

There's more to Public Storage...



2000 Annual Report

... Than storage.



SELECTED FINANCIAL HIGHLIGHTS

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

| | 2000 ⁽¹⁾ | 1999 ⁽¹⁾ | 1998 ⁽¹⁾ | 1997 ⁽¹⁾ | 1996 ⁽¹⁾ |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Revenues: | | | | | |
| Rental income | \$ 702,779 | \$ 627,851 | \$ 535,869 | \$ 434,008 | \$ 294,426 |
| Equity in earnings of real estate entities | 36,109 | 32,183 | 26,602 | 17,569 | 22,121 |
| Interest and other income | 18,422 | 16,700 | 18,614 | 17,474 | 19,829 |
| | 757,310 | 676,734 | 581,085 | 469,051 | 336,376 |
| Expenses: | | | | | |
| Cost of operations | 252,086 | 216,816 | 205,835 | 165,714 | 94,285 |
| Depreciation and amortization | 148,967 | 137,719 | 111,799 | 92,750 | 64,999 |
| General and administrative | 21,306 | 12,491 | 11,635 | 13,462 | 5,698 |
| Interest expense | 3,293 | 7,971 | 4,507 | 6,792 | 8,482 |
| | 425,652 | 374,997 | 333,776 | 278,718 | 173,464 |
| Income before minority interest and disposition gain | 331,658 | 301,737 | 247,309 | 190,333 | 162,912 |
| Minority interest in income (preferred) | (24,859) | — | — | — | — |
| Minority interest in income (common) | (13,497) | (16,006) | (20,290) | (11,684) | (9,363) |
| Net income before gain on disposition of real estate | 293,302 | 285,731 | 227,019 | 178,649 | 153,549 |
| Gain on disposition of real estate investments | 3,786 | 2,154 | — | — | — |
| Net income | \$ 297,088 | \$ 287,885 | \$ 227,019 | \$ 178,649 | \$ 153,549 |
| Per Common Share: | | | | | |
| Distributions | \$ 1.48 | \$ 1.52 | \$ 0.88 | \$ 0.88 | \$ 0.88 |
| Net income – Basic | \$ 1.41 | \$ 1.53 | \$ 1.30 | \$ 0.92 | \$ 1.10 |
| Net income – Diluted | \$ 1.41 | \$ 1.52 | \$ 1.30 | \$ 0.91 | \$ 1.10 |
| Weighted average common shares – Basic | 131,566 | 126,308 | 113,929 | 98,446 | 77,117 |
| Weighted average common shares – Diluted | 131,657 | 126,669 | 114,357 | 98,961 | 77,358 |
| Balance Sheet Data: | | | | | |
| Total assets | \$4,513,941 | \$4,214,385 | \$3,403,904 | \$3,311,645 | \$2,572,152 |
| Total debt | \$ 156,003 | \$ 167,338 | \$ 81,426 | \$ 103,558 | \$ 108,443 |
| Minority interest (common equity) | \$ 167,918 | \$ 186,600 | \$ 139,325 | \$ 288,479 | \$ 116,805 |
| Minority interest (preferred OP Units) | \$ 365,000 | — | — | — | — |
| Shareholders' equity | \$3,724,117 | \$3,689,100 | \$3,119,340 | \$2,848,960 | \$2,305,437 |
| Other Data: | | | | | |
| Net cash provided by operating activities | \$ 502,450 | \$ 459,177 | \$ 372,992 | \$ 294,557 | \$ 245,361 |
| Net cash used in investing activities | \$ (447,503) | \$ (448,529) | \$ (355,231) | \$ (408,313) | \$ (479,626) |
| Net cash provided by (used in) financing activities | \$ (20,605) | \$ (6,748) | \$ (7,991) | \$ 128,355 | \$ 180,685 |
| Funds from operations ⁽²⁾ | \$ 452,155 | \$ 428,962 | \$ 336,363 | \$ 272,234 | \$ 224,476 |

1. During 2000, 1999, 1998, 1997 and 1996, we completed several significant business combinations and equity transactions. See Notes 3 and 10 to the Company's consolidated financial statements.

2. Funds from operations ("FFO"), means net income (loss) (computed in accordance with GAAP) before (i) gain (loss) on early extinguishment of debt, (ii) minority interest in income and (iii) gain (loss) on disposition of real estate, adjusted as follows: (i) plus depreciation and amortization (including the Company's pro-rata share of depreciation and amortization of unconsolidated equity interests and amortization of assets acquired in a merger, including property management agreements and excess purchase cost over net assets acquired), and (ii) less FFO attributable to minority interest. FFO is a supplemental performance measure for equity REITs as defined by the National Association of Real Estate Investment Trusts, Inc. ("NAREIT"). The NAREIT definition does not specifically address the treatment of minority interest in the determination of FFO or the treatment of the amortization of property management agreements and excess purchase cost over net assets acquired. In the case of the Company, FFO represents amounts attributable to its shareholders after deducting amounts attributable to the minority interests and before deductions for the amortization of property management agreements and excess purchase cost over net assets acquired. FFO is presented because management, as well as many analysts, consider FFO to be one measure of the performance of the Company and it is used in certain aspects of the terms of the Class B Common Stock. FFO does not take into consideration scheduled principal payments on debt, capital improvements, distributions and other obligations of the Company. Accordingly, FFO is not a substitute for the Company's cash flow or net income as a measure of the Company's liquidity or operating performance or ability to pay distributions. FFO is not comparable to similarly entitled items reported by other REITs that do not define it exactly as the Company defines it.

TO OUR SHAREHOLDERS

Our leadership is largely attributable to the outstanding locations of most of our self-storage facilities. We have aggressively identified, acquired and developed properties in major metropolitan areas throughout the United States. We own a substantial percentage of the higher-rent self-storage space in or near major cities in 37 states; none of our competitors operates portfolios that have comparable market penetration. We believe our 1,361 properties, and our intensive property management system, enable us to compete effectively in a competitive industry.

Of equal importance is employing a unifying strategy to tie together our operational strengths. Our goal during 2000 was to further implement our Convenience Strategy, designed to satisfy the customer's specific storage needs while generating increasing funds from operations.

OUR CONVENIENCE STRATEGY

In today's fast-paced environment, self-storage customers want reliable, hassle-free solutions to address a range of storage problems: from how to find and use clean, well-managed self-storage to how to economically transport their belongings across town, the state or the country. Finding solutions to storage problems benefits both the customer and our company. Our many superior property locations, clean, well-managed storage space, complementary businesses addressing the entire storage decision and



Portable self-storage enables customers to pack up and move at their convenience.

quality customer service add value to the customer's storage experience and encourage customers to make their storage decisions based upon factors in addition to price.

Through our Convenience Strategy, we encourage our onsite property managers to be flexible, informed and customer responsive, allowing them to see what effective customer service means to the customer.

A changing, expanding population will present challenges and opportunities as the new century unfolds. The possessions that future generations store may differ from what the baby boomer generation stored. Despite these emerging trends, we

believe we will continue to be positioned to capture storage demand, increasing funds from operations.

America is a nation of consumers, and much of what Americans buy — the quickly outdated computer, the now-too-small television — inevitably ends up in self-storage. Indeed, Americans are purchasing more entertainment and recreational goods, including TV's, stereos, powerboats, motorcycles, jet skis, all-terrain vehicles and so forth. The escalating American consumption of goods and services suggests the rising affluence and leisure time of a highly mobile population. According to the U.S. Postal Service, recent population relocation figures indicate 22 million households move in the U.S. annually, with 14 percent of those households renting storage space.

Our national call centers in California and Texas are designed to acquire, assimilate and utilize information about the services and products our customers want us to provide to solve their storage problems.

Thanks to Public Storage employees, who generously donated their time, and to the storage containers that we provided, we again assisted the U.S. Marine Corps Reserve with its annual Toys for Tots program. Over a quarter of a million toys were distributed to children in California, Florida, Illinois and

Texas. Our commitment to communities is also reflected in the support we provide for civic and social services, the arts and education. For example, we donated computers and computer

peripherals to local schools and charities.

To our customers,

shareholders and employees, we express our deepest gratitude for your support.

Our objective is to satisfy the customer's specific storage needs while generating increasing funds from operations.

