number of shares of stock necessary to cure the violation will automatically and irrevocably be transferred from the person causing the violation to a designated charitable beneficiary. See *Description of Public Storage Capital Stock Common Stock Restrictions on Ownership*. At the time of the merger with Public Storage Management, to further assist Public Storage in meeting the ownership restrictions, the Hughes family entered into an agreement with Public Storage for the benefit of Public Storage and certain designated charitable beneficiaries providing that if, at any time, for any reason (other than by reason of any actions by others that are subject to the general ownership limitations of Public Storage s articles), more than 50% in value of Public Storage s outstanding stock otherwise would be considered owned by five or fewer individuals, then a number of shares of Public Storage s common stock owned by Wayne Hughes necessary to cure such violation would automatically and irrevocably be transferred to a designated charitable beneficiary.

The REIT protective provisions of Public Storage s organizational documents and the agreement with the Hughes family are modeled after certain arrangements that the IRS has ruled in private letter rulings will

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

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

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

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

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

Taxable REIT Subsidiaries. A taxable REIT subsidiary is a corporation other than a REIT in which Public Storage directly or indirectly holds stock, which has made a joint election (a TRS Election) with Public Storage to be treated as a taxable REIT subsidiary under Section 856(1) of the Code. A taxable REIT subsidiary also

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includes any corporation other than a REIT in which a taxable REIT subsidiary of Public Storage owns, directly or indirectly, securities (other than certain straight debt securities), which represent more than 35% of the total voting power or value of the outstanding securities of such corporation. Other than some activities relating to lodging and health care facilities, a taxable REIT subsidiary may generally engage in any business, including the provision of customary or non-customary services to Public Storage s tenants without causing Public Storage to receive impermissible tenant service income under the REIT gross income tests. A taxable REIT subsidiary is required to pay regular federal income tax, and state and local income tax where applicable, as a non-REIT C corporation. In addition, a taxable REIT subsidiary may be prevented from deducting interest on debt funded directly or indirectly by Public Storage if certain tests regarding the taxable REIT subsidiary s debt to equity ratio and interest expense are not satisfied. If dividends are paid to Public Storage by its taxable REIT subsidiaries, then a portion of the dividends Public Storage distributes to shareholders who are taxed at individual rates will generally be eligible for taxation at lower capital gains rates, rather than at ordinary income rates. See *Taxation of U.S. Shareholders Qualified Dividend Income*.

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

PS Orangeco Inc. (and its subsidiaries, including PS Pickup & Delivery, Inc.), PSCC, Inc., PS Insurance Company Hawaii, Ltd. and certain other corporations have elected, together with Public Storage, to be treated as taxable REIT subsidiaries of Public Storage. These entities engage in businesses such as the portable self-storage business, providing moving services and tenant reinsurance, selling locks, boxes and packing materials, and renting trucks, among other activities. In the Shurgard merger, Public Storage also will be acquiring interests in a number of corporations that have made TRS elections with Shurgard, and following the merger, will jointly make TRS elections with Public Storage.

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

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

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

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

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

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

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

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

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In light of these requirements, Public Storage does not intend to take any of the actions listed below, unless Public Storage determines that the resulting non-qualifying income, taken together with all other non-qualifying income that Public Storage earns in the taxable year, will not jeopardize its status as a REIT:

(1) charge rent for any property that is based in whole or in part on the income or profits of any person (unless based on a fixed percentage or percentages of gross receipts or sales, as permitted and described above);

(2) rent any property to a related party tenant, including a taxable REIT subsidiary, unless the rent from the lease to the taxable REIT subsidiary would qualify for the special exception from the related party tenant rule applicable to certain leases with a taxable REIT subsidiary;

(3) derive rental income attributable to personal property other than personal property leased in connection with the lease of real property, the amount of which is less than 15% of the total rent received under the lease; or

(4) directly perform services considered to be non-customary or rendered to the occupant of the property.

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

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

The ownership of certain partnership interests creates several issues regarding Public Storage s satisfaction of the 95% gross income test. First, Public Storage earns property management fees from these partnerships and will earn management fees from partnerships to be acquired in the merger. Existing Treasury regulations do not address the treatment of management fees derived by a REIT from a partnership in which the REIT holds a partnership interest, but the IRS has issued a number of private letter rulings holding that the portion of the management fee that corresponds to the REIT s interest in the partnership in effect is disregarded in applying the 95% gross income test when the REIT holds a substantial interest in the partnership. Public Storage disregards the portion of management fees derived from partnerships in which Public Storage is a partner that corresponds to its interest in these partnerships in determining the amount of its non-qualifying income. There can be no

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assurance, however, that the IRS would not take a contrary position with respect to Public Storage, either rejecting the approach set forth in the private letter rulings mentioned above or contending that Public Storage s situation is distinguishable from those addressed in the private letter rulings (for example, arguing that Public Storage does not have a substantial interest in the partnerships).

In addition, Public Storage acquired interests in certain of these partnerships that entitle it to a percentage of profits (either from operations, or upon a sale, or both) in excess of the percentage of total capital originally contributed to the partnership with respect to such interest. Existing Treasury regulations do not specifically address how Public Storage s capital interest in partnerships of this type should be determined. This determination is relevant because it affects both the percentage of the gross rental income of the partnership that is considered gross rental income (or qualifying income) to Public Storage and the percentage of the management fees paid to us that is disregarded in determining Public Storage s non-qualifying income. For example, if Public Storage takes the position that it has a 25% capital interest in a partnership (because Public Storage would receive 25% of the partnership s assets upon a sale and liquidation) but the IRS determines it only has a 1% capital interest (because the original holder of Public Storage s interest only contributed 1% of the total capital contributed to the partnership), Public Storage s share of the qualifying income from the partnership would be reduced and the portion of the management fee from the partnership that would be treated as non-qualifying income would be increased, both of which would adversely affect Public Storage s ability to satisfy the 95% gross income test. In determining Public Storage s capital interest in the various partnerships, Public Storage estimates the percentage of the partnership s assets that would be distributed to Public Storage if those assets were sold and distributed among the partners in accordance with the applicable provisions of the partnership agreements. There can be no assurance, however, that the IRS will agree with this methodology and not contend that another, perhaps less favorable, method must be used for purposes of determining Public Storage s capital interests, which could adversely affect Public Storage s ability to satisfy the 95% gross income test.

Moreover, after the merger, Public Storage will have indirect equity interests in real estate located outside of the United States and Public Storage may acquire additional interests in non-U.S. properties both directly and through equity interests in partnerships, joint ventures or other legal entities that have invested in real estate. These investments carry risks and uncertainties with respect to Public Storage s status as a REIT that are not present when Public Storage invests directly in real estate in the U.S. and against which Public Storage may not be able to protect, including certain risks relating to currency gains and losses whose tax treatment for REIT tax qualification purposes is currently unclear.

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

Public Storage s share of any dividends received from its corporate subsidiaries that are not qualified REIT subsidiaries (and from other corporations in which Public Storage owns an interest) will qualify for purposes of the 95% gross income test but not for purposes of the 75% gross income test. Public Storage does not anticipate that it will receive sufficient dividends to cause it to exceed the limit on non-qualifying income under the 75% gross income test. Dividends that Public Storage receives from other qualifying REITs will qualify for purposes of both REIT income tests.

If Public Storage fails to satisfy one or both of the 75% or 95% gross income tests for any taxable year, Public Storage may nevertheless qualify as a REIT for that year if it is entitled to relief under the Code. These relief provisions generally will be available if Public Storage s failure to meet the tests is due to reasonable cause and not due to willful neglect, and Public Storage discloses to the IRS the sources of its income as required by the Code and applicable regulations. It is not possible, however, to state whether in all circumstances Public Storage would be entitled to the benefit of these relief provisions. For example, if Public Storage fails to satisfy the gross income tests because non-qualifying income that Public Storage intentionally earns exceeds the limits

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on non-qualifying income, the IRS could conclude that the failure to satisfy the tests was not due to reasonable cause. If these relief provisions are inapplicable to a particular set of circumstances, Public Storage will fail to qualify as a REIT. As discussed under *Material United States Federal Income Tax Consequences Relating to Public Storage s Taxation as a REIT* even if these relief provisions apply, a tax would be imposed based on the amount of non-qualifying income.

Prohibited Transaction Income. Any gain that Public Storage realizes on the sale of any property held as inventory or otherwise held primarily for sale to customers in the ordinary course of business, including its share of any such gain realized through its disregarded entities for federal income tax purposes (including qualified REIT subsidiaries) and partnerships in which Public Storage owns a capital interest, will be treated as income from a prohibited transaction that is subject to a 100% penalty tax. Under existing law, whether property is held as inventory or primarily for sale to customers in the ordinary course of a trade or business is a question of fact that depends on all the facts and circumstances surrounding the particular transaction. However, for purposes of the 100% tax, Public Storage will not be treated as a dealer in real property with respect to a property Public Storage sells if (i) Public Storage has held the property for at least four years for the production of rental income prior to the sale, (ii) capitalized expenditures on the property in the four years preceding the sale are less than 30% of the net selling price of the property, and (iii) Public Storage either (a) has seven or fewer sales of property (excluding certain property obtained through foreclosure) for the year of sale or (b) the aggregate tax basis of property sold during the year of sale is 10% or less of the aggregate tax basis of all of Public Storage s assets as of the beginning of the taxable year and substantially all of the marketing and development expenditures with respect to the property sold are made through an independent contractor from whom Public Storage derives no income. The sale of more than one property to one buyer as part of one transaction constitutes one sale for purposes of this safe harbor. Public Storage intends to hold its properties for investment with a view to long-term appreciation, to engage in the business of acquiring, developing and owning its properties and to make occasional sales of properties as are consistent with its investment objectives. However, the IRS may successfully contend that some or all of the sales made by it are prohibited transactions. In that case, Public Storage would be required to pay the 100% penalty tax on its allocable share of the gains resulting from any such sales.

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

- amounts are excluded from the definition of impermissible tenant service income as a result of satisfying the 1% de minimis exception;
- a taxable REIT subsidiary renders a significant amount of similar services to unrelated parties and the charges for such services are substantially comparable;
- rents paid to Public Storage by tenants who are not receiving services from the taxable REIT subsidiary are substantially comparable to the rents paid by Public Storage s tenants leasing comparable space who are receiving services from the taxable REIT subsidiary, and the charge for the services is separately stated; or
- the taxable REIT subsidiary s gross income from the service is not less than 150% of the taxable REIT subsidiary s direct cost of furnishing the service.

While Public Storage anticipates that any fees paid to a taxable REIT subsidiary for tenant services will reflect arm s-length rates, a taxable REIT subsidiary may under certain circumstances provide tenant services which do not satisfy any of the safe-harbor provisions described above. Nevertheless, these determinations are inherently factual, and the IRS has broad discretion to assert that amounts paid between related parties should be

reallocated to clearly reflect their respective incomes. If the IRS successfully made such an assertion, Public Storage would be required to pay a 100% penalty tax on the redetermined rent, redetermined deductions or excess interest, as applicable.

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

(1) at least 75% of the value of Public Storage s total assets must be represented by real estate assets, cash, cash items and government securities. For purposes of this test, real estate assets include real property, interests in real property, interests in loans secured by mortgages on real property or by interests in real property and shares in other REITs, as well as Public Storage s allocable share of real estate assets held by entities that are treated as partnerships in which Public Storage has a capital interest or by entities that are disregarded for federal income tax purposes (including qualified REIT subsidiaries), as well as stock or debt instruments that are purchased with the proceeds of an offering of shares or a public offering of debt with a term of at least five years, but only for the one-year period beginning on the date Public Storage receives such proceeds;

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

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

- the value of any one issuer s securities owned by Public Storage may not exceed 5% of the value of Public Storage s total assets;
- Public Storage may not own more than 10% of any one issuer s outstanding voting securities; and
- Public Storage may not own more than 10% of the total value of the outstanding securities of any one issuer, other than securities that qualify for the straight debt exception discussed below; and

(4) not more than 20% of the value of Public Storage s total assets may be represented by the securities of one or more taxable REIT subsidiaries.

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

Debt will generally meet the straight debt safe harbor if (l) neither Public Storage, nor any of its controlled taxable REIT subsidiaries (i.e., taxable REIT subsidiaries more than 50% of the vote or value of the outstanding stock of which is directly or indirectly owned by us) own any securities not described in the preceding paragraph that have an aggregate value greater than one percent of the issuer s outstanding securities, as calculated under the Code, (2) the debt is a written unconditional promise to pay on demand or on a specified date a sum certain in money, (3) the debt is not convertible, directly or indirectly, into stock, and (4) the interest rate and the interest payment dates of the debt are not contingent on the profits, the borrower s discretion or similar factors. However, contingencies regarding time of payment and interest are permissible for purposes of

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qualifying as a straight debt security if either (l) such contingency does not have the effect of changing the effective yield of maturity, as determined under the Code, other than a change in the annual yield to maturity that does not exceed the greater of (i) 5% of the annual yield to maturity or (ii) 0.25%, or (2) neither the aggregate issue price nor the aggregate face amount of the issuer s debt instruments held by the REIT exceeds $1,000,000 and not more than 12 months of unaccrued interest can be required to be prepaid thereunder. In addition, debt will not be disqualified from being treated as straight debt solely because the time or amount of payment is subject to a contingency upon a default or the exercise of a prepayment right by the issuer of the debt, provided that such contingency is consistent with customary commercial practice.

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

Public Storage believes that the aggregate value of its interests in its taxable REIT subsidiaries does not exceed, and in the future will not exceed, 20% of the aggregate value of its gross assets. As of each relevant testing date prior to the election to treat each corporate subsidiary of Public Storage or any other corporation in which Public Storage owns an interest as a taxable REIT subsidiary, Public Storage believes it did not own more than 10% of the voting securities of any such entity. In addition, Public Storage believes that as of each relevant testing date prior to the election to treat each corporate subsidiary of Public Storage or any other corporation in which Public Storage owns an interest as a taxable REIT subsidiary of Public Storage, its pro rata share of the value of the securities, including debt, of any such corporation or other issuer did not exceed 5% of the total value of its assets.

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

The asset tests must be satisfied on the last day of the calendar quarter in which Public Storage, directly or through pass-through entities, acquires securities in the applicable issuer and on the last day of the calendar quarter in which Public Storage increases its ownership of securities of such issuer, including as a result of increasing its interest in pass-through entities. After initially meeting the asset tests at the close of any quarter, Public Storage will generally not lose its status as a REIT for failure to satisfy the 25%, 20% or 5% asset tests and the 10% value limitation at the end of a later quarter solely by reason of changes in the relative values of its assets. If failure to satisfy the 25%, 20% or 5% asset tests or the 10% value limitation results from an acquisition of securities or other property during a quarter, Public Storage can cure this failure by disposing of sufficient non-qualifying assets within 30 days after the close of that quarter. Public Storage intends to maintain adequate records of the value of its assets to ensure compliance with the asset tests and to take any available action within

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30 days after the close of any quarter as may be required to cure any noncompliance with the 25%, 20% or 5% asset tests or 10% value limitation. Although Public Storage plans to take steps to ensure that Public Storage satisfies such tests for any quarter with respect to which testing is to occur, there can be no assurance that such steps will always be successful. If Public Storage fails to timely cure any noncompliance with the asset tests, Public Storage would cease to qualify as a REIT, unless Public Storage satisfies the requirements under certain relief provisions described in the next paragraph.