Sincerely,

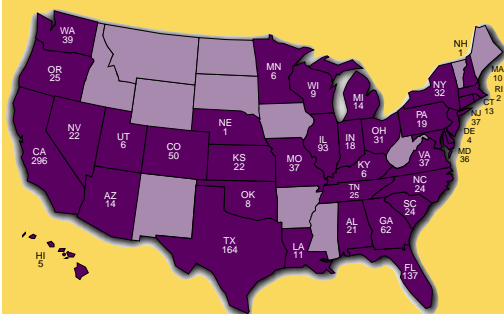


B. Wayne Hughes
*Chairman of the Board and
Chief Executive Officer*



Harvey Lenkin
President

March 15, 2001



Properties (December 31, 2000)

| Location | Number of Properties ⁽¹⁾ | Net Rentable Square Feet |
|----------------|-------------------------------------|--------------------------|
| Alabama | 21 | 835,000 |
| Arizona | 14 | 943,000 |
| California | 296 | 17,726,000 |
| Colorado | 50 | 3,137,000 |
| Connecticut | 13 | 710,000 |
| Delaware | 4 | 230,000 |
| Florida | 137 | 8,049,000 |
| Georgia | 62 | 3,626,000 |
| Hawaii | 5 | 247,000 |
| Illinois | 93 | 5,647,000 |
| Indiana | 18 | 1,050,000 |
| Kansas | 22 | 1,278,000 |
| Kentucky | 6 | 331,000 |
| Louisiana | 11 | 852,000 |
| Maryland | 36 | 2,043,000 |
| Massachusetts | 10 | 580,000 |
| Michigan | 14 | 765,000 |
| Minnesota | 6 | 341,000 |
| Missouri | 37 | 2,128,000 |
| Nebraska | 1 | 46,000 |
| Nevada | 22 | 1,409,000 |
| New Hampshire | 1 | 62,000 |
| New Jersey | 37 | 2,178,000 |
| New York | 32 | 1,885,000 |
| North Carolina | 24 | 1,266,000 |
| Ohio | 31 | 1,899,000 |
| Oklahoma | 8 | 429,000 |
| Oregon | 25 | 1,171,000 |
| Pennsylvania | 19 | 1,293,000 |
| Rhode Island | 2 | 64,000 |
| South Carolina | 24 | 1,082,000 |
| Tennessee | 25 | 1,494,000 |
| Texas | 164 | 10,766,000 |
| Utah | 6 | 324,000 |
| Virginia | 37 | 2,247,000 |
| Washington | 39 | 2,466,000 |
| Wisconsin | 9 | 703,000 |
| Totals | 1,361 | 81,302,000 |

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

FINANCIAL REVIEW

Public Storage operates a portfolio of properties whose locations are among the best in the self-storage industry. Our strength is primarily attributable to this, and an intensive property management system. Our size and national presence is reflected in the "Properties" table on this page. The Company's 1,361 properties are located in 37 states. More information about our properties is available at our website, www.publicstorage.com.

In an environment where customer demands predominate because of competitive pressures, we concentrate on our Convenience Strategy, designed to satisfy the customer's specific storage needs while generating increasing operating results.

Net income for 2000 was \$297,088,000 compared to \$287,885,000 for 1999, representing an increase of \$9,203,000 or 3.2 percent. The increase in net income was primarily the result of improved property operations, reduced operating losses from the containerized storage business, and the acquisition of additional real estate investments during 1999 and 2000 (including the acquisition of Storage Trust). The impact of these items was offset partially by an increased allocation of income to minority interests. During 2000, we issued \$365,000,000 in preferred operating partnership units. Unlike distributions to preferred shareholders, distributions to preferred unitholders are presented as minority interest in income and a reduction in net income. Primarily as a result of these distributions, minority interest in income increased \$22,350,000 for 2000 as compared to 1999.

Net income allocable to common shareholders was \$185,908,000 or \$1.41 per common share on a diluted basis (based on 131,657,000 weighted average diluted common equivalent shares) for 2000. For 1999, net income allocable to common shareholders was \$193,092,000 or \$1.52 per common share on a diluted basis (based on 126,669,000 weighted average diluted common equivalent shares). The decrease in net income per common share reflects the inclusion of 6,790,000 common equivalent shares related to the Company's Class B common shares in 2000, but not in 1999. The decrease in net income per share also includes increased dilution from uninvested proceeds from the Company's issuance of fixed-rate preferred securities, increased dilution from development activities, and the impact of the Company's issuance of the Equity Stock, Series A. These factors were offset partially by improved property operations and reduced operating losses from the containerized storage business.

Funds from operations per common equivalent share for 2000 was \$2.59 compared to \$2.50 per common equivalent share for 1999. In computing funds from operations per common equivalent share, all 7,000,000 Class B common shares were included in the weighted average common equivalent shares for 2000 and 1999.

On March 5, 2001, the Board of Directors declared quarterly distributions of \$0.22 per regular common share and \$0.6125 per share on the depositary shares each representing 1/1,000 of a share of Equity Stock, Series A. In addition, distributions were declared with respect to the Company's various series of preferred equity securities. All of the distributions are payable on March 30, 2001 to shareholders of record as of March 15, 2001.

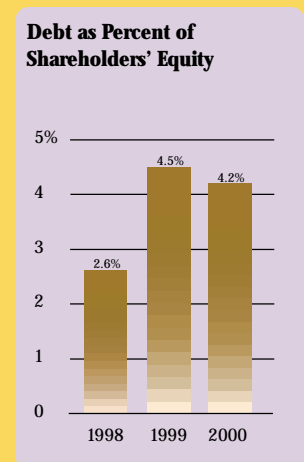
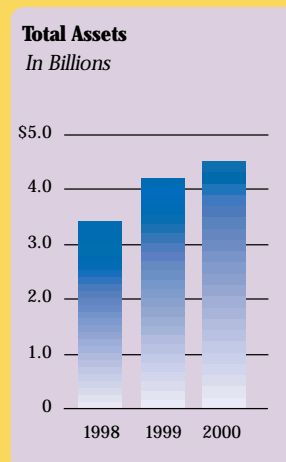
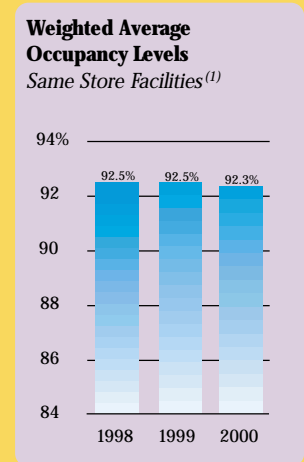
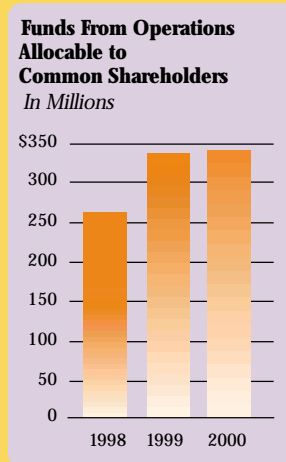
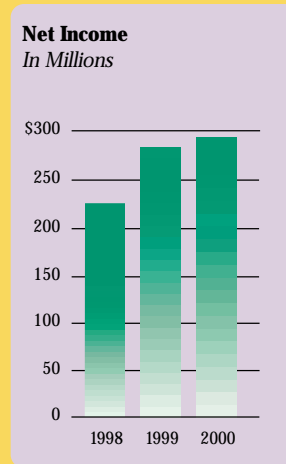
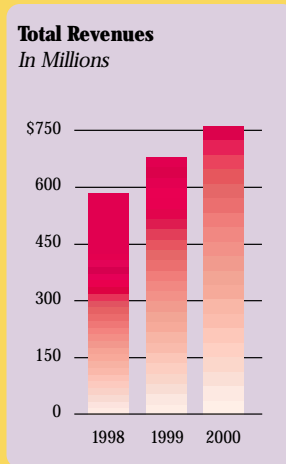
SAME STORE PERFORMANCE, CAPITAL FORMATION AND STOCK REPURCHASE

The "Same Store" facilities (the 949 stabilized self-storage facilities in which the Company has held an ownership interest since 1994) had occupancies of 92.3 percent in 2000 as

compared to 92.5 percent in 1999. Same Store average annual realized rents were \$10.36 per square foot for 2000, compared to \$9.89 for 1999. Realized rent per occupied square foot represents the actual revenue earned per occupied square foot. We believe this is a more relevant measure than posted or scheduled rates, since posted rates can be discounted through promotions. Same Store rental income advanced to \$547,904,000 for 2000, versus \$524,880,000 for 1999. Same Store cost of operations increased to \$164,197,000 for 2000, compared to \$154,974,000 for 1999. Net operating income was \$383,707,000 for 2000, compared to \$369,906,000 for 1999.

In December 2000, the Company issued publicly 1,282,500 depositary shares, each representing 1/1,000 of a share of the Company's Equity Stock, Series A, raising net proceeds of \$28,518,000. In January 2001, the Company completed a public offering of 6,900,000 depositary shares (\$25 stated value per depositary share) each representing 1/1,000 of a share of 8.6% Cumulative Preferred Stock, Series Q, raising net proceeds of approximately \$167,066,000.

The Board of Directors has authorized the repurchase from time to time of up to 20,000,000 shares of the Company's common stock on the open market or in privately negotiated transactions. In 2000, the Company repurchased a total of 3,491,600 shares at an aggregate cost of approximately \$77,799,000. Cumulatively since the repurchase announcement, through December 31, 2000, the Company repurchased a total of 10,900,427 shares of common stock at an aggregate cost of approximately \$258,620,000. From January 1, 2001 through March 14, 2001, the Company repurchased 3,961,800 shares at an aggregate cost of approximately \$102,200,000.



(1) "Same Store" refers to stabilized self-storage facilities in which the Company had an interest since January 1, 1994.
 (2) Assumes conversion of the Company's Convertible Preferred Stock into common stock. Includes 7,000,000 Class B common shares in computing weighted average common equivalent shares for all periods.

CONSOLIDATED BALANCE SHEETS

| (Amounts in thousands, except share data) | December 31, 2000 | December 31, 1999 |
|--|----------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 89,467 | \$ 55,125 |
| Real estate facilities, at cost: | | |
| Land | 1,107,867 | 1,036,958 |
| Buildings | 3,026,550 | 2,785,475 |
| | 4,134,417 | 3,822,433 |
| Accumulated depreciation | (668,018) | (533,412) |
| | 3,466,399 | 3,289,021 |
| Construction in process | 238,587 | 140,764 |
| | 3,704,986 | 3,429,785 |
| Investment in real estate entities | 448,928 | 457,529 |
| Intangible assets, net | 185,017 | 194,326 |
| Mortgage notes receivable from affiliates | 26,238 | 18,798 |
| Other assets | 59,305 | 58,822 |
| Total assets | \$ 4,513,941 | \$ 4,214,385 |
| Liabilities and Shareholders' Equity | | |
| Notes payable | \$ 156,003 | \$ 167,338 |
| Distributions payable | — | 82,086 |
| Accrued and other liabilities | 100,903 | 89,261 |
| Total liabilities | 256,906 | 338,685 |
| Minority interest: | | |
| Preferred partnership interests | 365,000 | — |
| Other | 167,918 | 186,600 |
| Commitments and contingencies | | |
| Shareholders' Equity: | | |
| Preferred Stock, \$0.01 par value, 50,000,000 shares authorized, 11,141,100 shares issued and outstanding, at liquidation preference: Cumulative Preferred Stock, issued in series | 1,155,150 | 1,155,150 |
| Common Stock, \$0.10 par value, 200,000,000 shares authorized, 123,703,874 shares issued and outstanding (126,697,023 at December 31, 1999) | 12,370 | 12,671 |
| Equity Stock, Series A, \$0.01 par value, 200,000,000 shares authorized, 5,635.602 shares issued and outstanding (none issued and outstanding at December 31, 1999) | — | — |
| Class B Common Stock, \$0.10 par value, 7,000,000 shares authorized and issued | 700 | 700 |
| Paid-in capital | 2,506,736 | 2,463,193 |
| Cumulative net income | 1,387,061 | 1,089,973 |
| Cumulative distributions paid | (1,337,900) | (1,032,587) |
| Total shareholders' equity | 3,724,117 | 3,689,100 |
| Total liabilities and shareholders' equity | \$ 4,513,941 | \$ 4,214,385 |

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except per share data)

For each of the three years in the period ended December 31, 2000

| | 2000 | 1999 | 1998 |
|--|-----------|-----------|-----------|
| Revenues: | | | |
| Rental income: | | | |
| Self-storage facilities | \$653,524 | \$592,619 | \$488,291 |
| Commercial properties | 11,341 | 8,204 | 23,112 |
| Containerized storage facilities | 37,914 | 27,028 | 24,466 |
| Equity in earnings of real estate entities | 36,109 | 32,183 | 26,602 |
| Interest and other income | 18,422 | 16,700 | 18,614 |
| | 757,310 | 676,734 | 581,085 |
| Expenses: | | | |
| Cost of operations: | | | |
| Self-storage facilities | 210,462 | 184,481 | 149,376 |
| Commercial properties | 3,826 | 2,826 | 7,951 |
| Containerized storage facilities | 37,798 | 29,509 | 48,508 |
| Depreciation and amortization | 148,967 | 137,719 | 111,799 |
| General and administrative | 21,306 | 12,491 | 11,635 |
| Interest expense | 3,293 | 7,971 | 4,507 |
| | 425,652 | 374,997 | 333,776 |
| Income before minority interest and gain on disposition of real estate and real estate investments | 331,658 | 301,737 | 247,309 |
| Minority interest in income: | | | |
| Preferred partnership interests | (24,859) | — | — |
| Other partnership interests | (13,497) | (16,006) | (20,290) |
| Net income before gain on disposition of real estate | 293,302 | 285,731 | 227,019 |
| Gain on disposition of real estate and real estate investments | 3,786 | 2,154 | — |
| Net income | \$297,088 | \$287,885 | \$227,019 |
| Net income allocation: | | | |
| Allocable to preferred shareholders | \$100,138 | \$ 94,793 | \$ 78,375 |
| Allocable to Equity Stock, Series A | 11,042 | — | — |
| Allocable to common shareholders | 185,908 | 193,092 | 148,644 |
| | \$297,088 | \$287,885 | \$227,019 |
| Per common share: | | | |
| Basic net income per share | \$ 1.41 | \$ 1.53 | \$ 1.30 |
| Diluted net income per share | \$ 1.41 | \$ 1.52 | \$ 1.30 |
| Basic weighted average common shares outstanding | 131,566 | 126,308 | 113,929 |
| Diluted weighted average common shares outstanding | 131,657 | 126,669 | 114,357 |

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| (Amounts in thousands, except share and per share amounts) For each of the three years in the period ended December 31, 2000 | Preferred Stock | | Common Stock |
|---|-----------------|-------------|-----------------|
| | Cumulative | Convertible | |
| Balances at December 31, 1997 | \$ 868,900 | \$ 53,308 | \$10,511 |
| Issuance of Common Stock (10,093,648 shares) | — | — | 1,010 |
| Conversion of Convertible Preferred Stock into Common Stock (3,589,552 shares) | — | (53,308) | 359 |
| Repurchase of Common Stock (2,819,400 shares) | — | — | (282) |
| Net income | — | — | — |
| Distributions to shareholders: | | | |
| Preferred Stock | — | — | — |
| Common Stock, \$0.88 per share | — | — | — |
| Balances at December 31, 1998 | 868,900 | — | 11,598 |
| Issuance of Preferred Stock, net of issuance costs: | | | |
| Series K (4,600 shares) | 115,000 | — | — |
| Series L (4,600 shares) | 115,000 | — | — |
| Series M (2,250 shares) | 56,250 | — | — |
| Issuance of Common Stock (15,320,505 shares) | — | — | 1,532 |
| Repurchase of Common Stock (4,589,427 shares) | — | — | (459) |
| Net income | — | — | — |
| Distributions to shareholders: | | | |
| Preferred Stock | — | — | — |
| Common Stock regular distribution, \$0.88 per share | — | — | — |
| Common Stock special distribution | — | — | — |
| Balances at December 31, 1999 | 1,155,150 | — | 12,671 |
| Issuance of Equity Stock, Series A (5,635,602 shares) | — | — | — |
| Issuance of Common Stock (498,451 shares) | — | — | 50 |
| Repurchase of Common Stock (3,491,600 shares) | — | — | (351) |
| Costs in connection with issuance of preferred operating partnership units (see Note 8) | — | — | — |
| Net income | — | — | — |
| Distributions to shareholders: | | | |
| Preferred Stock | — | — | — |
| Equity Stock, Series A | — | — | — |
| Common Stock regular distribution, \$0.88 per share | — | — | — |
| Common Stock special distribution | — | — | — |
| Balances at December 31, 2000 | \$1,155,150 | \$ — | \$12,370 |

See accompanying notes.