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

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

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

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

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

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

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

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

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

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

85% of Public Storage s REIT ordinary income for such year;

95% of Public Storage s REIT capital gain net income for the year; and

any undistributed taxable income from prior taxable years.

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

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

Record-Keeping Requirements. Public Storage is required to comply with applicable record-keeping requirements. Failure to comply could result in monetary fines.

Failure of Public Storage to Qualify as a REIT. If Public Storage fails to comply with one or more of the conditions required for qualification as a REIT (other than asset tests and the income tests that have the specific savings clauses discussed above in *Asset Tests Applicable to REITs*, and *Income Tests Applicable to REITs*), Public Storage can avoid termination of its REIT status by paying a penalty of $50,000 for each such failure, provided that its noncompliance was due to reasonable cause and not willful neglect. If Public Storage

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fails to qualify for taxation as a REIT in any taxable year and the statutory relief provisions do not apply, Public Storage will be subject to tax, including any applicable alternative minimum tax, on its taxable income at regular corporate rates. Distributions to shareholders in any year in which Public Storage fails to qualify for taxation as a REIT will not be deductible by Public Storage, and Public Storage will not be required to distribute any amounts to its shareholders. As a result, Public Storage s failure to qualify as a REIT would significantly reduce the cash available for distribution by Public Storage to its shareholders. In addition, if Public Storage fails to qualify as a REIT, all distributions to shareholders will be taxable as dividends to the extent of Public Storage s current and accumulated earnings and profits, whether or not attributable to capital gains earned by Public Storage. Non-corporate shareholders currently would be taxed on these dividends at capital gains rates, and corporate shareholders may be eligible for the dividends received deduction with respect to such dividends. Unless entitled to relief under specific statutory provisions, Public Storage would also be disqualified from taxation as a REIT for the four taxable years following the year during which Public Storage lost its qualification. There can be no assurance that Public Storage would be entitled to any statutory relief.

Tax Liabilities Inherited from Shurgard. Merger Sub will succeed to the tax and other liabilities of Shurgard. If Shurgard fails to qualify as a real estate investment trust in any taxable year, it will be subject to federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate rates. Unless statutory relief provisions apply, Shurgard would be disqualified from treatment as a real estate investment trust for the four taxable years following the year during which it lost qualification. Merger Sub, as successor to Shurgard, would be required to pay this tax. As is the case with Public Storage, qualification as a real estate investment trust requires Shurgard to satisfy numerous requirements, some on an annual basis, others on a quarterly basis and still others on an ongoing basis, established under highly technical and complex Code provisions. In connection with the filing of the registration statement, tax counsel to Shurgard has rendered an opinion to the effect that, based on the facts, representations and assumptions, and subject to the qualifications, stated therein, (i) Shurgard was organized and has operated in conformity with the requirements for qualification and taxation as a REIT under Sections 856 through 860 of the Code for each of its taxable years ended December 31, 1994 through December 31, 2005, (ii) Shurgard s current organization and method of operation should permit Shurgard to qualify as a REIT under the Code through the effective time of the merger, taking into account the transactions contemplated under the merger agreement and, (iii) while the matter is not free from doubt, either (x) no material portion of any income realized by Shurgard under Section 987 of the Code as a result of the sale of assets in the merger should fail to be treated as income from sources referred to in Sections 856(c)(2) and (3) of the Code, or (y) substantially all of any such income realized by Shurgard under Section 987 of the Code should be excluded in determining whether or not Shurgard satisfies the income tests set forth in Sections 856(c)(2) and (3) of the Code. The opinion described in item (iii) above is not free from doubt due to the absence of controlling legal authority. However, any income realized by Shurgard under Section 987 of the Code as a result of the sale of assets in the merger is not expected to affect the opinions contained in items (i) and (ii) above or result in any material tax liability. Furthermore, as a condition to closing, Shurgard s tax counsel is required to render an opinion, dated as of the closing date of the merger, to the same effect as the opinion rendered in connection with the registration statement. The opinion that Shurgard s counsel rendered in connection with the filing of the registration statement is attached to the registration statement as Exhibit 8.2.

If Shurgard were not to qualify as a REIT at the time of the merger, Shurgard would incur a federal corporate income tax liability in connection with the merger, which would be treated as a taxable asset sale by Shurgard for federal income tax purposes. The resulting gain subject to tax would be equal to the excess of the value of the merger consideration and the Shurgard liabilities assumed by Merger Sub at the time of the merger over Shurgard s adjusted tax basis in its assets at that time. Merger Sub, as the successor to Shurgard, would be obligated to pay this tax. In addition, if Shurgard did not qualify as a REIT at any time during the 10 years preceding the merger, even if it qualifies as a REIT at the time of the merger, Shurgard would incur a federal corporate income tax liability on an amount equal to the built-in gain that existed with respect to its assets at the time it requalified as a REIT prior to the merger. Again, Merger Sub, as the successor to Shurgard, would be obligated to pay this tax.

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Material United States Federal Income Tax Consequences Relating to the Ownership and Disposition of Public Storage Common Shares

The following summary describes the material United States federal income tax consequences relating to the ownership and disposition of shares of Public Storage common stock. This summary is based on the Code, administrative pronouncements, judicial decisions and Treasury Regulations, all as in effect as of the date of this proxy statement/prospectus. All of the foregoing are subject to change at any time, possibly with retroactive effect, and all are subject to differing interpretation. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax consequences set forth below.

This summary does not address any tax consequences arising under United States federal tax laws other than United States federal income tax laws, nor does it address the laws of any state, local, foreign or other taxing jurisdiction. In addition, this summary does not address all aspects of United States federal income taxation that may apply to holders of Public Storage common stock in light of their particular circumstances or holders that are subject to special rules under the Code, including, without limitation, holders of Public Storage common stock that are not U.S. holders, partnerships or other pass-through entities (and persons holding their Public Storage common stock through a partnership or other pass-through entity), persons who acquired shares of Public Storage common stock as a result of the exercise of employee stock options or otherwise as compensation or through a tax-qualified retirement plan, persons who also hold Public Storage preferred stock, persons subject to the alternative minimum tax, tax-exempt organizations, financial institutions, broker-dealers, insurance companies, persons having a functional currency other than the U.S. dollar, persons holding their Public Storage common stock as part of a straddle, hedging, constructive sale or conversion transaction and persons who have ceased to be U.S. citizens or resident aliens.

Taxation of U.S. Shareholders

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

- a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or of any State thereof or in the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if (1) it is subject to the primary supervision of a United States court and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) it was in existence on August 20, 1996, and has a valid election in effect under applicable Treasury Regulations to be treated as a domestic trust.

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

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

To the extent that Public Storage makes distributions in excess of its current and accumulated earnings and profits, these distributions will be treated first as a tax-free return of capital to each U.S. shareholder. This treatment will reduce the adjusted tax basis that each U.S. shareholder has in its shares for tax purposes by the amount of the distribution, but not below zero. Distributions in excess of a U.S. shareholder s adjusted tax basis in its shares will be taxable as capital gains, provided that the shares have been held as a capital asset, and will be

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taxable as long-term capital gain if the shares have been held for more than one year. Dividends Public Storage declares in October, November, or December of any year and payable to a shareholder of record on a specified date in any of these months shall be treated as both paid by Public Storage and received by the shareholder on December 31 of that year, provided Public Storage actually pays the dividend on or before January 31 of the following calendar year.

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

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

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

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

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

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

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

Qualified Dividend Income. With respect to shareholders who are taxed at the rates applicable to individuals, Public Storage may elect to designate a portion of its distributions paid to shareholders as qualified dividend income. A portion of a distribution that is properly designated as qualified dividend income is taxable to non-corporate U.S. shareholders as capital gain, provided that the shareholder has held the common shares with respect to which the distribution is made for more than 60 days during the 120-day period beginning on the date that is 60 days before the date on which such common shares become ex-dividend with respect to the relevant distribution. The maximum amount of Public Storage distributions eligible to be designated as qualified dividend income for a taxable year is equal to the sum of:

(1) the qualified dividend income received by Public Storage during such taxable year from non-REIT C corporations (including its taxable REIT subsidiaries, but excluding its qualified REIT subsidiaries);

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(2) the excess of any undistributed REIT taxable income recognized during the immediately preceding year over the federal income tax paid by Public Storage with respect to such undistributed REIT taxable income; and

(3) the excess of any income recognized during the immediately preceding year attributable to the sale of a built-in-gain asset that was acquired in a carry-over basis transaction from a non-REIT C corporation over the federal income tax paid by Public Storage with respect to such built-in gain.

Generally, dividends that Public Storage receives will be treated as qualified dividend income for purposes of (1) above if the dividends are received from a domestic corporation (other than a REIT or a regulated investment company) or a qualifying foreign corporation and specified holding period requirements and other requirements are met. A foreign corporation (other than a foreign personal holding company, a foreign investment company, or passive foreign investment company) will be a qualifying foreign corporation if it is incorporated in a possession of the United States, the corporation is eligible for benefits of an income tax treaty with the United States that the Secretary of Treasury determines is satisfactory, or the stock of the foreign corporation on which the dividend is paid is readily tradable on an established securities market in the United States. Public Storage generally expects that an insignificant portion, if any, of its distributions will consist of qualified dividend income. If Public Storage designates any portion of a dividend as qualified dividend income, a U.S. shareholder will receive an IRS Form 1099-DIV indicating the amount that will be taxable to the shareholder as qualified dividend income.

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

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

Sales of Shares. If a U.S. shareholder sells or otherwise disposes of its shares in a taxable transaction, it will recognize gain or loss for federal income tax purposes in an amount equal to the difference between the amount of cash and the fair market value of any property received on the sale or other disposition and the holder s adjusted basis in the shares for tax purposes. This gain or loss will be a capital gain or loss if the shares have been held by the U.S. shareholder as a capital asset. The applicable tax rate will depend on the U.S. shareholder s holding period in the asset (generally, if an asset has been held for more than one year, such gain or loss will be long-term capital gain or loss) and the U.S. shareholder s tax bracket. A U.S. shareholder who is an individual or an estate or trust and who has long-term capital gain or loss will be subject to a maximum capital gain rate, which is currently 15%. The IRS has the authority to prescribe, but has not yet prescribed, regulations that would apply

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a capital gain tax rate of 25% (which is generally higher than the long-term capital gain tax rates for noncorporate shareholders) to a portion of capital gain realized by a noncorporate shareholder on the sale of REIT shares that would correspond to the REIT s unrecaptured Section 1250 gain. In general, any loss recognized by a U.S. shareholder upon the sale or other disposition of common shares that have been held for six months or less, after applying the holding period rules, will be treated be such U.S. shareholders as a long-term capital loss, to the extent of distributions received by the U.S. shareholder from Public Storage that were required to be treated as long-term capital gains. Shareholders are advised to consult their tax advisors with respect to the capital gain liability.

Taxation of Tax-Exempt Shareholders

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

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

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

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

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

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

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

The following discussion addresses the rules governing U.S. federal income taxation of the ownership and disposition of Public Storage common shares by non-U.S. shareholders. These rules are complex, and no attempt

is made herein to provide more than a brief summary of such rules. Accordingly, the discussion does not address all aspects of U.S. federal income taxation and does not address state, local or foreign tax consequences that may be relevant to a non-U.S. shareholder in light of its particular circumstances.

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

- ordinary income dividends;
- long-term capital gain; or
- return of capital distributions.

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

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

- the distribution is not attributable to Public Storage s net capital gain; or
- the distribution is attributable to Public Storage s net capital gain from the sale of U.S. real property interests and the non-U.S. shareholder owns 5% or less of the value of Public Storage s common shares at all times during the taxable year during which the distribution is paid.

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

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

- a lower treaty rate applies and the non-U.S. shareholder files an IRS Form W-8BEN evidencing eligibility for that reduced treaty rate with Public Storage; or
- the non-U.S. shareholder files an IRS Form W-8ECI with Public Storage claiming that the distribution is income effectively connected with the non-U.S. shareholder s trade or business.

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

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

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

- the distribution is attributable to Public Storage s net capital gain (other than from the sale of U.S. real property interests) and Public Storage timely designates the distribution as a capital gain dividend; or
- the distribution is attributable to Public Storage s net capital gain from the sale of U.S. real property interests and the non-U.S. common shareholder owns more than 5% of the value of common shares at any point during the taxable year in which the distribution is paid.

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

- the non-U.S. shareholder s investment in Public Storage s common shares is effectively connected with a U.S. trade or business of the non-U.S. shareholder, in which case the non-U.S. shareholder will be subject to the same treatment as U.S. shareholders with respect to any gain, except that a non-U.S. shareholder that is a corporation also may be subject to the 30% branch profits tax; or
- the non-U.S. shareholder is a nonresident alien individual who is present in the United States for 183 days or more during the taxable year and has a tax home in the United States in which case the nonresident alien individual will be subject to a 30% tax on his capital gains.

Under the Foreign Investment in Real Property Tax Act, referred to as FIRPTA, distributions that are attributable to net capital gain from the sales by Public Storage of U.S. real property interests and paid to a non-U.S. shareholder that owns more than 5% of the value of common shares at any time during the 1-year period ending on the date of distribution will be subject to U.S. tax as income effectively connected with a U.S. trade or business. The FIRPTA tax will apply to these distributions whether or not the distribution is designated as a capital gain dividend.

Any distribution paid by Public Storage that is treated as a capital gain dividend or that could be treated as a capital gain dividend with respect to a particular non-U.S. shareholder that owns more than 5% of the value of common shares at any time during the 1-year period ending on the date of distribution will be subject to special withholding rules under FIRPTA. Public Storage will be required to withhold and remit to the IRS 35% of any distribution that could be treated as a capital gain dividend with respect to the non-U.S. shareholder, whether or not the distribution is attributable to the sale by Public Storage of U.S. real property interests. The amount withheld is creditable against the non-U.S. shareholder s U.S. federal income tax liability or refundable when the non-U.S. shareholder properly and timely files a tax return with the IRS.

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

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Public Storage were to designate any portion of its net capital gain as undistributed capital gain, a non-U.S. shareholder should consult its tax advisor regarding the taxation of such undistributed capital gain.

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

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

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

(3) Public Storage s common shares constitute a U.S. real property interest within the meaning of FIRPTA, as described below.

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

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

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

(1) the class or series of shares sold is considered regularly traded under applicable Treasury regulations on an established securities market, such as the New York Stock Exchange; and

(2) the selling non-U.S. shareholder owned, actually or constructively, 5% or less in value of the outstanding class or series of shares being sold throughout the shorter of the period during which the non-U.S. shareholders held such class or series of shares or the five-year period ending on the date of the sale or exchange.