PUBLIC STORAGE, INC. 2000 ANNUAL REPORT

| Class B Common Stock | Paid-in Capital | Cumulative Net Income | Cumulative Distributions | Total Shareholders' Equity |
|----------------------------|--------------------|--------------------------|-----------------------------|----------------------------------|
| \$700 | \$1,903,782 | \$ 575,069 | \$ (563,310) | \$2,848,960 |
| — | 293,708 | — | — | 294,718 |
| — | 52,949 | — | — | — |
| — | (71,974) | — | — | (72,256) |
| — | — | 227,019 | — | 227,019 |
| — | — | — | (78,375) | (78,375) |
| — | — | — | (100,726) | (100,726) |
| 700 | 2,178,465 | 802,088 | (742,411) | 3,119,340 |
| — | (3,723) | — | — | 111,277 |
| — | (3,723) | — | — | 111,277 |
| — | (1,872) | — | — | 54,378 |
| — | 402,152 | — | — | 403,684 |
| — | (108,106) | — | — | (108,565) |
| — | — | 287,885 | — | 287,885 |
| — | — | — | (94,793) | (94,793) |
| — | — | — | (113,297) | (113,297) |
| — | — | — | (82,086) | (82,086) |
| 700 | 2,463,193 | 1,089,973 | (1,032,587) | 3,689,100 |
| — | 113,354 | — | — | 113,354 |
| — | 11,387 | — | — | 11,437 |
| — | (77,448) | — | — | (77,799) |
| — | (3,750) | — | — | (3,750) |
| — | — | 297,088 | — | 297,088 |
| — | — | — | (100,138) | (100,138) |
| — | — | — | (11,042) | (11,042) |
| — | — | — | (115,460) | (115,460) |
| — | — | — | (78,673) | (78,673) |
| \$700 | \$2,506,736 | \$1,387,061 | \$ (1,337,900) | \$3,724,117 |

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

For each of the three years in the period ended December 31, 2000

| | 2000 | 1999 | 1998 |
|--|------------|------------|------------|
| Cash flows from operating activities: | | | |
| Net income | \$ 297,088 | \$ 287,885 | \$ 227,019 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Less gain on disposition of real estate and real estate investments | (3,786) | (2,154) | — |
| Depreciation and amortization | 148,967 | 137,719 | 111,799 |
| Depreciation included in equity in earnings of real estate entities | 21,825 | 19,721 | 13,884 |
| Minority interest in income | 38,356 | 16,006 | 20,290 |
| Total adjustments | 205,362 | 171,292 | 145,973 |
| Net cash provided by operating activities | 502,450 | 459,177 | 372,992 |
| Cash flows from investing activities: | | | |
| Principal payments received on mortgage notes receivable | 7,650 | 28,837 | 46,897 |
| Acquisition of minority interests | (31,271) | (36,846) | (22,845) |
| Notes receivable from affiliates | (11,400) | (30,594) | (33,000) |
| Acquisition of real estate facilities | (62,938) | (26,640) | (46,064) |
| Acquisition cost of business combinations | (66,776) | (180,216) | (85,883) |
| Reduction in cash due to the deconsolidation of PS Business Parks, Inc. (See Note 2) | — | — | (11,260) |
| Investment in containerized storage business | — | — | (2,571) |
| Investments in real estate entities | (75,146) | (77,656) | (99,934) |
| Construction in process | (232,918) | (109,047) | (79,132) |
| Capital improvements to real estate facilities | (33,023) | (29,023) | (31,714) |
| Proceeds from the sale of real estate facilities and real estate investments | 58,319 | 12,656 | 10,275 |
| Net cash used in investing activities | (447,503) | (448,529) | (355,231) |
| Cash flows from financing activities: | | | |
| Net paydown on revolving line of credit | — | — | (7,000) |
| Net proceeds from the issuance of preferred stock | — | 276,932 | — |
| Net proceeds from the issuance of preferred partnership units | 361,250 | — | — |
| Net proceeds from the issuance of Equity Stock, Series A | 68,318 | — | — |
| Net proceeds from the issuance of common stock | 4,608 | 10,000 | 237,860 |
| Repurchase of the Company's common stock | (77,799) | (108,565) | (72,256) |
| Principal payments on mortgage notes payable | (11,335) | (14,088) | (15,131) |
| Distributions paid to shareholders | (343,388) | (208,090) | (179,101) |
| Distributions paid to minority interests | (45,494) | (25,300) | (32,312) |
| Investment by minority interests | 17,871 | 61,928 | 54,809 |
| Other | 5,364 | 435 | 5,140 |
| Net cash used in financing activities | (20,605) | (6,748) | (7,991) |
| Net increase in cash and cash equivalents | 34,342 | 3,900 | 9,770 |
| Cash and cash equivalents at the beginning of the year | 55,125 | 51,225 | 41,455 |
| Cash and cash equivalents at the end of the year | \$ 89,467 | \$ 55,125 | \$ 51,225 |

See accompanying notes.

(Amounts in thousands)

For each of the three years in the period ended December 31, 2000

| | 2000 | 1999 | 1998 |
|---|------------|-------------|-------------|
| SUPPLEMENTAL SCHEDULE OF NON CASH INVESTING AND FINANCING ACTIVITIES: | | | |
| Business combinations (Note 3): | | | |
| Real estate facilities | \$(82,163) | \$(727,925) | \$(224,999) |
| Construction in process | — | (11,449) | — |
| Investment in real estate entities | 14,393 | 66,334 | 86,966 |
| Mortgage notes receivable | — | (6,739) | — |
| Other assets | (183) | (3,295) | (670) |
| Accrued and other liabilities | 1,177 | 23,434 | 3,793 |
| Minority interest | — | 32,201 | 35,210 |
| Notes payable | — | 100,000 | — |
| Effect of the deconsolidation of PS Business Parks (Note 2): | | | |
| Investments in real estate entities | — | — | (219,225) |
| Real estate facilities, net of accumulated depreciation | — | — | 433,446 |
| Other assets | — | — | 2,048 |
| Accrued and other liabilities | — | — | (10,106) |
| Notes payable | — | — | (14,526) |
| Minority interest | — | — | (202,897) |
| Acquisition of real estate facilities in exchange for minority interests, common stock, the assumption of mortgage notes payable, the cancellation of mortgage notes receivable, the reduction of investment in real estate entities and other assets | | | |
| | (19,281) | (55,120) | (42,047) |
| Assumption of notes payable in exchange for real estate facilities | | | |
| | — | — | 14,526 |
| Other assets given in exchange for real estate facilities | | | |
| | — | 3,800 | — |
| Minority interest (acquired) issued in exchange for the purchase of (sale of) real estate facilities | | | |
| | (6,427) | — | 1,206 |
| Cancellation of mortgage notes receivable to acquire real estate facilities | | | |
| | — | 5,573 | 2,495 |
| Reduction of investment in real estate entities in exchange for real estate facilities | | | |
| | 3,144 | — | 527 |
| Disposition of real estate facilities in exchange for notes receivable, other assets, and investment in real estate entities | | | |
| | 20,265 | 29,675 | — |
| Notes receivable issued in connection with real estate dispositions | | | |
| | (3,690) | (10,460) | — |
| Other assets received in connection with real estate dispositions | | | |
| | — | (3,800) | — |
| Investment in real estate entities | | | |
| | — | (15,415) | (17,133) |
| Acquisition of minority interest in exchange for common stock | | | |
| | (22,988) | (37,560) | (25,460) |
| Distributions payable | | | |
| | (82,086) | 82,086 | — |
| Cumulative distributions paid | | | |
| | — | (82,086) | — |
| Issuance of Common Stock: | | | |
| In connection with business combinations | — | 347,223 | 13,817 |
| To acquire minority interests | 6,829 | 46,461 | 25,908 |
| Acquire partnership interests in real estate entities | — | — | 17,133 |
| In connection with conversion of Convertible Preferred Stock | — | — | 53,308 |
| Issuance of equity stock, Series A in connection with special distribution to common shareholders and in connection with acquisition of real estate facilities | | | |
| | 45,037 | — | — |
| Conversion of Convertible Preferred Stock | | | |
| | — | — | (53,308) |

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000

Note 1 —

Description of the Business

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

In 1996 and 1997, we organized Public Storage Pickup and Delivery, Inc., as a separate corporation and partnership (the corporation and partnership are collectively referred to as “PSPUD”) to operate storage facilities that rent portable storage containers to customers for storage in central warehouses. At December 31, 2000, PSPUD had 41 facilities in operation in 13 states.

We invest in real estate facilities by acquiring wholly owned facilities or by acquiring interests in real estate entities which also own real estate facilities. At December 31, 2000, we had direct and indirect equity interests in 1,507 properties located in 38 states, including 1,361 self-storage facilities and 146 commercial properties. The Company under the “Public Storage” name operates all of the self-storage facilities.

Note 2 —

Summary of Significant Accounting Policies

Basis of presentation

The consolidated financial statements include the accounts of the Company and 35 controlled entities (the “Consolidated Entities”). Collectively, the Company and these entities own a total of 1,253 real estate facilities, consisting of 1,247 storage facilities and six commercial properties.

At December 31, 2000, we had equity investments in 11 limited partnerships in which we do not have a controlling interest. These limited partnerships collectively own 114 self-storage facilities, which are managed by the Company. In addition, we own approximately 42% of the common interest in PS Business Parks, Inc. (“PSB”), which owns and operates 140 commercial properties. We do not control these entities, accordingly, our investments in these limited partnerships and PSB are accounted for using the equity method.

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

Use of estimates

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

Income taxes

For all taxable years subsequent to 1980, the Company qualified and intends to continue to qualify as a REIT, as defined in Section 856 of the Internal Revenue Code. As a REIT, we are not taxed on that portion of our taxable income which is distributed to our shareholders provided that we meet certain tests. We believe we have met these tests during 2000, 1999 and 1998; accordingly, no provision for income taxes has been made in the accompanying financial statements.

Financial instruments

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

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

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

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

Real estate facilities

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

Evaluation of asset impairment

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

Other assets

Other assets primarily consist of furniture, fixtures, equipment, and other such assets associated with the containerized storage business as well as accounts receivable, prepaid expenses, and other such assets of the Company. Included in other assets with respect to the containerized storage business is furniture, fixtures, and equipment (net of accumulated depreciation) of \$28,544,000 and \$34,704,000 at December 31, 2000 and 1999, respectively. Included in depreciation and amortization expense is \$4,801,000, \$4,915,000, and \$4,317,000 in the years ended December 31, 2000, 1999 and 1998, respectively, of depreciation of furniture, fixtures, and equipment of the containerized storage business.

Intangible assets

Intangible assets consist of property management contracts (\$165,000,000) and the cost over the fair value of net tangible and identifiable intangible assets (\$67,726,000) acquired. Intangible assets are amortized straight-line over 25 years. At December 31, 2000 and 1999, intangible assets are net of accumulated amortization of \$47,709,000 and \$38,400,000, respectively. Included in depreciation and amortization expense is \$9,309,000 in each of the three fiscal years ended December 31, 2000 with respect to the amortization of intangible assets.

Revenue and expense recognition

Property rents are recognized as earned. Equity in earnings of real estate entities are recognized based on our ownership interest in the earnings of each of the unconsolidated real estate entities. Advertising costs of \$11,987,000, \$10,160,000 and \$14,332,000 for 2000, 1999 and 1998, respectively, were expensed as incurred.

Environmental costs

Our policy is to accrue environmental assessments and/or remediation cost when it is probable that such efforts will be required and the related costs can be reasonably estimated. Our current practice is to conduct environmental investigations in connection with property acquisitions. Although there can be no assurance, we are not aware of any environmental contamination of any of our facilities which individually or in the aggregate would be material to our overall business, financial condition, or results of operations.

Net income per common share

Basic net income per share is computed using the weighted average common shares (prior to the dilutive impact of stock options outstanding). Diluted net income per common share is computed using the weighted average common shares outstanding (adjusted for the dilutive impact of stock options outstanding). Commencing January 1, 2000, the Company's 7,000,000 Class B common shares outstanding began to participate in distributions of the Company's earnings. Distributions per share of Class B common stock are equal to 97% of the per share distribution paid to the Company's regular common shares. As a result of this participation in distribution of earnings, for purposes of computing net income per common share, we began to include 6,790,000 (7,000,000 x 97%) Class B common shares in the weighted average common equivalent shares for the year ended December 31, 2000. Weighted average shares for the years ended December 31, 1999 and 1998 do not include any shares with respect to the Class B common stock as these shares did not participate in distributions of the Company's earnings prior to January 1, 2000. In addition, the inclusion of the convertible preferred stock (for periods prior to conversion) in the determination of net income per common share has been determined to be anti-dilutive.

In computing earnings per common share, preferred stock dividends totaling \$100,138,000, \$94,793,000 and \$78,375,000 for the years ended December 31, 2000, 1999 and 1998, respectively, reduced income available to common stockholders in the determination of net income allocable to common stockholders.

Net income allocated to our common shareholders has been further allocated among our two classes of common stock; our regular common stock and our Equity Stock, Series A. The allocation among each class was based upon the two-class method. Under the two-class method, earnings per share for each class of common stock is determined according to dividends declared (or accumulated) and participation rights in undistributed earnings. Under the two-class method, the Equity Stock, Series A for the year ended December 31, 2000 was allocated approximately \$11,042,000 of net income and the remaining \$185,908,000 was allocated to the regular common shares.

Stock-based compensation

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

Reclassifications

Certain reclassifications have been made to the consolidated financial statements for 1999 and 1998 in order to conform to the 2000 presentation.

Note 3 —**Business Combinations****Mergers**

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

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

Partnership acquisitions

During 2000, we acquired the remaining ownership interests in a partnership, of which we are the general partner, for an aggregate acquisition cost of \$81,169,000, consisting of cash of \$66,776,000 and the reduction of our pre-existing investment in the amount of \$14,393,000. Prior to the acquisition, we accounted for our investment in the partnership using the equity method of accounting.

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

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

The mergers were structured as tax-free transactions. The mergers and acquisitions of affiliated limited partner interests have been accounted for using the purchase method. Accordingly, allocations of the total acquisition cost to the net assets acquired were made based upon the fair value of such assets and liabilities assumed with respect to the transactions occurring in 2000, 1999, and 1998 are summarized as follows:

| (Amounts in thousands) | Partnership Acquisitions | Storage Trust Merger | REIT Mergers | Total |
|------------------------------------|-----------------------------|-------------------------|------------------|------------------|
| 2000 business combinations: | | | | |
| Real estate facilities | \$ 82,163 | \$ — | \$ — | \$ 82,163 |
| Other assets | 183 | — | — | 183 |
| Accrued and other liabilities | (1,177) | — | — | (1,177) |
| | \$ 81,169 | \$ — | \$ — | \$ 81,169 |
| 1999 business combinations: | | | | |
| Real estate facilities | \$129,348 | \$598,577 | \$ — | \$727,925 |
| Construction in process | — | 11,449 | — | 11,449 |
| Investment in real estate entities | — | 356 | — | 356 |
| Mortgage notes receivable | — | 6,739 | — | 6,739 |
| Other assets | 386 | 2,909 | — | 3,295 |
| Accrued liabilities | (6,089) | (17,345) | — | (23,434) |
| Minority interest | (5,192) | (27,009) | — | (32,201) |
| | \$118,453 | \$575,676 | \$ — | \$694,129 |
| 1998 business combinations: | | | | |
| Real estate facilities | \$151,028 | \$ — | \$ 73,971 | \$224,999 |
| Other assets | 399 | — | 271 | 670 |
| Accrued and other liabilities | (1,513) | — | (2,280) | (3,793) |
| Minority interest | (380) | — | (34,830) | (35,210) |
| | \$149,534 | \$ — | \$ 37,132 | \$186,666 |

The historical operating results of the above acquisitions prior to each respective acquisition date have not been included in the Company's historical operating results. Pro forma data (unaudited) for the two years ended December 31, 2000 as though the business combinations above had been effective at the beginning of fiscal 1999 are as follows:

| (In thousands except per share data) | For the Year Ended December 31, | |
|---------------------------------------|------------------------------------|-----------|
| | 2000 | 1999 |
| Revenues | \$764,237 | \$710,727 |
| Net income | \$295,147 | \$288,592 |
| Net income per common share (Basic) | \$ 1.40 | \$ 1.50 |
| Net income per common share (Diluted) | \$ 1.40 | \$ 1.50 |

The pro forma data does not purport to be indicative either of results of operations that would have occurred had the transactions occurred at the beginning of fiscal 1999 or future results of operations of the Company. Certain pro forma adjustments were made to the combined historical amounts to reflect (i) expected reductions in general and administrative expenses, (ii) estimated increased interest expense from bank borrowings to finance the cash portion of the acquisition cost and (iii) estimated increase in depreciation and amortization expense.