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

Information Reporting and Backup Withholding Tax Applicable to Shareholders

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

(1) the payee fails to furnish a taxpayer identification number, or TIN, to the payer or to establish an exemption from backup withholding;

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(2) the IRS notifies the payer that the TIN furnished by the payee is incorrect;

(3) there has been a notified payee under-reporting with respect to interest, dividends or original issue discount described in Section 3406(c) of the Code; or

(4) there has been a failure of the payee to certify under the penalty of perjury that the payee is not subject to backup withholding under the Code.

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

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

The payment of the proceeds from the disposition of Public Storage common shares to or through the United States office of a United States or foreign broker will be subject to information reporting and, possibly, backup withholding as described above for U.S. shareholders, or the withholding tax for non-U.S. shareholders, as applicable, unless the non-U.S. shareholder certifies as to its non-U.S. status or otherwise establishes an exemption, provided that the broker does not have actual knowledge that the shareholder is a U.S. person or that the conditions of any other exemption are not, in fact, satisfied. The proceeds of the disposition by a non-U.S. shareholder of Public Storage common shares to or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, if the broker is a U.S. person, a controlled foreign corporation for United States tax purposes, or a foreign person 50% or more of whose gross income from all sources for specified periods is from activities that are effectively connected with a U.S. trade or business, a foreign partnership 50% or more of whose interests are held by partners who are U.S. persons, or a foreign partnership that is engaged in the conduct of a trade or business in the United States, then information reporting generally will apply as though the payment was made through a U.S. office of a United States or foreign broker unless the broker has documentary evidence as to the non-U.S. shareholder s foreign status and has no actual knowledge to the contrary.

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

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

Other Tax Consequences for Public Storage and Its Shareholders

Public Storage may be required to pay tax in various state, local or foreign jurisdictions, including those in which it transacts business, and Public Storage s shareholders may be required to pay tax in various state or local jurisdictions, including those in which they reside. Public Storage s state and local tax treatment may not

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conform to the federal income tax consequences discussed above. In addition, a shareholder s state and local tax treatment may not conform to the federal income tax consequences discussed above. Consequently, prospective investors should consult with their tax advisors regarding the effect of state and local tax laws on an investment in Public Storage common shares.

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

Tax Shelter Reporting

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

Accounting Treatment

The merger will be accounted for using the purchase method of accounting, with Public Storage treated as the acquiror. Under this method of accounting, Shurgard s assets and liabilities will be recorded by Public Storage at their respective fair values as of the closing date of the merger and added to those of Public Storage. Financial statements of Public Storage issued after the merger will reflect these values, but will not be restated retroactively to reflect the historical financial position or results of operations of Shurgard prior to the merger. The results of operations of Shurgard will be included in the results of operations of Public Storage beginning on the effective date of the merger.

Regulatory Approvals Required for the Merger

Public Storage and Shurgard are not aware of any significant governmental approvals that are required for consummation of the merger. If any approval or action is required, it is presently contemplated that Public Storage and Shurgard would use their reasonable best efforts to obtain such approval. There can be no assurance that any approvals, if required, will be obtained.

Dissenters Rights of Shurgard Shareholders

General

The following is a summary of the material rights of holders of Shurgard common stock under Chapter 23B.13 of the Washington Business Corporation Act, or the WBCA, to dissent from the merger, receive an appraisal as to the fair value of their shares of Shurgard common stock and to receive cash equal to the appraised value of their Shurgard common stock instead of receiving the merger consideration. This summary contains all the material rights of holders of Shurgard common stock under chapter 23B.13 of the WBCA; however you should read the applicable sections of Chapter 23B.13, a copy of which is attached to this joint proxy statement/prospectus as Annex G.

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Under Chapter 23B.13, where a proposed merger is to be submitted for approval at a meeting of shareholders, as in the case of the Shurgard special meeting, the corporation in the notice of the meeting must state that shareholders are or may be entitled to assert dissenters rights and the notice must be accompanied by a copy of the dissenters rights statute. The notice of annual meeting at the front of this joint proxy statement/prospectus constitutes notice to the holders of Shurgard common stock and a copy of the dissenters rights statute is attached as Annex G.

If you are contemplating the possibility of exercising your dissenters rights in connection with the merger, you should carefully review the text of the dissenters rights statute attached as Annex G, particularly the procedural steps required to perfect dissenters rights, which are complex. We also encourage you to consult your legal counsel, at your expense, before attempting to exercise your dissenters rights. If you do not fully and precisely satisfy the procedural requirements of Washington law, you may lose your dissenters rights. If any Shurgard shareholder who demands dissenters rights under Washington law withdraws or loses (through failure to perfect or otherwise) the right to dissent, then such shareholder s shares will no longer be dissenting shares and will automatically be converted into the right to receive 0.82 of a share of Public Storage common stock at the effective time of the merger. Shurgard will not give you any notice other than as described in this joint proxy statement/prospectus as required by Washington law.

Requirements for Exercising Dissenters Rights

To preserve your right if you wish to exercise your statutory dissenters rights, you must:

- deliver to Shurgard before the vote is taken at the Shurgard special meeting regarding the merger agreement and the merger, written notice of your intent to exercise your dissenters rights and demand payment for your shares of Shurgard common stock if the merger is completed, which notice must be separate from your proxy. Your vote against the merger agreement alone will not constitute written notice of your intent to exercise your dissenters rights;

- not vote your shares in favor of the merger agreement; and

- follow the statutory procedures for perfecting dissenters rights under Washington law, which are described below under the heading *Appraisal Procedures*.

If you do not satisfy each of the requirements, you cannot exercise dissenters rights and, if the merger agreement is approved by the Shurgard shareholders and the merger occurs, your shares of Shurgard common stock will be converted into the right to receive the merger consideration pursuant to the terms of the merger agreement.

Vote. Your shares must either not be voted at the Shurgard special meeting or must be voted against the approval of the merger agreement. Submitting a properly signed proxy card that is received prior to the vote at the Shurgard special meeting that does not direct how the shares of Shurgard common stock represented by that proxy are to be voted will constitute a vote in favor of the merger and a waiver of your statutory dissenters rights.

Notice. Written notice of your intent to exercise dissenters rights must be filed with Shurgard at:

Shurgard Storage Centers, Inc.

1155 Valley Street, Suite 400

Seattle, WA 98109-4426

Attention: Investor Relations

(206) 624-8100

It is important that Shurgard receive all written notices before the Shurgard special meeting. Your written notice to demand payment should specify your name and mailing address, the number of shares of Shurgard common stock you own, and that you intend to demand cash payment for your shares of Shurgard common stock if the merger agreement is approved.

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Termination of Dissenters Rights. Your right to obtain payment of the fair value of your shares of Shurgard common stock under Chapter 23B.13 of the WBCA will terminate if:

- the merger is abandoned or rescinded;
- a court having jurisdiction permanently enjoins or sets aside the merger; or
- your demand for payment is withdrawn with Shurgard s written consent.

Appraisal Procedures

If the merger agreement is approved by Shurgard shareholders, within ten days after the approval, Shurgard will send written notice regarding the proper procedures for dissenting to all shareholders who have given written notice under the dissenters rights provisions and have not voted in favor of the merger as described above. The notice will contain:

- the address where the demand for payment and certificates representing shares of Shurgard common stock must be sent and the date by which certificates must be deposited;
- the date on which your payment demand must be received by Shurgard, which date will not be fewer than 30 nor more than 60 days after the date the written notice is delivered to you;
- a form for demanding payment that states the date of the first announcement to the news media or to shareholders of the proposed merger (March 7, 2006) and requires certification from the person asserting dissenters rights of whether or not the person acquired beneficial ownership of Shurgard common stock before the date of the first announcement;
- a copy of Chapter 23B.13 of the WBCA; and
- information for holders of uncertificated shares as to what extent transfer of the shares will be restricted after the demand for payment is received.

If you wish to assert dissenters rights, you must demand payment, certify that you acquired beneficial ownership of your shares before March 7, 2006, and deposit your Shurgard certificates within the specified number of days after the notice is given. If you fail to make demand for payment and deposit your Shurgard certificates within the time period set forth in the written notice, you will lose the right to demand appraisal for your shares under the dissenters rights provisions, even if you filed a timely notice of intent to demand payment.

If Shurgard does not consummate the merger within 60 days after the date set for demanding payment, Shurgard will return all deposited certificates and release transfer restrictions imposed on uncertificated shares. If after returning the deposited certificates, Shurgard wishes to consummate the merger, it must send a new dissenters notice and repeat the payment demand procedure. If Shurgard does not effect the merger and does not return the deposited certificates or release the transfer restrictions on uncertificated shares within 60 days after the date which it had set for demanding payment, you may notify Shurgard in writing of your estimate of the fair value of your Shurgard common stock plus the amount of interest due and demand payment of your estimated amount.

Except as provided below, within 30 days after the later of the effective time of the merger or the receipt by Shurgard of a valid demand for payment, Shurgard will remit to each dissenting shareholder who complied with the requirements of Washington law the amount Shurgard estimates to be the fair value of the shareholder s Shurgard common stock, plus accrued interest, and will include the following information with the payment:

financial data relating to Shurgard, including a balance sheet, an income statement, a statement of changes in shareholders equity as of and for a fiscal year ended not more than sixteen months before the date of payment, and the latest available interim financial statements, if any;

an explanation by Shurgard of how it estimated the fair value of the shares;

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an explanation by Shurgard of how the interest was calculated;

a statement of the dissenter s right to demand supplemental payment if such shareholder believes that the amount paid is less than the fair value of the shares or under certain other circumstances enumerated in the statute and described below; and

a copy of Chapter 23B.13 of the WBCA.

For dissenting shareholders who were not the beneficial owners of their shares of Shurgard common stock before March 7, 2006, Shurgard may withhold payment and instead send a statement setting forth its estimate of the fair value of their shares and offering to pay such amount, with interest, as a final settlement of the dissenting shareholder s demand for payment. Payment of the fair value of these after-acquired shares may be conditional upon the dissenting shareholder s waiver of other rights under Chapter 23B.13 of the WBCA. Shurgard will also include in such statement an explanation of how it estimated the fair value of the shares and of how the interest was calculated and a notice of the dissenter s right to demand payment of the dissenter s estimate of the fair value of the shares and the amount of interest due if such dissenting shareholder believes that the amount offered is less than the fair value of the shares or under certain other circumstances enumerated in the statute and described below.

If you believe the payment or offer for payment of Shurgard is less than the fair value of your shares or believe that the interest due is incorrectly calculated, you may, within 30 days of the payment or offer for payment, notify Shurgard in writing, and demand payment of, your estimate of the fair value of your shares and the amount of interest due. You may also demand payment of your estimate of the fair value of the shares if Shurgard fails to make payment for your shares within 60 days after the date set for demanding payment or does not effect the merger and does not return the deposited certificates or release the transfer restrictions imposed on uncertificated shares within 60 days after the date set for demanding payment. If any dissenting shareholder s demand for payment of the dissenter s own estimate of the fair value of the shares is not settled within 60 days after receipt by Shurgard of such shareholder s demand for payment of his or her own estimate, Washington law requires that Shurgard commence a proceeding in King County Superior Court and petition the court to determine the fair value of the shares and accrued interest, naming all the dissenting shareholders whose demands remain unsettled as parties to the proceeding. If Shurgard does not commence the proceeding within the 60-day period, it will pay each dissenter whose demand remains unsettled the amount demanded.

The court may appoint one or more appraisers to receive evidence and make recommendations to the court as to the amount of the fair value of the shares. The fair value of the shares as determined by the court is binding on all dissenting shareholders and may be less than, equal to or greater than the value of the merger consideration to be issued to non-dissenting shareholders for their Shurgard common stock under the terms of the merger agreement if the merger is consummated. If the court determines that the fair value of the shares plus interest is in excess of any amount remitted by Shurgard, then the court will enter a judgment for cash in favor of the dissenting shareholders in an amount by which the value determined by the court, plus interest, exceeds the amount previously remitted. For dissenting shareholders who were not the beneficial owners of their shares of Shurgard common stock before March 7, 2006 and for which Shurgard withheld payment pursuant to Section 23B.13.270 of the WBCA, the court may enter judgment for the fair value, plus accrued interest, of the dissenting shareholders after-acquired shares.

The court will also determine the costs and expenses of the court proceeding and assess them against Shurgard, except that the court may assess the costs against all or some of the dissenters whose actions in demanding payment of their own estimates of value are found by the court to be arbitrary, vexatious or not in good faith. If the court finds that Shurgard did not substantially comply with the relevant provisions of Sections 23B.13.200 through 23B.13.280 of the WBCA, the court may also assess against Shurgard any fees and expenses of attorneys or experts that the court deems equitable. The court may also assess those fees and expenses against any party if the court finds that the party has acted arbitrarily, vexatiously or not in good faith with respect to dissenters rights. If the court finds that the services of counsel for any dissenter were of

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substantial benefit to other dissenters similarly situated, and that the fees for those services should not be assessed against Shurgard, the court may award to counsel reasonable fees to be paid out of the amounts awarded the dissenters who were benefited.

A shareholder of record may assert dissenters rights as to fewer than all of the shares registered in the shareholder s name only if he or she dissents with respect to all shares beneficially owned by any one person and notifies Shurgard in writing of the name and address of each person on whose behalf he or she asserts dissenters rights. The rights of the partially dissenting record shareholder are determined as if the shares as to which he or she dissents and his or her other shares were registered in the names of different shareholders. Beneficial owners of Shurgard common stock who desire to exercise dissenters rights themselves must obtain and submit the registered owner s written consent at or before the time they file the notice of intent to demand payment, and the beneficial owner must do 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.

For purposes of Washington law, fair value means the value of Shurgard common stock immediately before the effective time of the merger, excluding any appreciation or depreciation in anticipation of the merger, unless that exclusion would be inequitable. Under Section 23B.13.020 of the WBCA, a Shurgard shareholder has no right, at law or in equity, to challenge the approval of the merger agreement or the consummation of the merger except if the approval or consummation fails to comply with the procedural requirements of the WBCA, RCW Sections 25.10.900 through 25.10.955, the articles of incorporation or bylaws of Shurgard or was fraudulent with respect to that shareholder or Shurgard.

Issuance of Shares; Stock Exchange Listings

Public Storage has agreed to use its reasonable best efforts to cause the shares of Public Storage common stock to be issued in the merger for the Public Storage common stock to be approved for listing on the New York Stock Exchange. It is a condition to the consummation of the merger that such shares be approved for listing on the New York Stock Exchange, subject to official notice of issuance. Following the merger, the shares of Public Storage common stock will continue to trade on the New York Stock Exchange under the symbol PSA.

Delisting and Deregistration of Shurgard Common Stock

If the merger is completed, Shurgard common stock will be delisted from the New York Stock Exchange and will be deregistered under the Exchange Act, and Shurgard will no longer file periodic reports with the SEC. The shareholders of Shurgard will become shareholders of Public Storage and their rights as shareholders will be governed by applicable California law and by Public Storage s articles of incorporation and bylaws. See *Comparison of Rights of Shareholders*.