Note 4 —

Real Estate Facilities

Activity in real estate facilities during 2000, 1999 and 1998 is as follows:

| (Amounts in thousands) | 2000 | 1999 | 1998 |
|---|--------------------|--------------------|--------------------|
| Operating facilities, at cost: | | | |
| Beginning balance | \$3,822,433 | \$2,962,291 | \$3,077,529 |
| Property acquisitions: | | | |
| Business combinations (Note 3) | 82,163 | 727,925 | 224,999 |
| Other acquisitions | 67,107 | 36,013 | 64,818 |
| Disposition of facilities | (20,516) | (26,021) | — |
| Facilities contributed to unconsolidated real estate entities | — | (15,415) | — |
| Newly developed facilities opened for operations | 135,095 | 62,870 | 38,629 |
| Acquisition of minority interest (Note 8) | 15,112 | 45,747 | 23,293 |
| Capital improvements | 33,023 | 29,023 | 31,714 |
| PSB deconsolidation (see below) | — | — | (498,691) |
| Ending balance | 4,134,417 | 3,822,433 | 2,962,291 |
| Accumulated depreciation: | | | |
| Beginning balance | (533,412) | (411,176) | (378,248) |
| Additions during the year | (134,857) | (123,495) | (98,173) |
| Disposition of facilities | 251 | 1,259 | — |
| PSB deconsolidation (see below) | — | — | 65,245 |
| Ending balance | (668,018) | (533,412) | (411,176) |
| Construction in process: | | | |
| Beginning balance | 140,764 | 83,138 | 42,635 |
| Current development | 232,918 | 109,047 | 79,132 |
| Property acquisitions – merger with Storage Trust | — | 11,449 | — |
| Newly developed facilities opened for operations | (135,095) | (62,870) | (38,629) |
| Ending balance | 238,587 | 140,764 | 83,138 |
| Total real estate facilities | \$3,704,986 | \$3,429,785 | \$2,634,253 |

Operating facilities

During 2000, we acquired a total of 13 facilities for an aggregate cost of \$82,163,000 in connection with a business combination (Note 3). In addition, we acquired 12 storage facilities and 2 industrial facilities for an aggregate cost of \$67,107,000, consisting of \$62,938,000 cash, the issuance of the Company's Equity Stock, Series A (\$1,025,000) and an existing investment (\$3,144,000). In addition, we opened 24 facilities we had developed and completed various expansions of existing storage facilities at an aggregate cost of \$135,095,000.

During 2000, we disposed of eight storage facilities to a buyer whom we had previously granted an option to purchase, and two plots of land for an aggregate of \$20,561,000, consisting of cash (\$10,444,000), the acquisition of minority interest (\$6,427,000), and a note receivable (\$3,690,000). An aggregate gain of \$296,000 was recorded on these dispositions.

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

In April 1999, we sold six properties for approximately \$10,500,000 (composed of \$1,460,000 cash, notes receivable of \$5,240,000, and other assets of \$3,800,000) and granted the buyer an option to acquire an additional eight properties.

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

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

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

A substantial number of the real estate facilities acquired during 2000, 1999, and 1998 were acquired from affiliates in connection with business combinations with an aggregate acquisition cost of approximately \$82,163,000, \$129,348,000, and \$224,999,000 respectively.

Construction in process

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

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

Construction in process consists primarily of 53 new facilities and 25 expansions of existing facilities with total incurred costs of approximately \$234.3 million (of which 6 facilities with total incurred costs of approximately \$23.8 million are held by the second joint venture), as well as costs associated with facilities we have not acquired the land for.

At December 31, 2000, the unaudited adjusted basis of real estate facilities for Federal income tax purposes was approximately \$3.0 billion.

Note 5 —

Investments in Real Estate Entities

Summarized combined financial data with respect to those real estate entities in which the Company had an ownership interest at December 31, 2000 are as follows:

| (Amounts in thousands) For the year ended December 31, 2000: | Other Equity Investments | Development Joint Venture | PSB | Total |
|--|-----------------------------|------------------------------|-----------|------------|
| Rental income | \$ 41,240 | \$ 25,548 | \$144,171 | \$ 210,959 |
| Other income | 1,880 | 699 | 6,463 | 9,042 |
| Total revenues | 43,120 | 26,247 | 150,634 | 220,001 |
| Cost of operations | 10,469 | 9,346 | 39,290 | 59,105 |
| Depreciation and amortization | 4,437 | 6,290 | 35,637 | 46,364 |
| Other expenses | 5,700 | 1,641 | 5,890 | 13,231 |
| Total expenses | 20,606 | 17,277 | 80,817 | 118,700 |
| Net income before minority interest and gain on real estate investments | 22,514 | 8,970 | 69,817 | 101,301 |
| Minority interest | — | — | (26,741) | (26,741) |
| Income before gain on real estate investments | 22,514 | 8,970 | 43,076 | 74,560 |
| Gain on real estate investments | — | — | 8,105 | 8,105 |
| Net income | \$ 22,514 | \$ 8,970 | \$ 51,181 | \$ 82,665 |

At December 31, 2000:

| | | | | |
|---|-----------|-----------|-----------|-------------|
| Real estate, net | \$ 67,580 | \$219,043 | \$864,711 | \$1,151,334 |
| Total assets | \$100,129 | \$222,670 | \$930,756 | \$1,253,555 |
| Total liabilities | \$ 40,332 | \$ 3,899 | \$ 59,935 | \$ 104,166 |
| Preferred equity | \$ — | \$ — | \$199,750 | \$ 199,750 |
| Total common/partners' equity | \$ 59,797 | \$218,771 | \$671,071 | \$ 949,639 |
| The Company's investment (book value) at December 31, 2000 | \$123,743 | \$ 65,631 | \$259,554 | \$ 448,928 |
| The Company's effective average ownership interest at December 31, 2000 ^(A) | 44% | 30% | 42% | |

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

At December 31, 2000, our investments in real estate entities consist of ownership interests in 11 partnerships, which principally own self-storage facilities, and an ownership interest in PSB. Such interests are non-controlling interests of less than 50% and are accounted for using the equity method of accounting. Accordingly, earnings are recognized based upon our ownership interest in each of the partnerships. The accounting policies of these entities are similar to the Company's. During 2000, 1999 and 1998, we recognized earnings from our investments of \$36,109,000, \$32,183,000 and \$26,602,000, respectively, and received cash distributions totaling \$16,984,000, \$15,949,000 and \$17,968,000, respectively. In addition, during 2000, we recognized a gain of \$3,210,000, representing our share of PSB's gains on sale of real estate and real estate investments; this gain is presented as "Gain on the disposition of real estate and real estate investments".

During 2000, we disposed of investments in real estate entities, for total proceeds of \$47,875,000. We recorded a net gain of \$280,000 as "Gain on the disposition of real estate and real estate investments" representing the difference between our cost and the proceeds received.

During 2000 and 1999, our investment in real estate entities reflected decreases as a result of business combinations whereby the Company eliminated approximately \$14,393,000 and \$66,690,000, respectively, of pre-existing investments in real estate entity investments. Offsetting these decreases are additional investments made by the Company in other unconsolidated entities totaling \$75,146,000 and \$77,656,000 in 2000 and 1999, respectively.

In April 1997, the Company and an institutional investor formed a joint venture partnership for the purpose of developing up to \$220 million of storage facilities. As of December 31, 2000, the joint venture partnership had completed construction on 47 storage facilities with a total cost of approximately \$231.5 million. The partnership is funded solely with equity capital consisting of 30% from the Company and 70% from the institutional investor.

Note 6 —

Revolving Line of Credit

The credit agreement (the "Credit Facility") has a borrowing limit of \$150 million and an expiration date of July 1, 2002. The expiration date may be extended by one year on each anniversary of the credit agreement. Interest on outstanding borrowings is payable monthly. At our option, the rate of interest charged is equal to (i) the prime rate or (ii) a rate ranging from the London Interbank Offered Rate ("LIBOR") plus 0.40% to LIBOR plus 1.10% depending on the Company's credit ratings and coverage ratios, as defined. In addition, the Company is required to pay a quarterly commitment fee of 0.250% (per annum). The Credit Facility allows us, at our option, to request the group of banks to propose the interest rate they would charge on specific borrowings not to exceed \$50 million; however, in no case may the interest rate proposal be greater than the amount provided by the Credit Facility.