Federal Securities Laws Consequences; Resale Restrictions

All shares of Public Storage common stock that will be distributed to Shurgard shareholders in the merger will be freely transferable, except for restrictions applicable to affiliates of Shurgard and except that resale restrictions may be imposed by securities laws in non-U.S. jurisdictions insofar as subsequent trades are made within these jurisdictions. Persons who are deemed to be affiliates of Shurgard may resell shares of Public Storage common stock received by them only in transactions permitted by the resale provisions of Rule 145 or as otherwise permitted under the Securities Act of 1933. Persons who may be deemed to be affiliates of Shurgard generally include executive officers, directors and holders of more than 10% of the outstanding shares of Shurgard. The merger agreement requires Shurgard to use all reasonable efforts to cause each of its directors and executive officers who Shurgard believes may be deemed to be affiliates of Shurgard to execute a written agreement in connection with restrictions on affiliates under Rule 145.

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This joint proxy statement/prospectus does not cover any resales of the shares of Public Storage common stock to be received by Shurgard shareholders in the merger, and no person is authorized to make any use of this joint proxy statement/prospectus in connection with any resale.

Legal Proceedings Relating to the Merger

On March 7, 2006, a putative class action complaint was filed on behalf of the public shareholders of Shurgard 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 the directors of Shurgard breached their fiduciary duties by failing to properly value Shurgard 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 acquisition. Shurgard intends to defend the action vigorously.

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THE MERGER AGREEMENT

The following is a summary of selected material provisions of the merger agreement. This summary 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.

The merger agreement has been attached to this joint proxy statement/prospectus to provide you with information regarding its terms. It is not intended to provide any other factual information about Public Storage or Shurgard. Such information can be found elsewhere in this joint proxy statement/prospectus and in the other public filings made by Public Storage or Shurgard with the SEC, which are available without charge at www.sec.gov.

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 Public Storage and Shurgard, and may be subject to important qualifications and limitations agreed to by Public Storage and Shurgard 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 Public Storage and Shurgard. For the foregoing reasons, you should not rely on the representations and warranties as statements of factual information.

Form of the Merger

If the merger is approved by the shareholders of both Public Storage and Shurgard, and all other conditions to the merger are satisfied or waived, Shurgard will be merged with and into Merger Sub. Merger Sub will be the surviving corporation in the merger and will continue as a subsidiary of Public Storage.

Merger Consideration

Shurgard Common Stock. The merger agreement provides that each outstanding share of Shurgard common stock (other than shares of Shurgard common stock owned by Public Storage, Merger Sub, or any other subsidiary of Public Storage or Shurgard immediately prior to the effective time of the merger) will be converted, subject to adjustment as described below, into the right to receive 0.82 of a share of Public Storage common stock.

Shurgard Preferred Stock. Prior to mailing this joint proxy statement/prospectus, Shurgard expects to issue a redemption notice to each holder of Shurgard Series C Preferred Stock and Shurgard Series D Preferred Stock, calling all such shares for redemption prior to the effective time of the merger, subject to the satisfaction or waiver of all of the conditions to the merger. A delay in the redemption of the Shurgard preferred stock could delay the consummation of the merger. See *Risk Factors Risks Relating to the Merger and Public Storage s Business There may be unexpected delays in the consummation of the merger.*

Adjustment to Merger Consideration. If, prior to the effective time of the merger, the outstanding shares of Shurgard common stock or Public Storage common stock are 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 any other similarly dependent items, as the case may be, will be appropriately adjusted to provide to Public Storage, Merger Sub and the holders of Shurgard common stock the same economic effect as contemplated by the merger agreement prior to such action.

Structure of Merger. Notwithstanding anything in the merger agreement to the contrary, Shurgard has agreed to cooperate with and will agree to any reasonable changes requested by Public Storage regarding the structure of the transactions contemplated in the merger agreement (such cooperation including entering into

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appropriate amendments of the merger agreement), provided that such changes to the structure do not have an adverse effect on the holders of Shurgard common stock or Shurgard preferred stock, including if the changes are reasonably likely to require a recirculation of the joint proxy statement/prospectus.

Fractional Shares. No fractional shares of Public Storage common stock will be issued in the merger. Instead of any fractional shares, any holder of Shurgard common stock entitled to receive a fractional share of Public Storage common stock will be paid cash for such fraction in an amount equal to such holder s proportionate interest in the net proceeds from any sale in the open market by the exchange agent, on all such holders behalf, of the shares of Public Storage common stock constituting the excess of:

- the number of whole shares of Public Storage common stock delivered to the exchange agent by Public Storage; and
- the aggregate number of whole shares of Public Storage common stock to be distributed to holders of Shurgard common stock.

Completion and Effectiveness of the Merger

Public Storage and Shurgard will complete the merger when all of the conditions to completion of the merger contained in the merger agreement, which are described in the section entitled *Conditions to the Merger,* are satisfied or waived, including approval of the merger agreement and the merger by the shareholders of Shurgard and approval of the share issuance by the shareholders of Public Storage.

The merger will become effective at the time as is agreed upon by Merger Sub and Shurgard and specified in the articles of merger or other appropriate documents that will be filed with the Secretary of State of the State of Washington and with the Secretary of State of the State of Delaware. The filing of the articles of merger will take place as soon as practicable after satisfaction or waiver of the conditions to the completion of the merger set forth in the merger agreement.

Public Storage and Shurgard are working to complete the merger as quickly as possible. Because completion of the merger is subject to certain conditions that are beyond our control, we cannot predict the exact timing. The transaction is targeted to close during the third quarter of 2006.

Treatment of Stock Options and Other Stock Awards

Each option to acquire shares of Shurgard common stock granted under the Shurgard Storage Centers, Inc. 1995 Long-Term Incentive Compensation Plan, the Shurgard Storage Centers, Inc. 2000 Long-Term Incentive Plan and the Shurgard Storage Centers, Inc. 2004 Long-Term Incentive Plan, which plans we refer to in this section collectively as the stock plans, will become fully vested at the effective time of the merger and be converted into an option to acquire the number of shares of Public Storage common stock obtained by multiplying such number times 0.82 (and rounding down to the nearest whole share).

The per share exercise price of each option to acquire shares of Public Storage common stock will be determined by dividing

- the exercise price of each option under the stock plans by
- 0.82 (and rounding up to the nearest cent).

Each option to acquire shares of Shurgard common stock granted under the Shurgard Storage Centers, Inc. Amended and Restated Stock Incentive Plan for Nonemployee Directors will terminate. 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.

Each restricted share of Shurgard common stock held by employees and directors of Shurgard and outstanding immediately prior to the effective time of the merger will become fully vested immediately after the

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effective time of the merger and be converted into the number of shares of Public Storage common stock obtained by multiplying such number of Shurgard restricted shares by 0.82.

Each restricted stock unit based on the value of Shurgard common stock held by employees of Shurgard and outstanding immediately prior to the effective time of the merger will be converted into cash (based on the fair market value of Public Storage common stock) or a restricted stock unit settleable in Public Storage common stock as follows:

- the number of Public Storage restricted stock units into which Shurgard restricted stock units are converted will equal the number of Shurgard restricted stock units multiplied by 0.82;

- 25% of the Public Storage restricted stock units will vest immediately after the effective time of the merger, notwithstanding any termination of employment of the holder thereof by Shurgard or Public Storage occurring as of the effective time of the merger, and will be settled on the 90-day anniversary of the effective time of the merger; and

- the remaining 75% of the Public Storage restricted stock units will vest ratably after the effective time of the merger on each of the first five anniversaries of the closing date of the merger if the holder of such Public Storage restricted stock units continues to be employed by Public Storage or its subsidiaries on the applicable vesting date.

Representations and Warranties

The merger agreement contains customary representations and warranties relating to, among other things, the following:

- corporate organization, power, authority and good standing of Shurgard, Shurgard s subsidiaries, Public Storage and Merger Sub and similar corporate matters;

- capital structure of Shurgard, Merger Sub and Public Storage;

- authorization, execution, delivery, performance and enforceability of, and required consents, approvals, orders and authorizations of governmental authorities relating to, the merger agreement and related matters of Shurgard, Public Storage and Merger Sub;

- filings by each of Shurgard and Public Storage with the SEC and certain financial statements of Shurgard and Public Storage and the accuracy of information contained in those documents;

- absence of certain changes or events since September 30, 2005 related to Shurgard and Public Storage;

- pending or threatened material litigation of Shurgard, Public Storage and their respective subsidiaries;

- absence of undisclosed liabilities of Shurgard and Public Storage;

- certain matters relating to Shurgard s U.S. and Non-U.S. employee benefit plans and other labor and employment matters;

accuracy of information supplied by each of Shurgard, Public Storage and Merger Sub in connection with this joint proxy statement/prospectus and the registration statement of which it is a part;

compliance with applicable laws by Shurgard and Public Storage;

filing of tax returns and payment of taxes by Shurgard and Public Storage;

title to Shurgard and Public Storage s properties and Shurgard and Public Storage s compliance with the terms of their respective leases;

various environmental matters, including compliance with environmental laws, by Shurgard and Public Storage;

intellectual property rights of Shurgard;

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certain contracts and agreements of Shurgard;

engagement and payment of fees of brokers, investment bankers, finders and financial advisors of Shurgard and Public Storage;

receipt, prior to execution of the merger agreement, of opinions of Shurgard s financial advisors;

satisfaction of the requirements of certain anti-takeover provisions, including Washington State law, and provisions of the Shurgard Restated Articles of Incorporation by Shurgard;

execution and delivery of the amendment to the Shurgard shareholder rights agreement and the inapplicability of the shareholder rights to the merger;

required shareholder votes of Shurgard and Public Storage;

maintenance of reasonable insurance coverage of Shurgard; and

absence of affiliate transactions by Shurgard.

The representations and warranties of each of Public Storage and Shurgard have been made solely for the benefit of the other party and those representations and warranties should not be relied on by any other person. In addition, those representations and warranties:

will not survive consummation of the merger or termination of the merger agreement except if willfully breached; and

were made only as of the date of the merger agreement or another date as is specified in the merger agreement.

Covenants and Agreements

Conduct of Shurgard s Business Prior to the Merger. Except as specifically required or prohibited by the terms of the merger agreement or upon written consent of Public Storage, prior to the effective time of the merger, Shurgard has agreed that it 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, and keep available in all material respects the services of its present officers, directors and employees. Additionally, during the period from the date of the merger agreement to the effective time of the merger, the merger agreement expressly restricts the ability of Shurgard, except as expressly provided in the merger agreement, set forth in the disclosure schedules attached thereto or as agreed to by Public Storage in writing to, among other things:

issue or sell any shares of its capital stock or other equity or voting securities, except for the issuance of shares of Shurgard common stock upon the exercise of, and in accordance with, Shurgard options granted prior to the date of the merger agreement;

split up, combine or reclassify any of its capital stock;

purchase or redeem any shares of its capital stock;

increase the compensation or benefits payable to the directors, officers, consultants or employees of Shurgard, or any of its subsidiaries, other than, subject to certain exceptions, to employees at the level of store manager, district manager or below, in the ordinary course of business consistent with past practice;

enter into or amend any collective bargaining, bonus, profit sharing, employment, termination, severance, stock incentive or other plan or arrangement for the benefit of any director, officer, consultant or employee;

increase the benefits payable under any existing severance or termination pay policies or employment or other agreements;

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take any affirmative action to accelerate the vesting of any stock-based compensation, except as otherwise provided by the terms of the merger agreement;

grant any awards under any bonus, incentive, performance or other compensation plan or arrangement;

amend or modify any of its option or incentive plans;

make any loan or cash advance to any current or former director, officer or employee, except advances to employees in the ordinary course of business consistent with past practice;

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 of the merger agreement or to staff new facilities;

subject to the terms and conditions described below in *No Solicitation*, adopt or effect a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization;

subject to certain limited exceptions and except for the lease of self storage facilities and related assets in the ordinary course of business consistent with past practice, transfer, sell, lease, license, mortgage, encumber or otherwise dispose of or assign any (i) properties owned or leased by Shurgard or (ii) other material assets;

amend or modify its articles of incorporation or bylaws;

enter into, or terminate or otherwise modify certain material contracts;

make or commit to make capital expenditures except in certain limited situations;

incur indebtedness for borrowed money other than borrowings pursuant to Shurgard s and its subsidiaries revolving credit arrangements in effect on the date of the merger agreement in the ordinary course, consistent with past practice, for working capital purposes;

issue, sell or amend any debt securities;

guarantee any debt securities of another person;

subject to certain limited exceptions, make any loans, advances or capital contributions to, or investment in, or repay any indebtedness owing to any person other than Shurgard 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 of the merger agreement at maturity in accordance with its terms;

enter into any hedging agreement or other financial agreement designed to protect Shurgard or its subsidiaries against fluctuations in commodities prices or exchange rates;

acquire by merging or consolidating with, or by purchasing all or substantially all, or a portion of all, the assets, capital stock 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;

subject to certain exceptions, make or amend any material tax elections, waive or extend the statute of limitations with respect to taxes or settle or compromise any material liability for taxes;

make any changes in financial accounting methods, principles or practices, except as required by a change in generally accepted accounting principles, which we refer to as GAAP, or other applicable law;

take any action, or fail to take any action, which can reasonably be expected to cause Shurgard to fail to qualify as a real estate investment trust within the meaning of Section 856 of the Internal Revenue Code of 1986 or any of Shurgard s subsidiaries to lose their U.S. federal income tax status as particular entities;

enter into any tax protection agreements;

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initiate, compromise or settle any litigation or arbitration proceeding (i) relating to the merger agreement or the transactions contemplated by the merger agreement or (ii) material to Shurgard and its subsidiaries;

open or close any material facility or office;

adopt or implement any shareholder rights plan or similar device or arrangement; or

take, commit or agree to take any of the foregoing actions.

The merger agreement requires Shurgard to advise Public Storage as soon as reasonably practicable of (and, in the case of any written notice, provide to Public Storage a copy of), among other things:

the commencement of or, to the knowledge of Shurgard, the threat of any material claim, litigation, action, suit, inquiry or proceeding involving Shurgard, any of its subsidiaries, their respective properties or assets, or, to the knowledge of Shurgard, involving any of their respective directors, officers or agents (in their capacities as such);

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 the merger agreement; and

any notice or other communication from any governmental authority in connection with the transactions contemplated by the merger agreement.

Access to Information. Subject to applicable laws, Shurgard has agreed to provide Public Storage and its counsel, accountants and other representatives with reasonable access, upon prior notice and during normal business hours, to the facilities, properties, officers, directors, district managers and other senior personnel, and vendors, accountants, assets, books and records of Shurgard.

No Solicitation. The merger agreement provides that Shurgard will not, and it will cause its subsidiaries and its and their respective officers, directors, employees, agents and representatives not to, directly or indirectly:

solicit, encourage, initiate or take any other action to facilitate any inquiries that could reasonably be expected to lead to, an acquisition proposal, as described below;

enter into, continue or otherwise participate in any discussions or negotiations regarding, or furnish any information or otherwise cooperate in any way with respect to, any acquisition proposal; or

enter into any agreement with respect to any acquisition proposal or approve or recommend any acquisition proposal.