Under covenants of the Credit Facility, we are required to (i) maintain a balance sheet leverage ratio of less than 0.40 to 1.00, (ii) maintain net income of not less than \$1.00 for each fiscal quarter, (iii) maintain certain cash flow and interest coverage ratios (as defined) of not less than 1.0 to 1.0 and 5.0 to 1.0, respectively, and (iv) maintain a minimum total shareholders' equity (as defined). In addition, we are limited in its ability to incur additional borrowings (we are required to maintain unencumbered assets with an aggregate book value equal to or greater than three times our unsecured recourse debt) or sell assets. We were in compliance with the covenants of the Credit Facility at December 31, 2000.

Note 7 —

Notes Payable

Notes payable at December 31, 2000 and 1999 consist of the following:

| (Amounts in thousands) | 2000 | | 1999 | |
|--|-----------------|------------|-----------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| 7.08% to 7.66% unsecured senior notes, due at varying dates between November 2003 and January 2007 | \$129,250 | \$129,250 | \$138,000 | \$138,000 |
| Mortgage notes payable: | | | | |
| 10.55% mortgage notes secured by real estate facilities, principal and interest payable monthly, due August 2004 | 23,820 | 25,105 | 26,231 | 27,438 |
| 7.134% to 10.5% mortgage notes secured by real estate facilities, principal and interest payable monthly, due at varying dates between May 2004 and September 2028 | 2,933 | 2,933 | 3,107 | 3,107 |
| | \$156,003 | \$157,288 | \$167,338 | \$168,545 |

All of our notes payable are fixed rate. The senior notes require interest and principal payments to be paid semi-annually and have various restrictive covenants, all of which have been met at December 31, 2000.

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

Mortgage notes payable are secured by 24 real estate facilities having an aggregate net book value of approximately \$48.0 million at December 31, 2000.

At December 31, 2000, approximate principal maturities of notes payable are as follows:

| (In thousands) | Unsecured Senior Notes | Mortgage debt | Total |
|-----------------------|---------------------------|-----------------|------------------|
| 2001 | \$ 9,500 | \$ 2,910 | \$ 12,410 |
| 2002 | 24,450 | 3,530 | 27,980 |
| 2003 | 35,900 | 3,585 | 39,485 |
| 2004 | 25,800 | 15,063 | 40,863 |
| 2005 | 11,200 | 156 | 11,356 |
| Thereafter | 22,400 | 1,509 | 23,909 |
| | <u>\$129,250</u> | <u>\$26,753</u> | <u>\$156,003</u> |
| Weighted average rate | 7.5% | 10.2% | 7.9% |

Interest paid (including interest related to the borrowings on the Credit Facility) during 2000, 1999 and 1998 was \$13,071,000, \$12,528,000, and \$7,690,000, respectively. In addition, in 2000, 1999 and 1998, the Company capitalized interest totaling \$9,778,000, \$4,509,000, and \$3,481,000, respectively, related to construction of real estate facilities.

Note 8 —

Minority Interest

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

During 2000, one of our operating partnerships issued in aggregate \$365.0 million of preferred partnership units: March 17, 2000 – \$240.0 million of 9.5% Series N Cumulative Redeemable Perpetual Preferred Units, March 29, 2000 – \$75.0 million of 9.125% Series O Cumulative Redeemable Perpetual Preferred Units, and August 11, 2000 – \$50.0 million of 8.75% Series P Cumulative Redeemable Perpetual Preferred Units. These preferred units are not redeemable during the first 5 years, thereafter, at our option, we can call the units for redemption at the issuance amount plus any unpaid distributions. The units are not redeemable by the holder. Subject to certain conditions, the Series N preferred units are convertible into shares of 9.5% Series N Cumulative Preferred Stock, the Series O preferred units are convertible into shares of 9.125% Series O Cumulative Preferred Stock and the Series P preferred units are convertible into shares of 8.75% Series P Cumulative Preferred Stock of the Company. We incurred approximately \$3,750,000 in costs in connection with the issuances; these costs were recorded as a reduction to Paid in Capital. These transactions had the effect of increasing minority interest by \$365.0 million. For the year ended December 31, 2000, the holders of these preferred units were paid in aggregate approximately \$24,859,000 in distributions and received an equivalent allocation of minority interest in earnings.

In November 1999, we formed a second development joint venture with a joint venture partner to develop \$100 million of storage facilities and to purchase \$100 million of the Company's Equity Stock, Series AAA. The joint venture is consolidated and, accordingly, the Equity Stock, Series AAA is eliminated in consolidation. Included in minority interest at December 31, 2000 is approximately \$77,126,000 relative to the joint venture, primarily representing total contributions received by our joint venture partner since inception of the partnership, net of distributions. Minority interest increased by \$21,392,000 as a result of contributions by our joint venture partner since December 31, 1999 and decreased by \$7,871,000 as a result of distributions to our joint venture partner.

In 1999, in connection with the merger with Storage Trust, minority interest increased by approximately \$27,009,000, reflecting the fair value of 1,011,963 operating partnership units ("OP Units") in Storage Trust's operating partnership owned by minority interest. As of December 31, 2000, there were approximately 237,935 OP Units which are convertible on a one-for-one basis (subject to certain limitations) into common shares of the Company at the option of the unitholder. Minority interest in income with respect to OP Units reflects the OP Units' share of the net income of the Company, with net income allocated to minority interests with respect to weighted average outstanding OP Units on a per unit basis equal to diluted earnings per common share. During the year ended

December 31, 2000, 277,104 OP Units were redeemed in connection with the sale of real estate facilities (reducing minority interest by \$6,427,000) and 255,853 OP Units were converted into shares of the Company's common stock (reducing minority interest by \$6,829,000). During the year ended December 31, 1999, 241,071 OP Units were exchanged for an equal number of shares of the Company's common stock, for a total cost of approximately \$6,434,000. These transactions had the effect of reducing minority interest by approximately \$6,434,000.

In addition to the OP Unit redemptions noted above, during fiscal 2000 we acquired minority interests in the Consolidated Entities for an aggregate cash cost of \$31,271,000; these acquisitions had the effect of reducing minority interest by \$16,159,000, with the excess of cost over underlying book value (\$15,112,000) allocated to real estate.

During 1999, in addition to the OP Unit redemptions noted above, we acquired limited partnership interests in certain of the Consolidated Entities in several transactions for an aggregate cost of \$76,873,000, consisting of approximately \$36,846,000 in cash and \$40,027,000 in the issuance of common stock. These transactions had the effect of reducing minority interest by approximately \$31,126,000. The excess of the cost over the underlying book value (\$45,747,000) has been allocated to real estate facilities in consolidation.

During 1999 and 1998, in connection with certain business combinations (Note 3) minority interest was increased by \$32,201,000 and \$35,210,000, respectively, representing the remaining partners' equity interests in the aggregate net assets of the Consolidated Entities.

Note 9 —
Shareholders' Equity

Preferred Stock

At December 31, 2000 and 1999, we had the following series of Preferred Stock outstanding:

| Series | Dividend Rate | Shares Outstanding | Carrying Amount |
|-------------------------------------|------------------|-----------------------|--------------------|
| Series A | 10.000% | 1,825,000 | \$ 45,625 |
| Series B | 9.200% | 2,386,000 | 59,650 |
| Series C | Adjustable | 1,200,000 | 30,000 |
| Series D | 9.500% | 1,200,000 | 30,000 |
| Series E | 10.000% | 2,195,000 | 54,875 |
| Series F | 9.750% | 2,300,000 | 57,500 |
| Series G | 8.875% | 6,900 | 172,500 |
| Series H | 8.450% | 6,750 | 168,750 |
| Series I | 8.625% | 4,000 | 100,000 |
| Series J | 8.000% | 6,000 | 150,000 |
| Series K | 8.250% | 4,600 | 115,000 |
| Series L | 8.250% | 4,600 | 115,000 |
| Series M | 8.750% | 2,250 | 56,250 |
| Total Senior Preferred Stock | | 11,141,100 | \$1,155,150 |

The Series A through Series M (collectively the "Cumulative Senior Preferred Stock") have general preference rights with respect to liquidation and quarterly distributions. Holders of the preferred stock, except under certain conditions and as noted above, will not be entitled to vote on most matters. In the event of a cumulative arrearage equal to six quarterly dividends or failure to maintain a Debt Ratio (as defined) of 50% or less, holders of all outstanding series of preferred stock (voting as a single class without regard to series) will have the right to elect two additional members to serve on the Company's Board of Directors until events of default have been cured. At December 31, 2000, there were no dividends in arrears and the Debt Ratio was 3.0%.