The merger agreement provides that the term acquisition proposal means any proposal or offer from a third party for or with respect to the acquisition, directly or indirectly, of beneficial ownership of:

assets, securities or ownership interests of or in Shurgard or any of its subsidiaries representing 10% or more of the consolidated assets of Shurgard and its subsidiaries; or

an equity interest representing a 10% or greater economic interest in Shurgard and its 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 Shurgard or any of its subsidiaries.

The merger agreement provides further that, notwithstanding the restrictions described above, if, at any time prior to the time Shurgard shareholders have approved the merger agreement, Shurgard may:

furnish information about Shurgard and its subsidiaries business, properties or assets to any person making an acquisition proposal; and

participate in discussions and negotiations with such person regarding the acquisition proposal;

if:

Shurgard receives an unsolicited acquisition proposal that did not result from a material breach by Shurgard, any of its subsidiaries or any of its representatives of the no solicitation provisions described

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above and the Shurgard board of directors believes in good faith (after consultation with its legal and financial advisors) is reasonably likely to lead to a superior proposal, as described below;

if the Shurgard board of directors determines in good faith (after consultation with its legal advisors) that failing to do so would be a breach of its fiduciary duties;

prior to providing any nonpublic information permitted to be provided as described above, Shurgard enters into a confidentiality agreement with the person making the acquisition proposal on terms no less favorable to Shurgard than the confidentiality agreement, dated November 28, 2005, between Public Storage and Shurgard; and

Shurgard provides Public Storage a copy of any nonpublic information to be provided as described above prior to furnishing such information to the person making the acquisition proposal, except information already provided to Public Storage.

The merger agreement provides that the term superior proposal means any unsolicited bona fide written acquisition proposal (for the purposes of the definition of superior proposal, the term acquisition proposal has the same meaning as described above, except that references to 10% are replaced by 50%) by a third party:

on terms which the Shurgard board of directors 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 Shurgard shareholders than the merger with Public Storage;

for which financing, to the extent required, is then committed subject to customary conditions and which in the good faith judgment of the Shurgard board of directors is reasonably capable of being obtained by such third party; and

which, in the good faith reasonable judgment of the Shurgard board of directors, is reasonably likely to be consummated on the timetable and terms proposed.

The merger agreement provides further that the Shurgard board of directors may not:

withdraw or modify, or propose to withdraw or modify, in a manner adverse to Public Storage or Merger Sub, the approval or recommendation by the Shurgard board of directors of the merger agreement, the merger or the transactions contemplated by the merger agreement;

approve or recommend, or propose to approve or recommend, any acquisition proposal; or

enter into an agreement with respect to any acquisition proposal.

Notwithstanding the above, at any time prior to the time Shurgard shareholders have approved the merger agreement and the merger, the Shurgard board of directors may withdraw or modify its approval or recommendation of the merger agreement or the transactions contemplated by the merger agreement, including the merger, approve or recommend a superior proposal, or enter into an agreement with respect to a superior proposal if:

Shurgard has not violated its obligations under the no solicitation provisions described above in any material respect and has received a superior proposal;

the Shurgard board of directors determines in good faith (after consultation with its legal advisors) that failing to take such action would be a breach of its fiduciary duties; and

prior to taking such action, Shurgard provides four business days written notice to Public Storage advising Public Storage that the Shurgard board of directors has made the determination described immediately above and setting forth the material terms and conditions of any such superior proposal, and:

(i) during such four business day period, if requested by Public Storage or Merger Sub, Shurgard has caused its financial and legal advisors to negotiate with Public Storage in good faith to propose adjustments in the terms and conditions of the merger agreement; and

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(ii) the Shurgard board of directors has considered such proposed adjustments in the terms and conditions of the merger agreement and has concluded in good faith, after consultation with its financial and legal advisors, that the acquisition proposal as set forth in the written notice from Shurgard remains a superior proposal even after giving effect to the adjustments proposed by Public Storage and Merger Sub and provided that, immediately prior to and as a condition of such termination, Shurgard pays the applicable termination fee as described in *Termination and Other Fees.*

Nothing in the merger agreement prohibits Shurgard or the Shurgard board of directors from taking and disclosing to Shurgard shareholders a position with respect to a tender or exchange offer by a third party pursuant to Rules 14d-9, 14e-2 or Item 1012(a) of Regulation M-A promulgated under the Exchange Act or making any legally required disclosure to Shurgard shareholders with regard to an acquisition proposal.

Shurgard is required to advise Public Storage within 24 hours of the receipt of any inquiries, requests, proposals or offers relating to an acquisition proposal received by Shurgard and keep Public Storage informed as to the status of and any material developments regarding any such inquiries, requests, proposals or offers. Any such notice by Shurgard is required to be made in writing and is required to 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).

As described above, under certain circumstances, Shurgard can terminate the merger agreement to enter into an agreement with a third party with respect to a superior proposal. If the merger agreement is terminated in that circumstance, Shurgard may be required to pay Public Storage a termination fee. See *Termination and Other Fees*.

Conditions to the Merger

Each party s obligation to effect the merger is subject to the satisfaction or waiver of various conditions that include the following:

- Shurgard shareholders have approved the merger agreement and the merger;
- Public Storage shareholders have approved the issuance of shares of Public Storage common stock to be used as merger consideration;
- no temporary restraining order, preliminary or permanent injunction or other court order preventing consummation of the merger has been issued by a governmental entity since the date of the merger agreement and remains in effect, and no statute, law, rule, legal restraint or prohibition that makes consummation of the merger illegal is in effect;
- the shares of Public Storage common stock and preferred stock, if any, to be issued in the merger, and the shares of Public Storage common stock to be reserved for issuance upon exercise of options, have been approved for listing on the New York Stock Exchange, subject to official notice of issuance; and
- the registration statement on Form S-4, of which this joint proxy statement/prospectus forms a part, has been declared effective by the SEC and is not the subject of any stop order or proceedings seeking a stop order.

We would be in violation of the law or NYSE Rules if we were to waive any of the above conditions.

Conditions to Public Storage s and Merger Sub s Obligation to Complete the Merger. Public Storage s and Merger Sub s obligations to effect the merger is further subject to satisfaction or waiver of certain other conditions, including the following:

- the representations and warranties of Shurgard relating to:

capitalization;

authorization and execution;

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brokers, finders and investment bankers;

receipt, prior to execution of the merger agreement, of opinions of financial advisors; and

the vote required by Shurgard shareholders to approve the merger agreement and the merger

are true and correct in all material respects as of the date of the merger agreement and as of the closing date of the merger as though made on the closing date, or if those representations and warranties expressly relate to an earlier date, then in all material respects as of that date;

the representations and warranties in all other sections of the merger agreement are true and correct, without giving effect to any materiality or material adverse effect qualifier, as of the closing date of the merger as though made on the closing date, or if those representations and warranties expressly relate to an earlier date, then in all respects as of that 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 material adverse effect on Shurgard;

Shurgard has performed or complied with, in all material respects, all agreements and covenants required by the merger agreement to be performed or complied with by it at or prior to the effective time of the merger;

after the date of the merger agreement, there has not occurred or been discovered any material adverse effect on Shurgard or events, developments or circumstances that would reasonably be expected to, individually or in the aggregate, have a material adverse effect on Shurgard, except for events, developments or circumstances associated with or related to Public Storage waiving the condition set forth in the last bullet point below;

Shurgard has delivered to Public Storage and Merger Sub a REIT tax opinion of Perkins Coie LLP or other outside counsel reasonably satisfactory to Public Storage, dated as of the closing date of the merger, substantially in the form of Exhibit C to the merger agreement and filed herewith, and reasonably satisfactory to Public Storage; and

all permits and consents legally required to be obtained to consummate the merger must have been obtained from all governmental authorities, 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 material adverse effect on Public Storage or Shurgard.

Conditions to Shurgard s Obligation to Complete the Merger. Shurgard s obligation to effect the merger is further subject to satisfaction or waiver of certain other conditions, including the following:

the representations and warranties of Public Storage and Merger Sub relating to:

authorization and execution; and

the vote required by Public Storage shareholders to approve the issuance of shares of Public Storage common stock to be used as merger consideration

are true and correct in all material respects as of the date of the merger agreement and as of the closing date of the merger as though made on the closing date, or if those representations and warranties expressly relate to an earlier date, then in all material respects as of that date;

the representations and warranties in all other sections of the merger agreement are true and correct, without giving effect to any materiality or material adverse effect qualifier, as of the closing date of the merger as though made on the closing date, or if those representations and warranties expressly relate to an earlier date, then in all respects as of that 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 material adverse effect on Public Storage;

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each of Public Storage and Merger Sub has performed or complied with, in all material respects, all agreements and covenants required by the merger agreement to be performed or complied with by it at or prior to the effective time of the merger;

after the date of the merger agreement, there has not occurred or been discovered any material adverse effect on Public Storage or events, developments or circumstances that would reasonably be expected to, individually or in the aggregate, have a material adverse effect on Public Storage; and

Public Storage has delivered to Shurgard a REIT tax opinion of Hogan & Hartson, L.L.P. or other outside counsel reasonably satisfactory to Shurgard, dated as of the closing date of the merger, substantially in the form of Exhibit D to the merger agreement and reasonably satisfactory to Shurgard.

Important Definitions. The merger agreement provides that a material adverse effect means, when used in connection with Public Storage or Shurgard, 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 Shurgard and its subsidiaries, taken as a whole, or Public Storage and its subsidiaries, taken as a whole, as the case may be, or on the ability of Public Storage or Shurgard, as the case may be, to timely consummate the transactions contemplated by the merger agreement, other than any change, event, circumstance or development to the extent arising out of, attributable to or resulting from:

conditions generally affecting the self-storage or real estate industry (including economic, legal and regulatory changes);

changes in general international, national or regional economic or financial conditions or changes in the securities markets in general;

changes in any laws or regulations or accounting regulations or principles applicable to Shurgard and Public Storage and their respective subsidiaries, as the case may be;

any outbreak or escalation of hostilities (including any declaration of war by the United States) or act of terrorism; or

the announcement, execution or consummation of the merger agreement and the transactions contemplated by the merger agreement;

other than, in each of the circumstances set forth in the first four bullet points above, any change, event, circumstance or development which, individually or in the aggregate, has or is reasonably expected to have a materially disproportionate effect on Shurgard and its subsidiaries taken as a whole relative to other industry participants in the United States or Europe as the case may be, or Public Storage and its subsidiaries taken as a whole relative to other industry participants in the United States.

Public Storage and Shurgard can provide no assurance that all of the conditions to the merger will be satisfied or waived by the party permitted to do so. Neither Public Storage nor Shurgard can at this point determine whether it would resolicit proxies in the event that it decides to waive any of the items listed above. Each of Public Storage s and Shurgard s decisions would depend on the facts and circumstances leading to their respective decisions to complete the merger and whether Public Storage or Shurgard believes there has been a material change in the terms of the merger and its effect on Public Storage or Shurgard and their respective shareholders. In making this determination, Public Storage and Shurgard would consider, among other factors, the reasons for the waiver, the effect of the waiver on the terms of the merger, the availability of alternative transactions and the prospects of Public Storage or Shurgard as an independent entity. If either Public Storage or Shurgard determines that a waiver of a condition would materially change the terms of the merger, it will resolicit proxies.

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Termination of the Merger Agreement

The merger agreement may be terminated at any time prior to the effective time of the merger:

by mutual written consent of the Merger Sub board of directors and the Shurgard board of directors;

by either Public Storage, Merger Sub or Shurgard if there exits any order, decree or ruling or any other action, in each case permanently restraining, enjoining or otherwise prohibiting the transactions contemplated by the merger agreement;

by either Public Storage, Merger Sub or Shurgard, if Shurgard shareholders do not approve the merger agreement and the merger at the Shurgard special meeting duly convened or at any adjournment of that meeting;

by either Public Storage, Merger Sub or Shurgard, if Public Storage shareholders do not approve the issuance of shares of Public Storage common stock to the Shurgard shareholders on the terms and conditions set forth in the merger agreement at the Public Storage annual meeting duly convened or at any adjournment of that meeting;

by either Public Storage, Merger Sub or Shurgard if the merger has not been completed by December 31, 2006, except that this right to terminate the merger agreement will not be available to any party if such party is in material breach of the merger agreement;

by Shurgard if it has approved a superior proposal in accordance with the terms and subject to the conditions described in *Covenants and Agreements No Solicitation*, and only after the fourth business day following Shurgard s delivery of written notice to Public Storage advising Public Storage and Merger Sub that the Shurgard board of directors is prepared to accept a superior proposal and setting forth the material terms and conditions of any such superior proposal, and only if:
(i) during such four business day period, if requested by Public Storage or Merger Sub, Shurgard has caused its financial and legal advisors to negotiate with Public Storage in good faith to propose adjustments in the terms and conditions of the merger agreement; and

(ii) the Shurgard board of directors has considered such proposed adjustments in the terms and conditions of the merger agreement and has concluded in good faith, after consultation with its financial and legal advisors, that the acquisition proposal as set forth in the written notice from Shurgard remains a superior proposal even after giving effect to the adjustments proposed by Public Storage and Merger Sub and provided that, immediately prior to and as a condition of such termination, Shurgard pays the applicable termination fee as described in *Termination and Other Fees* ;

by either Public Storage, Merger Sub or Shurgard if Shurgard, on the one hand, or Public Storage or Merger Sub, on the other hand, has materially breached any of its representations, warranties, covenants or agreements set forth in the merger agreement, such that such party s applicable closing condition is not satisfied and such breach is either not curable or has not been cured by the earlier of 30 business days after the giving of written notice to Public Storage or Shurgard, as the case may be, and December 31, 2006 (except that this right to terminate the merger agreement will not be available to any party if such party is then in material breach of any of its representations, warranties, covenants or agreements set forth in the merger agreement such that its applicable closing condition would not be satisfied); or

by Public Storage or Merger Sub if the Shurgard board of directors (i) withdraws, modifies or changes in a manner adverse to Public Storage or Merger Sub its approval or recommendation of the merger agreement or the transactions contemplated by the merger agreement, including the merger, (ii) recommends or approves an acquisition proposal, (iii) adopts any resolution to effect any of the foregoing, or (iv) fails to reconfirm its recommendation of the merger agreement within 5 business says after being requested in

writing by Public Storage to do so (except as permitted by the terms and subject to the conditions described in *Covenants and Agreements No Solicitation*).

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Effect of Termination

If the merger agreement is terminated as described in *Termination of the Merger Agreement*, the merger agreement will be void and have no effect, and there will be no liability or obligation of Public Storage, Merger Sub or Shurgard, except for willful breaches of the merger agreement and as to confidentiality and the termination and other fees described in the following section.

Termination and Other Fees

General. The merger agreement provides that each party will pay its own costs and expenses incurred in connection with the merger agreement and the transactions contemplated by the merger agreement, whether or not the transactions contemplated by the merger agreement are consummated.

Termination Fee. Shurgard is required to pay to Public Storage a termination fee in an amount equal to $125 million, less the amount of any of Public Storage s termination costs and expenses that have already been paid by Shurgard up to a maximum of $10 million, subject to reduction in certain circumstances based on certain requirements of the Internal Revenue Code of 1986, if the merger agreement is terminated in each of the following circumstances:

- by Shurgard pursuant to its right described in the sixth bullet point under *Termination of the Merger Agreement*; and

- by Public Storage pursuant to its right described in the eighth bullet point under *Termination of the Merger Agreement.*

Shurgard is also required to pay to Public Storage a termination fee in an amount set forth above in the event that the merger agreement is terminated in any of the following circumstances, and in each case, (i) an acquisition proposal has at the time of such termination been publicly proposed or publicly announced and (ii) within 12 months of the termination of the merger agreement, Shurgard 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) (for purposes of this paragraph, the term acquisition proposal has the same meaning as described under Covenants and Agreements *No Solicitation*, except that references to 10% are replaced by 25%):

- by Shurgard because the merger has not been completed by December 31, 2006 (provided that Shurgard may not terminate the merger agreement if it is then in material breach of the merger agreement);

- by any party because Shurgard shareholders do not approve the merger agreement and the merger at the Shurgard special meeting duly convened or at any adjournment of that meeting; and

- by Public Storage if Shurgard has materially breached any of its representations, warranties, covenants or agreements set forth in the merger agreement, such that such Shurgard s closing condition is not satisfied and such breach is either not curable or has not been cured by the earlier of 30 business days after the giving of written notice to Shurgard and December 31, 2006 (provided that Public Storage may not terminate the merger agreement if it is then in material breach of any of its representations, warranties, covenants or agreements set forth in the merger agreement such that its closing condition would not be satisfied).

Additionally, if the merger agreement is terminated by either Public Storage, Merger Sub or Shurgard because Shurgard shareholders do not approve the merger agreement and the merger at the Shurgard special meeting duly convened or at any adjournment of that meeting, and an acquisition proposal has at the time of such termination been publicly proposed or publicly announced, Shurgard is required to pay to Public Storage all of the costs and expenses incurred by Public Storage or its affiliates in connection with the merger agreement and the transactions contemplated by the merger agreement up to a maximum amount of $10 million, subject to reduction in certain circumstances based on certain requirements of the Internal Revenue Code of 1986.

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Amendment; Extension and Waiver

Amendment. The merger agreement may be amended in writing by the parties by action taken by Merger Sub and by action taken by or on behalf of the Shurgard board of directors at any time before the effective time of the merger. However, after the approval of the merger agreement and the merger by Shurgard shareholders, no amendment may be made which would reduce the amount or change the type of consideration into which each share of Shurgard common stock will be converted into upon consummation of the merger, without further approval of Shurgard shareholders.

Extension and Waiver. At any time prior to the effective time of the merger, Public Storage, Merger Sub and Shurgard may:

- extend the time of performance of any of the obligations or other acts of the other parties;
- waive any inaccuracies in the representations and warranties contained in the merger agreement or in any document delivered pursuant to the merger agreement; and
- waive compliance with any of the agreements or conditions contained in the merger agreement.

Any extension or waiver on the part of a party to the merger agreement will be valid only as against such party and only if set forth in writing and signed by such party.

Additional Terms

Payment of Dividends to Shurgard Shareholders. Pursuant to the merger agreement, Shurgard may not declare or pay any dividend or distribution to Shurgard shareholders without the prior written consent of Public Storage, except that Shurgard may, without the prior written consent of Public Storage, authorize and pay:

- additional distributions required by the Internal Revenue Code of 1986 for Shurgard to maintain its status as a real estate investment trust within the meaning of Section 856 of the Internal Revenue Code of 1986 or necessary to eliminate any federal tax liability, after giving effect to any payments made pursuant to the dividends or distributions described in the following bullet points, except that Shurgard is required to consult with Public Storage prior to making any dividend or distribution described in this first bullet point as to the requirement or necessity of such dividend or distribution;
- 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 and the terms of the certificates of designation of such series of Shurgard s preferred stock;
- the previously declared quarterly distributions of $0.56 per share of Shurgard s common stock payable during the first quarter of 2006, with record and payment dates of March 3, 2006 and March 13, 2006, respectively;
- distributions payable to holders of Shurgard s common stock, the record date of which will be the earlier of June 3, 2006 or the last business day immediately preceding the closing date of the merger, which distributions will be in an amount per share equal to $0.56, less any adjustment for payments required by the first bullet point above; and

distributions to holders of Shurgard s common stock for each calendar quarter (beginning on July 1, 2006) ending on or prior to the closing date of the merger, in an amount per share equal to the regular quarterly distribution per share then paid to holders of Public Storage common stock multiplied by 0.82 and less the per share amount of any distributions paid in accordance with the first bullet point above.

It is intended that each holder of Shurgard common stock (assuming such holder owned such share prior to and as of March 3, 2006 and does not transfer such share during 2006 except in connection with the conversion in the merger) shall receive one quarterly distribution during each of the four calendar quarters of 2006 either as a shareholder of Shurgard prior to the effective time of the merger or of Public Storage after the effective time of the merger.

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Consents. In connection with the obtaining of any consent, approval, permit or authorization from third parties or obviating the need to obtain such consent, approval, permit or authorization, if requested in writing by Public Storage, Shurgard is required to, or is required to cause its subsidiaries to, execute any documents, agreements and instruments and take such other actions to the extent practicable, in accordance with any applicable law, statute, rule, ordinance or regulation of any governmental entity or any decision, judgment, order or determination of any governmental entity and Shurgard s articles of incorporation and bylaws and the applicable formation and governing consent, approval, permit or authorization of Shurgard s subsidiaries. However, if the merger is not consummated and the merger agreement is terminated in accordance with its terms, Public Storage is required to, promptly upon request by Shurgard, reimburse Shurgard for all out-of-pocket costs and expenses (including fees and expenses of counsel, accountants, appraisers and other advisors) incurred by Shurgard or its subsidiaries in connection with any actions taken by Shurgard or its subsidiaries at the direction of Public Storage as described in this paragraph. Pursuant to the merger agreement, if the merger is not consummated and the merger agreement is terminated in accordance with its terms, Public Storage agreed to indemnify Shurgard 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 the direction of Public Storage as described in this paragraph.

Employee Benefits. Pursuant to the merger agreement, Public Storage agreed that, during the period commencing at the effective time of the merger agreement and ending on December 31, 2006, the employees of Shurgard and any of its subsidiaries located in the United States who are employed as of the closing date of the merger and continue employment 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 Shurgard or any of its subsidiaries located in the United States to such employees under Shurgard s U.S. employee benefit plans and arrangements (except that discretionary benefits will remain discretionary).

For purposes of all employee benefit plans, programs and agreements maintained by or contributed to by Public Storage and its subsidiaries, Public Storage will, or will cause its subsidiaries to, cause each such plan, program or arrangement, subject to certain exceptions, to treat the prior service with Shurgard or any of its subsidiaries located in the United States of any U.S. employee of Shurgard employed as of the closing date of the merger and who continues to be employed (to the same extent such service is recognized under analogous plans, programs or arrangements of Shurgard or any of its subsidiaries located in the United States prior to the effective time of the merger) as service rendered to Public Storage or any of its subsidiaries, as the case may be, for all purposes. Such U.S. employees of Shurgard employed as of the closing date of the merger who continue to be employed will also be given credit for any deductible or co-payment amounts paid in respect of the plan year in which the closing of the merger occurs, to the extent that, following the closing of the merger, they participate in any other plan for which deductibles or co-payments are required. Public Storage will also cause each Public Storage employee benefit plan, or a nonqualified employee benefit or deferred compensation plan, stock option, bonus or incentive plan, that may be in effect generally for employees of Shurgard and its subsidiaries located in the United States from time to time, to waive any preexisting condition or waiting period limitation which would otherwise be applicable to a U.S. employee of Shurgard employed as of the closing date of the merger and who continues to be employed on or after the effective time of the merger (to the extent such limitation would not apply under the corresponding Shurgard U.S. plan or arrangement). Public Storage will recognize any accrued but unused vacation of such Shurgard U.S. employees as of the effective time of the merger, and Public Storage will cause Shurgard and its subsidiaries located in the United States to provide such paid vacation.

During the period commencing at the effective time of the merger agreement and ending on December 31, 2006, Public Storage will satisfy or Public Storage will cause Shurgard to satisfy any liability for all severance and similar obligations payable to any employees of Shurgard and any of its subsidiaries located in the United States who are employed as of the closing date of the merger and continue employment, including for any such Shurgard U.S. employee who is terminated by Public Storage or Shurgard, or any of their respective subsidiaries located in the United States on terms no less favorable than those provided under the applicable Shurgard severance plan (except that all payment under such plans and programs that are discretionary shall remain

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discretionary). In addition, during the one-year period following the closing date of the merger, Public Storage is required to satisfy or Public Storage is required to cause Shurgard to satisfy any liabilities incurred pursuant to certain Shurgard programs relating to Shurgard s severance plans and retention programs.

Delisting and Deregistration of Shurgard Common Stock

If the merger is completed, Shurgard common stock will be delisted from the New York Stock Exchange and will be deregistered under the Securities Exchange Act of 1934, as amended.

Governance Documents of the Surviving Entity

The merger agreement provides that, unless otherwise determined by Merger Sub, the Certificate of Formation and the Limited Liability Company Agreement of Merger Sub, as in effect immediately prior to the effective time of the merger, will be the Certificate of Formation and the Limited Liability Company Agreement of the surviving company at the effective time of the merger until amended. For a summary of certain provisions of the current Shurgard articles of incorporation, bylaws and the associated rights of Shurgard shareholders, see *Comparison of Rights of Shareholders.*

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AGREEMENTS RELATED TO THE MERGER

The Voting Agreements

This is a summary of the material provisions of the voting agreements. The voting agreements, which are attached as Annex B and Annex C to this joint proxy statement/prospectus and are incorporated herein by reference, contain the complete terms of these voting agreements. You should read the voting agreements in their entirety.

Hughes Family Voting Agreement

B. Wayne Hughes, and certain family members and entities related to or affiliated with Mr. Hughes (collectively, the Hughes Family), have entered into a voting agreement with Shurgard. By entering into the voting agreement, the Hughes Family has agreed to vote substantially all of its shares of Public Storage common stock beneficially owned by them:

- in favor of the approval of the merger agreement and the approval of the terms of the merger agreement and the merger and each of the other transactions contemplated by the merger agreement and the merger, including the issuance of shares of Public Storage common stock; and

- against any action or agreement that (i) results in a breach of any covenant, representation or warranty or any other obligation or agreement under the merger agreement or of the Hughes Family under the voting agreement or (ii) impedes, interferes with, discourages, postpones, or adversely affects the merger or the transactions contemplated by the merger agreement or the voting agreement.

The Hughes Family has appointed the Chief Executive Officer of Shurgard and the Vice President and General Counsel of Shurgard as irrevocable proxies and attorneys-in-fact to vote the shares of Public Storage common stock beneficially owned by them in the manner indicated in the two bullet points above.

As of the record date, 45,353,197 shares of Public Storage common stock (approximately 35% of the outstanding shares) are covered by the voting agreement.

The Hughes Family was not paid any consideration in connection with entering into the voting agreement.

The Hughes Family has agreed, subject to certain limited exceptions, not to sell, transfer, pledge, encumber, assign or otherwise dispose of, or deposit into a voting trust, or enter into a voting agreement or arrangement with respect to, any shares of Public Storage common stock beneficially owned by them unless and until they have taken all actions necessary to ensure that such shares of Public Storage common stock owned by them are at all times subject to the terms and restrictions under the voting agreement; provided, however, that nothing in the agreement prevents the Hughes Family from transferring certain shares of Public Storage common stock beneficially owned by them for estate tax planning purposes or to any charitable organization.

The voting agreement will terminate upon the earlier to occur of (i) the effective time of the merger and (ii) the termination of the merger agreement.

Charles K. Barbo Voting Agreement

Charles K. Barbo has entered into a voting agreement with Public Storage. By entering into the voting agreement, Mr. Barbo has agreed to vote all of his shares of Shurgard common stock beneficially owned by him:

- in favor of the approval of the merger agreement and the approval of the terms of the merger agreement and the transactions contemplated by the merger agreement, including the merger; and

against any action or agreement that (i) results in a breach of any covenant, representation or warranty or any other obligation or agreement under the merger agreement or (ii) impedes, interferes with, discourages, postpones, or adversely affects the merger or the transactions contemplated by the merger agreement.

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Mr. Barbo has appointed the Chief Executive Officer of Shurgard and the Vice President and General Counsel of Shurgard as irrevocable proxies and attorneys-in-fact to vote the shares of Shurgard common stock beneficially owned by Mr. Barbo in the manner indicated in the two bullet points above.

As of the Shurgard record date, Mr. Barbo beneficially owned 1,216,942 shares of Shurgard common stock in the aggregate, which represented approximately 3% of all of the outstanding shares of Shurgard common stock.

Mr. Barbo was not paid any additional consideration in connection with entering into his voting agreement.

Mr. Barbo has agreed, subject to certain limited exceptions, not to sell, transfer, pledge, encumber, assign or otherwise dispose of, or deposit into a voting trust, or enter into a voting agreement or arrangement with respect to, any shares of Shurgard common stock beneficially owned by him unless and until Mr. Barbo has taken all actions necessary to ensure that such shares of Shurgard common stock are at all times subject to the terms and restrictions under the voting agreement; provided, however, that nothing in the agreement will prevent Mr. Barbo from transferring certain shares of Shurgard common stock beneficially owned by him for estate tax planning purposes or to any charitable organization.

Mr. Barbo s voting agreement will terminate on the earlier to occur of (i) the effective time of the merger and (ii) the termination of the merger agreement.

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INFORMATION ABOUT PUBLIC STORAGE

Business

Public Storage is a California corporation. Public Storage is a fully integrated, self-administered and self-managed real estate investment trust or REIT that acquires, develops, owns and operates self-storage facilities for personal and business use. Public Storage is the largest owner and operator of self-storage facilities in the United States, with equity interests (through direct ownership, as well as partnership interests), as of March 31, 2006, in 1,508 storage facilities located in 37 states containing approximately 92 million net rentable square feet. Public Storage manages for unaffiliated third parties about 27 self storage facilities. Public Storage also has an approximate 44% equity interest in PS Business Parks, Inc., a REIT that, as of March 31, 2006, had equity interests in approximately 17.9 million net rentable square feet of commercial space located in eight states.

Public Storage s executive offices are located at:

Public Storage, Inc.

701 Western Avenue

Glendale, CA 91201-2349

Telephone: (818) 244-8080

Information Concerning the Board of Directors, Board Committees and Certain Corporate Governance Matters

Meetings

During 2005, the Public Storage board of directors held ten meetings, the Audit Committee held four meetings, the Compensation Committee held three meetings, and the Nominating/Corporate Governance Committee held four meetings. During 2005, each of the Public Storage directors attended at least 75% of the meetings held by the board of directors or, if a member of a committee of the board of directors, 75% of the meetings held by both the board of directors and all committees of the board of directors on which he served, except that B. Wayne Hughes and B. Wayne Hughes, Jr. attended 70% of the meetings. In his capacity as Chairman, Mr. Hughes also frequently discusses Board matters with management and other directors outside regular Board meetings. Directors are encouraged to attend meetings of shareholders. Seven directors attended the last annual meeting of shareholders.

Committees of the Board of Directors

The Public Storage board of directors has three standing committees: (1) the Audit Committee; (2) the Nominating/Corporate Governance Committee; and (3) the Compensation Committee. In addition, the Board may appoint special committees to consider various matters. Each of the standing committees operates pursuant to a written charter. The charters for the Audit, Nominating/Corporate Governance and Compensation Committees can be viewed on the Public Storage website at www.publicstorage.com/Corporateinformation/CorpGovernance.aspx. All members of the committees are independent directors under the rules of the New York Stock Exchange. In addition, all members of Public Storage s Audit Committee are independent directors under the SEC rules for Audit Committees.

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Public Storage s three standing committees are described below and the committee members are identified in the following table:

Director	Audit Committee	Nominating/Corporate Governance Committee	Compensation Committee
Robert J. Abernethy	X (Chairman)		X
Dann V. Angeloff		X (Chairman)	X
William C. Baker		X	
John T. Evans	X	X	
Uri P. Harkham			X
Daniel C. Staton	X		X (Chairman)
Number of meetings in 2005	4	4	3

Audit Committee

The primary functions of the Audit Committee are to assist the Board in fulfilling its responsibilities for oversight of (1) the integrity of the company s financial statements, (2) compliance with legal and regulatory requirements, (3) the qualifications, independence and performance of the independent registered public accounting firm, and (4) the scope and results of internal audits, the company s internal controls over financial reporting and the performance of the company s internal audit function. Among other things, the Audit Committee appoints, evaluates and determines the compensation of the independent registered public accounting firm; reviews and approves the scope of the annual audit, the audit fee and the financial statements; prepares the Audit Committee report for inclusion in the annual proxy statement; and annually reviews its charter and performance. The Public Storage board of directors has determined that each member of the Audit Committee meets the financial literacy and independence standards of the New York Stock Exchange rules. The Board has also determined that the Chairman of the Audit Committee, Robert J. Abernethy, and Daniel C. Staton each qualifies as an audit committee financial expert within the meaning of the rules of the Securities and Exchange Commission and the New York Stock Exchange. The Audit Committee s responsibilities are set forth in its charter, a copy of which may be found on the Public Storage website at www.publicstorage.com/Corporateinformation/CorpGovernance.aspx.

Compensation Committee

The primary functions of the Compensation Committee are (1) to determine, either as a committee or together with other independent directors, the compensation of the company s chief executive officer, (2) to determine the compensation of other executive officers, (3) to administer the company s stock option and incentive plans, (4) to produce an annual report on executive compensation for inclusion in the annual proxy statement, and (5) to evaluate its performance annually. The Compensation Committee s responsibilities are set forth in its charter, a copy of which may be found on the Public Storage website at www.publicstorage.com/Corporateinformation/CorpGovernance.aspx.

Nominating/Corporate Governance Committee

The primary functions of the Nominating/Corporate Governance Committee are (1) to identify, evaluate and make recommendations to the Board for director nominees for each annual shareholder meeting or to fill any vacancy on the Board, (2) to develop and review and assess the adequacy of the Board s Guidelines on Corporate Governance on an ongoing basis and recommend any changes to those guidelines to the Board, and (3) to oversee of the annual Board assessment of Board performance. Other duties and responsibilities include periodically reviewing the structure, size, composition and operation of the Board and each Board committee, recommending assignments of directors to Board committees, conducting a preliminary review of director independence, overseeing director orientation and annually evaluating its charter and performance. The Nominating/Corporate Governance Committee s responsibilities are set forth in its charter, a copy of which may be found on the Public Storage website at www.publicstorage.com/Corporateinformation/CorpGovernance.aspx.

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Director Independence

The Public Storage board of directors determined that (1) each member of the board of directors, other than B. Wayne Hughes, Ronald L. Havner, Jr., Harvey Lenkin, and B. Wayne Hughes, Jr., and (2) each member of the Audit Committee, the Compensation Committee and the Nominating/Corporate Governance Committee has no material relationship with the company and qualifies as independent under the rules adopted by the New York Stock Exchange. In arriving at this conclusion, the Board determined that none of the independent directors has a material relationship with the company that would compromise the director s independence. As part of its review, the Board considered Dann V. Angeloff s relationships with the company. Mr. Angeloff is the President of the Angeloff Company, a corporate financial advisory firm that has rendered financial advisory and securities brokerage services for the company. The Angeloff Company is no longer rendering services for Public Storage, and Public Storage does not currently plan to engage The Angeloff Company in the future. Mr. Angeloff is also the general partner of a limited partnership formed in 1973 that owns a mini-warehouse operated by the company. Based on the size of Mr. Angeloff s interest in the partnership (20%) and the amount of property management fees paid by the limited partnership to Public Storage (less than $50,000 per year), the Board determined that Mr. Angeloff s relationships with Public Storage are not material.

Compensation of Directors

Each director who is not an officer or employee of Public Storage or an affiliate is considered an outside director and receives the following compensation:

An annual retainer of $30,000 paid quarterly;

Each member of the Audit, Compensation and Nominating/Corporate Governance Committees of the Board is paid an annual fees of $5,000 paid quarterly, with the Chairman receiving an additional $2,500 per year; and

In addition, John T. Evans, received a fee of $25,000 for services as chairman of a special committee in 2005, and the other members of the special committee, Robert J. Abernethy and Daniel C. Staton, each received $10,000.

The following table presents the compensation provided by Public Storage to outside directors (which do not include B. Wayne Hughes and Ronald L. Havner, Jr.) for fiscal year ended December 31, 2005.

Outside Director Compensation Table

Name	Annual Cash Retainer	Board/Committee Meeting & Chairman Fees	Total	Stock Underlying Options Granted
Robert J. Abernethy	$ 30,000	$ 22,500	$ 52,500	2,500
Dann V. Angeloff	$ 30,000	$ 12,500	$ 42,500	2,500
William C. Baker	$ 30,000	$ 5,000	$ 35,000	2,500
John T. Evans	$ 30,000	$ 35,000	$ 65,000	2,500
Uri P. Harkham	$ 30,000	$ 5,000	$ 35,000	2,500
B. Wayne Hughes, Jr.	$ 30,000	0	$ 30,000	2,500
Harvey Lenkin (a) (b)	$ 15,000	0	$ 15,000	2,500
Daniel C. Staton	$ 30,000	$ 22,500	$ 52,500	2,500

(a) Pro-rated for periods of service as an outside director

(b) B. Wayne Hughes and Harvey Lenkin are also compensated under consulting agreements with Public Storage. See *Employment Agreements and Termination Payments*.

Public Storage s policy is also to reimburse directors for reasonable expenses.

Director Equity Awards

Each of Public Storage s outside directors who receives directors fees also receives automatic grants of options under the 2001 Stock Option and Incentive Plan (the 2001 Plan). Ronald L. Havner, Jr. is eligible to

receive discretionary grants of options and restricted stock under the 2001 Plan in his capacity as President & Chief Executive Officer of the company. Under the 2001 Plan, each new outside director is, upon the date of his or her initial election by the Board or the shareholders to serve as an outside director, automatically granted a non-qualified option to purchase 15,000 shares of common stock. After each annual meeting of shareholders, each outside director then duly elected and serving (other than an outside director initially elected to the Board at such annual meeting) is automatically granted, as of the date of such annual meeting, a non-qualified option to purchase 2,500 shares of common stock, so long as such person has attended, in person or by telephone, at least 75% of the meetings held by the board of directors and of any committee on which the director served during the immediately preceding calendar year.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee is comprised of Daniel C. Staton (Chairman), Robert J. Abernethy, Dann V. Angeloff and Uri P. Harkham, none of whom has ever been an employee of Public Storage. No member of the committee had any relationship with us requiring disclosure under Item 404 of SEC Regulation S-K. No executive officer of Public Storage serves on the compensation committee or board of directors of any other entity which has an executive officer who also serves on the Compensation Committee or board of directors of Public Storage at any time during 2005.

Messrs. Hughes, Havner, Lenkin and Hughes, Jr., who are or were officers of Public Storage, are members of the board of directors.

Consideration of Candidates for Director

Shareholder Recommendations. The policy of the Nominating/Corporate Governance Committee is to consider properly submitted shareholder recommendations of candidates for membership on the board of directors as described below under *Identifying and Evaluating Nominees for Directors*. Under this policy, shareholder recommendations may only be submitted by shareholders who would be entitled to submit shareholder proposals under the SEC rules. In evaluating recommendations, the Nominating/Corporate Governance Committee seeks to achieve a balance of knowledge, experience and capability on the Board and to address the membership criteria set forth under Director Qualifications. Any shareholder recommendations proposed for consideration by the Nominating/Corporate Governance Committee should include the candidate s name and qualifications for Board membership, including the information required under Regulation 14A under the Securities Exchange Act of 1934, and should be addressed to:

Stephanie Heim, Corporate Secretary

Public Storage Inc.

701 Western Avenue

Glendale, California 91201

Recommendations should be submitted in the time frame described under *Submission of Future Shareholder Proposals*.

Director Qualifications. Members of the Board should have high professional and personal ethics and values. They should have broad experience at the policy-making level in business or other relevant experience. They should be committed to enhancing shareholder value and should have sufficient time to carry out their duties and to provide insight and practical wisdom based on experience. Their service on other boards of public companies should be limited to a number that permits them, given their individual circumstances, to perform responsibly all director duties. Each director must represent the interests of all shareholders.

Identifying and Evaluating Nominees for Directors. The Nominating/Corporate Governance Committee utilizes a variety of methods for identifying and evaluating nominees for director. The Nominating/Corporate Governance Committee regularly assesses the appropriate size of the Board, and whether any vacancies on the Board are expected due to retirement or otherwise. In the event that vacancies are anticipated, or otherwise arise,

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the Nominating/Corporate Governance Committee considers various potential candidates for director. Candidates may come to the attention of the Nominating/Corporate Governance Committee through current Board members, professional search firms, shareholders or other persons. These candidates are evaluated at meetings of the Nominating/Corporate Governance Committee, and may be considered at any point during the year. As described above, the Nominating/Corporate Governance Committee considers properly submitted shareholder recommendations of candidates for the Board. Following verification of the shareholder status of persons proposing candidates, recommendations will be aggregated and considered by the Nominating/Corporate Governance Committee prior to the issuance of the proxy statement for the annual meeting. If any materials are provided by a shareholder in connection with the recommendation of a director candidate, such materials are forwarded to the Nominating/Corporate Governance Committee. The Nominating/Corporate Governance Committee also reviews materials provided by professional search firms or other parties in connection with a nominee who is not proposed by a shareholder. In evaluating such nominations, the Nominating/Corporate Governance Committee seeks to achieve a balance of knowledge, experience and capability on the Board.

All of the nominees for election to the Board this year were elected to the Board at last year s annual meeting of shareholders.

Communications with the board of directors

Public Storage provides a process by which shareholders may communicate with the board of directors. Any shareholder communications to the Board should be addressed to:

Stephanie Heim, Corporate Secretary

Public Storage Inc.

701 Western Avenue

Glendale, California 91201

Communications that are intended for a specified individual director or group of directors should be addressed to the director(s) c/o Corporate Secretary at the above address and will be forwarded to the director(s).

Business Conduct Standards and Code of Ethics

The Public Storage board of directors has adopted a Directors Code of Ethics as well as Business Conduct Standards applicable to directors, officers, and employees. The board has also adopted a Code of Ethics for its senior financial officers, including Public Storage s principal executive officer, principal financial officer and principal accounting officer, that has additional requirements for those individuals. The Code of Ethics for senior financial officers covers those persons serving as the company s principal executive officer, principal financial officer and principal accounting officer, currently Ronald L. Havner, Jr. and John Reyes. The Directors Code of Ethics, the Business Conduct Standards, and the Code of Ethics for senior financial officers may be found on the Public Storage website at www.publicstorage.com/Corporateinformation/CorpGovernance.aspx. Any amendments or waivers to the code of ethics for directors or executive officers will be disclosed on Public Storage s website or other appropriate means in accordance with applicable SEC and New York Stock Exchange requirements.

Corporate Governance Guidelines

The Public Storage board of directors has adopted Corporate Governance Guidelines to set forth its guidelines for overall governance practices. These Guidelines can be found on the Public Storage website at www.publicstorage.com/Corporateinformation/CorpGovernance.aspx. Shareholders can request a copy of the Guidelines by writing to the Corporate Secretary.

Executive Sessions and Presiding Director

Public Storage s independent directors meet without the presence of management. These meetings are held on a regular basis and at the request of any independent director. The position of presiding director of these sessions rotates among the chairs of the standing committees of the Board.

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Election of Directors

Nominees for Director

Each of the ten members of the board of directors elected at the 2005 annual meeting is standing for re-election for a term expiring at the 2007 annual meeting of shareholders or until their successors have been duly elected and qualified, or their earlier death, removal, retirement or resignation. Robert J. Abernethy, a director of the company since 1980, will retire from Public Storage on January 1, 2007. Public Storage appreciates Mr. Abernethy s wisdom, insight and service over the years.

Pursuant to its authority under the Public Storage bylaws, the Public Storage board has set the number of directors at 10. If the merger with Shurgard is completed, the Board will set the number of directors at 11 and the board will appoint a current independent member of the board of directors of Shurgard, to the Public Storage Board. Each of the individuals nominated for election at the Annual Meeting has been recommended by the Nominating/Corporate Governance Committee of the board of directors and approved by a majority of the independent directors of Public Storage. We believe that each nominee for election as a director will be able to serve if elected. If any nominee is not able to serve, proxies may be voted in favor of the remainder of those nominated and may be voted for substitute nominees, if designated by the Board.

Set forth below is information concerning each of the nominees for director:

B. Wayne Hughes, age 72, has been a director of Public Storage since its organization in 1980 and was President and Co-Chief Executive Officer from 1980 until November 1991 when he became Chairman of the Board and sole Chief Executive Officer. Mr. Hughes retired as Chief Executive Officer in November 2002 and remains Chairman of the Board. Mr. Hughes is currently engaged in the acquisition and operation of commercial properties in California and in the acquisition and operation of mini-warehouses in Canada. Mr. Hughes has been active in the real estate investment field for over 30 years. He is the father of B. Wayne Hughes, Jr., a member of the company s Board.

Ronald L. Havner, Jr., age 48, has been the Vice-Chairman, Chief Executive Officer and a director of Public Storage since November 2002 and President since July 1, 2005. Mr. Havner has been Chairman of Public Storage s affiliate, PS Business Parks, Inc. (PSB), since March 1998 and was Chief Executive Officer of PSB from March 1998 until August 2003. He is also a member of the Board of Governors of the National Association of Real Estate Investment Trusts, Inc. (NAREIT) and a director of Business Machine Security, Inc., The Mobile Storage Group and Union BanCal Corporation.

Harvey Lenkin, age 69, retired as President and Chief Operating Officer of Public Storage on June 30, 2005, and is currently a consultant for Public Storage. Mr. Lenkin was employed by Public Storage or its predecessor for 27 years and has been a member of the board of directors since 1991. He has been a director of Public Storage s affiliate, PS Business Parks, Inc., since March 1998 and was President of PSB from 1990 until March 1998. He is also a director of Paladin Realty Income Properties I, Inc. and a director of Huntington Memorial Hospital, Pasadena, California and a former member of the Executive Committee of the Board of Governors of NAREIT.

Robert J. Abernethy, age 66, Chairman of the Audit Committee and a member of the Compensation Committee, has been President of American Standard Development Company and of Self-Storage Management Company, which develop and operate mini-warehouses, since 1976 and 1977, respectively. Mr. Abernethy was controller of a division of Hughes Aircraft from 1972 to 1974. He has been a director of Public Storage since its organization. He is a member of the board of trustees of Johns Hopkins University, a director of the Los Angeles Music Center, a member of the Board of Overseers of the Los Angeles Philharmonic, a trustee of Loyola Marymount University, a director of the Pacific Council on International Policy, a director of the Atlantic Council, a member of the Council on Foreign Relations and a former California Transportation Commissioner. Mr. Abernethy is a former member of the board of directors of the Los Angeles County Metropolitan Transportation Authority and of the Metropolitan Water District of Southern California, a former member of the

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California State Board of Education, a former member of the California State Arts Council, a former Planning Commissioner, a former Telecommunications Commissioner and the former Vice-Chairman of the Economic Development Commission of the City of Los Angeles. He received an M.B.A. from the Harvard University Graduate School of Business.

Dann V. Angeloff, age 70, Chairman of the Nominating/Corporate Governance Committee and a member of the Compensation Committee, has been President of the Angeloff Company, a corporate financial advisory firm, since 1976. Mr. Angeloff is currently the general partner of a limited partnership that in 1974 purchased a mini-warehouse operated by Public Storage. Mr. Angeloff has been a director of Public Storage since its organization. He is a director of Bjurman, Barry Fund, Inc., Nicholas/Applegate Fund, ReadyPac Foods, Retirement Capital Group and SoftBrands, Inc.

William C. Baker, age 72, a member of Nominating/Corporate Governance Committee, became a director of Public Storage in November 1991. Mr. Baker was Chairman and Chief Executive Officer of Callaway Golf Company from August 2004 until August 2005. From August 1998 through April 2000, he was President and Treasurer of Meditrust Operating Company, a real estate investment trust. From April 1996 to December 1998, Mr. Baker was Chief Executive Officer of Santa Anita Companies, which then operated the Santa Anita Racetrack. From April 1993 through May 1995, he was President of Red Robin International, Inc., an operator and franchisor of casual dining restaurants in the United States and Canada. From January 1992 through December 1995, Mr. Baker was Chairman and Chief Executive Officer of Carolina Restaurant Enterprises, Inc., a franchisee of Red Robin International, Inc. From 1991 to 1999, he was Chairman of the Board of Coast Newport Properties, a real estate brokerage company. From 1976 to 1988, Mr. Baker was a principal shareholder and Chairman and Chief Executive Officer of Del Taco, Inc., an operator and franchisor of fast food restaurants in California. He is a director of La Quinta, Inc., California Pizza Kitchen, Javo Beverage Company and Callaway Golf Company.

John T. Evans, age 67, a member of the Audit Committee and of the Nominating/Corporate Governance Committee, became a director of Public Storage in August 2003. Mr. Evans has been a partner in the law firm of Osler, Hoskin & Harcourt LLP, Toronto, Canada from April 1993 to the present and in the law firm of Blake, Cassels & Graydon LLP, Toronto, Canada from April 1966 to April 1993. Mr. Evans specializes in business law matters, securities, restructurings, mergers and acquisitions and advising on corporate governance. Mr. Evans is a director of Cara Operations Inc., Kubota Metal Corporation, and Toronto East General Hospital. Until August 2003, Mr. Evans was a director of Canadian Mine-Warehouse Properties Ltd., a Canadian corporation owned by B. Wayne Hughes and members of his family.

Uri P. Harkham, age 57, a member of the Compensation Committee, became a director of Public Storage in March 1993. Mr. Harkham has been the President and Chief Executive Officer of the Jonathan Martin Fashion Group, which specializes in designing, manufacturing and marketing women s clothing, since its organization in 1976. Since 1978, Mr. Harkham has been the Chairman of the Board of Harkham Properties, a real estate firm specializing in buying and managing warehouses and retail and mixed-use real estate in California.

B. Wayne Hughes, Jr., age 46, became a director of Public Storage in January 1998. He was employed by Public Storage from 1989 to 2002, serving as Vice President Acquisitions of Public Storage from 1992 to 2002. Mr. Hughes, Jr. is currently Vice President of American Commercial Equities, LLC, a company engaged in the acquisition and operation of commercial properties in California. He is the son of B. Wayne Hughes.

Daniel C. Staton, age 53, Chairman of the Compensation Committee and a member of the Audit Committee, became a director of Public Storage in March 1999 in connection with the merger of Storage Trust Realty, a real estate investment trust, with the company. Mr. Staton was Chairman of the Board of Trustees of Storage Trust Realty from February 1998 until March 1999 and a Trustee of Storage Trust Realty from November 1994 until March 1999. He is President of Walnut Capital Partners, an investment and venture capital company and the Co-Chief Executive Officer of PMGI (formerly Media General, Inc.), a print and electronic media company. Mr. Staton was the Chief Operating Officer and Executive Vice President of Duke Realty

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Investments, Inc. from 1993 to 1997 and a director of Duke Realty Investments, Inc. from 1993 until August 1999. From 1981 to 1993, Mr. Staton was a principal owner of Duke Associates, the predecessor of Duke Realty Investments, Inc. Prior to joining Duke Associates in 1981, he was a partner and general manager of his own moving company, Gateway Van & Storage, Inc. in St. Louis, Missouri. From 1986 to 1988, Mr. Staton served as president of the Greater Cincinnati Chapter of the National Association of Industrial and Office Parks.

The Public Storage board of directors recommends that you vote FOR the election of each nominee named above.

Ratification of Independent Registered Public Accountants

The Audit Committee of the board of directors has appointed Ernst & Young LLP, as the independent registered public accounting firm for Public Storage for the fiscal year ending December 31, 2006.

Although the Public Storage bylaws do not require that shareholders ratify the appointment of Ernst & Young LLP as the independent registered public accounting firm, Public Storage is asking its shareholders to ratify this appointment because it believes that shareholder ratification of the appointment is a matter of good corporate practice. If the shareholders do not ratify the appointment of Ernst & Young LLP, the Audit Committee will reconsider whether or not to retain Ernst & Young LLP as the independent registered public accounting firm for Public Storage, but may determine to do so. Even if the appointment of Ernst & Young LLP is ratified by the shareholders, the Audit Committee may change the appointment at any time during the year if it determines that a change would be in the best interest of Public Storage and its shareholders.

Representatives of Ernst & Young LLP, the independent registered public accounting firm for Public Storage since its organization in 1980, will be in attendance at the Annual Meeting of Shareholders and will have the opportunity to make a statement if they desire to do so and to respond to any appropriate shareholder inquiries.

Fees Billed to Public Storage by Ernst & Young LLP for 2005 and 2004

The following table shows the fees billed or expected to be billed to Public Storage by Ernst & Young for audit and other services provided for fiscal 2005 and 2004:

	2005	2004
Audit Fees (1)	$ 548,800	$ 581,300
Audit-Related Fees	0	0
Tax Fees (2)	688,600	546,300
All Other Fees	0	0
Total	$ 1,237,400	$ 1,127,600

(1) Audit Fees represent fees for professional services provided in connection with the audits of the company s annual financial statements and internal control over financial reporting, review of the quarterly financial statements included in the company s quarterly reports on Form 10-Q and services in connection with the company s registration statements and securities offerings.

(2) During 2005, tax fees included $644,800 for preparation of federal and state income tax returns for the company and its consolidated entities and $43,800 for tax planning. During 2004, $12,200 of the tax services were for tax planning, primarily related to acquisitions. All other 2004 tax fees were for preparation of federal and state income tax returns.

The Audit Committee has adopted a pre-approval policy relating to any services provided by the company s independent registered public accounting firm. Under this policy the Audit Committee of the company pre-approved all services performed by Ernst & Young LLP during 2005. At this time, the Audit Committee has not delegated pre-approval authority to any member or members of the Audit Committee.

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The Public Storage board of directors recommends that you vote FOR the proposal to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm.

Audit Committee Report

The Audit Committee consists of three directors, each of whom has been determined by the Board to meet the New York Stock Exchange standards for independence and the SEC s requirements for audit committee member independence. The Audit Committee operates under a charter adopted by the board of directors.

Management is responsible for Public Storage s internal controls and the financial reporting process. The independent registered public accounting firm is responsible for performing an independent audit of the company s consolidated financial statements in accordance with generally accepted auditing standards and for issuing a report thereon. The Audit Committee s responsibility is to monitor and oversee these processes and necessarily relies on the work and assurances of the company s management and of Public Storage s independent registered public accounting firm.

In this context, the Audit Committee has met with management and Ernst & Young LLP, the company s independent registered public accounting firm, and has reviewed and discussed with them the audited consolidated financial statements. Management represented to the Audit Committee that the company s consolidated financial statements were prepared in accordance with generally accepted accounting principles. The Audit Committee discussed with the independent registered public accounting firm matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees), as modified or supplemented.

Public Storage s independent registered public accounting firm also provided to the Audit Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and the Audit Committee discussed with the independent registered public accounting firm that firm s independence. In addition, the Audit Committee has considered whether the independent registered public accounting firm s provision of non-audit services to Public Storage is compatible with the firm s independence.

During 2005, management documented, tested and evaluated Public Storage s system of internal controls over financial reporting in response to the requirements set forth in Section 404 of the Sarbanes-Oxley Act of 2002 and SEC regulations adopted thereunder. The Audit Committee met with representatives of management, the internal auditors, legal counsel and the independent registered public accountants on a regular basis throughout the year to discuss the progress of the process. At the conclusion of this process, the Audit Committee received from management its assessment and report on the effectiveness of the company s internal controls over financial reporting. In addition, the Audit Committee received from Ernst & Young LLP its attestation report on management s assessment and report on Public Storage s internal controls over financial reporting. The Audit Committee reviewed and discussed the results of management s assessment and Ernst & Young s attestation.

Based on the foregoing and the Audit Committee s discussions with management and the independent registered public accounting firm, and review of the representations of management and the report of the independent registered public accounting firm, the Audit Committee recommended to the board of directors, and the Board has approved, that the audited consolidated financial statements be included in Public Storage s Annual Report on Form 10-K for the year ended December 31, 2005 for filing with the SEC.

AUDIT COMMITTEE

Robert J. Abernethy (Chairman)

John T. Evans

Daniel C. Staton

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Stock Price Performance Graph

The graph set forth below compares the yearly change in Public Storage s cumulative total shareholder return on its common stock for the five-year period ended December 31, 2005 to the cumulative total return of the Standard and Poor s 500 Stock Index (S&P 500 Index) and the National Association of Real Estate Investment Trusts Equity Index (NAREIT Equity Index) for the same period (total shareholder return equals price appreciation plus dividends). The stock price performance graph assumes that the value of the investment in Public Storage s common stock and each index was $100 on December 31, 2000 and that all dividends were reinvested. The stock price performance shown in the graph is not necessarily indicative of future price performance.

Comparison of Cumulative Total Return

Public Storage, Inc., S&P 500 Index and NAREIT Equity Index

December 31, 2000 December 31, 2005

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires Public Storage s directors and executive officers, and persons who own more than 10% of any registered class of Public Storage s equity securities to file with the SEC initial reports (on Form 3) of ownership of the company s equity securities and to file subsequent reports (on Form 4 or Form 5) when there are changes in such ownership. The due dates of such reports are established by statute and the rules of the SEC. Based on a review of the reports submitted to the company and of filings on the SEC s EDGAR website, Public Storage believes that, with respect to reports filed during the fiscal year ended December 31, 2005, all directors and officers made timely reports.

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Stock Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Beneficial Owners

The following table sets forth information as of the dates indicated with respect to persons known to the company to be the beneficial owners of more than 5% of the outstanding shares of Public Storage common stock or depositary shares representing equity stock, series A:

	Common Shares Beneficially Owned		Depositary Shares Each Representing 1/1,000 of a Share of Equity Stock, Series A Beneficially Owned	
Name and Address	**Number of Shares**	**Percent of Class**	**Number of Shares**	**Percent of Class**
B. Wayne Hughes (1)	19,790,182	15.4%	55,755	.6%
B. Wayne Hughes, Jr. (1)	4,736,080	3.7%	39,089	.4%
Tamara Hughes Gustavson (1)	21,470,312	16.6%	1,201,354	13.7%
B. Wayne Hughes, Jr. and Tamara Hughes Gustavson (1)	11,348		43	
Total	46,007,922	35.7%	1,296,241	14.8%
701 Western Avenue Glendale, California 91201				
Cohen & Steers Capital Management, Inc.	(3)	(3)	826,200	9.4%
757 Third Avenue New York, New York 10017 (2)				

(1) This information is as of May 15, 2006. B. Wayne Hughes, B. Wayne Hughes, Jr. and Tamara Hughes Gustavson have filed a joint Schedule 13D, as amended most recently on March, reporting their collective ownership of common shares and depositary shares and may constitute a group within the meaning of section 13(d)(3) of the Securities Exchange Act of 1934, although each of these persons disclaims beneficial ownership of the shares owned by the others.

(2) This information is as of December 31, 2005 (except that the percent shown is based on the Depositary Shares outstanding at March 3, 2006) and is based on a Schedule 13G filed on February 14, 2006 by Cohen & Steers Capital Management, Inc. (CSCM), an investment adviser registered under the Investment Advisers Act of 1940. CSCM reports in this Schedule 13G that it has sole voting power of 802,400 depositary shares and sole dispositive power of 826,200 depositary shares.

(3) Less than 5%.

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Security Ownership of Management

The following table sets forth information as of March 1, 2006 concerning the beneficial ownership of the common shares and the depositary shares of each director of the company, the company s Chief Executive Officer, the other four most highly compensated persons who were executive officers of the company on December 31, 2005 and all directors and executive officers as a group:

	Common Shares: Beneficially Owned (excluding options)(1)		Depositary Shares Each Representing 1/1,000 of a Share of Equity Stock, Series A Beneficially Owned	
	Shares Subject to Options(2)			
Name	**Number of Shares**	**Percent**	**Number of Shares**	**Percent**
B. Wayne Hughes	19,790,182	15.4%	55,755	.6%
Ronald L. Havner, Jr.	20,300	*		*
	220,333(2)	.2%		
	240,633	.2%		
Robert J. Abernethy	91,567	*	2,108	*
	19,999(2)	*		
	111,566			