Except under certain conditions relating to the Company's qualification as a REIT, the Senior Preferred Stock is not redeemable prior to the following dates: Series A – September 30, 2002, Series B – March 31, 2003, Series C – June 30, 1999, Series D – September 30, 2004, Series E – January 31, 2005, Series F – April 30, 2005, Series G – December 31, 2000, Series H – January 31, 2001, Series I – October 31, 2001, Series J – August 31, 2002, Series K – January 19, 2004, Series L – March 10, 2004, Series M – August 17, 2004.

On or after the respective dates, each of the series of Senior Preferred Stock will be redeemable, at the option of the Company, in whole or in part, at \$25 per share (or depository share in the case of the Series G, Series H, Series I, Series J, Series K, Series L and Series M), plus accrued and unpaid dividends.

Common stock

During 2000, 1999 and 1998, we issued and repurchased shares of our common stock as follows:

| (Dollar amount in thousands) | 2000 | | 1999 | | 1998 | |
|---|-------------|------------|-------------|------------|-------------|-----------|
| | Shares | Amount | Shares | Amount | Shares | Amount |
| Public offerings | — | \$ — | — | \$ — | 7,951,821 | \$234,521 |
| In connection with mergers (Note 3) | — | — | 13,009,485 | 347,223 | 433,526 | 13,817 |
| Exercise of stock options | 242,598 | 4,608 | 511,989 | 10,000 | 219,596 | 3,339 |
| Issuance to affiliates | — | — | — | — | 853,700 | 26,362 |
| Conversion of OP Units | 255,853 | 6,829 | 241,071 | 6,434 | — | — |
| Conversion of Convertible Preferred Stock | — | — | — | — | 3,589,552 | 53,308 |
| Acquisition of interests in real estate entities ^(a) | — | — | 1,557,960 | 40,027 | 635,005 | 16,679 |
| Repurchases of stock | (3,491,600) | (77,799) | (4,589,427) | (108,565) | (2,819,400) | (72,256) |
| | (2,993,149) | \$(66,362) | 10,731,078 | \$ 295,119 | 10,863,800 | \$275,770 |

(a) The amounts for 1999 include the conversion of 241,071 OP Units with an approximate value of \$6,434,000.

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

On June 12, 1998, we announced that the Board of Directors authorized the repurchase from time to time of up to 10,000,000 shares of the Company's common stock on the open market or in privately negotiated transactions. On March 4, 2000, the Board of Directors increased the authorized number of shares which the Company could repurchase to 15,000,000. On March 15, 2001, the Board of Directors increased the authorized number of shares the Company could repurchase to 20,000,000. Cumulatively through December 31, 2000, we repurchased a total of 10,900,427 shares of common stock at an aggregate cost of approximately \$258,620,000.

On March 12, 1999, we issued 13,009,485 shares of common stock pursuant to the merger with Storage Trust Realty.

At December 31, 2000, the Company had 6,445,747 shares of common stock reserved in connection with the Company's stock option plans (Note 11), 7,000,000 shares of common stock reserved for the conversion of the Class B Common Stock and 237,935 shares reserved for the conversion of OP Units.

Class B Common Stock

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

For these purposes, FFO means net income (loss) (computed in accordance with generally accepted accounting principles) before (i) gain (loss) on early extinguishment of debt, (ii) minority interest in income and (iii) gain (loss) on disposition of real estate, adjusted as follows: (i) plus depreciation and amortization (including the Company's pro-rata share of depreciation and amortization of unconsolidated equity interests and amortization of assets acquired in a merger, including property management agreements and goodwill), and (ii) less FFO attributable to minority interest. For these purposes, FFO per Common Share means FFO less preferred stock dividends (other than dividends on convertible preferred stock) divided by the outstanding weighted average shares of Common Stock assuming conversion of all outstanding convertible securities and the Class B Common Stock.

For these purposes, FFO per share of Common Stock (as defined) was \$2.59 for the year ended December 31, 2000.

Equity stock

The Company is authorized to issue 200,000,000 shares of Equity Stock. The Articles of Incorporation provide that the Equity Stock may be issued from time to time in one or more series and gives the Board of Directors broad authority to fix the dividend and distribution rights, conversion and voting rights, redemption provisions and liquidation rights of each series of Equity Stock.

During fiscal 2000 we issued shares of Equity Stock as follows:

- In January 2000, we issued 4,300,555 depositary shares (2,200,555 shares with a value of \$44,011,000 as part of a special distribution declared on November 15, 1999 and 2,100,000 shares with net proceeds of \$39,800,000 in a separate public offering) each representing 1/1,000 of a share of Equity Stock, Series A ("Equity Stock A").
- In the first half of 2000, we issued 52,547 depositary shares of Equity Stock A with an aggregate value of \$1,025,000 to a related party in connection with the acquisition of real estate facilities.
- In December 2000, we issued publicly 1,282,500 depositary shares (\$28,518,000) each representing 1/1,000 of a share of Equity Stock A.

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

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

In June 1997, we contributed \$22,500,000 (225,000 shares) of equity stock, designated as Equity Stock, Series AA ("Equity Stock AA") to a partnership in which the Company is the general partner. As a result of this contribution, the Company obtained a controlling interest in the partnership and began to consolidate the accounts of the partnership and therefore the equity stock is eliminated in consolidation. The Equity Stock AA ranks on a parity with Common Stock and junior to the Senior Preferred Stock with respect to general preference rights and has a liquidation amount of ten times the amount paid to each Common Share up to a maximum of \$100 per share. Quarterly distributions per share on the Equity Stock AA are equal to the lesser of (i) 10 times the amount paid per Common Stock or (ii) \$2.20. We have no obligation to pay distributions if no distributions are paid to common shareholders.

Dividends

The unaudited characterization of dividends for Federal income tax purposes is made based upon earnings and profits of the Company, as defined by the Internal Revenue Code. Distributions declared by the Board of Directors (including distributions to the holders of preferred stock) in 2000 were characterized as follows:

| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
|------------------------|-------------|-------------|-------------|-------------|
| Ordinary income | 96.10% | 95.79% | 99.04% | 99.96% |
| Long-term Capital Gain | 3.90% | 4.21% | 0.96% | 0.04% |
| Total | 100.00% | 100.00% | 100.00% | 100.00% |

On August 30, 2000, the Board of Directors declared a special distribution to the common shareholders of \$0.60 per common share in cash which was paid on September 30, 2000. On November 4, 1999, the Board of Directors declared a special distribution to the common shareholders. The special distribution is comprised of (i) \$0.65 per common share payable in depositary shares, representing interests in Equity Stock, Series A, with cash being paid in lieu of fractional shares or (ii) at the election of each common shareholder, \$0.62 per common share payable in cash. The special distribution was accrued at December 31, 1999, and paid on January 14, 2000 to shareholders of record as of November 15, 1999.

The following summarizes dividends during 2000, 1999 and 1998:

| (In thousands, except per share data) | 2000 | | 1999 | | 1998 | |
|---------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| | Per share | Total | Per share | Total | Per share | Total |
| Preferred Stock: | | | | | | |
| Series A | \$2.500 | \$ 4,563 | \$2.500 | \$ 4,563 | \$2.500 | \$ 4,563 |
| Series B | \$2.300 | 5,488 | \$2.300 | 5,488 | \$2.300 | 5,488 |
| Series C | \$1.711 | 2,052 | \$1.688 | 2,024 | \$1.688 | 2,024 |
| Series D | \$2.375 | 2,850 | \$2.375 | 2,850 | \$2.375 | 2,850 |
| Series E | \$2.500 | 5,488 | \$2.500 | 5,488 | \$2.500 | 5,488 |
| Series F | \$2.437 | 5,606 | \$2.437 | 5,606 | \$2.437 | 5,606 |
| Series G | \$2.219 | 15,309 | \$2.219 | 15,309 | \$2.219 | 15,309 |
| Series H | \$2.112 | 14,259 | \$2.112 | 14,259 | \$2.112 | 14,259 |
| Series I | \$2.156 | 8,625 | \$2.156 | 8,625 | \$2.156 | 8,625 |
| Series J | \$2.000 | 12,000 | \$2.000 | 12,000 | \$2.000 | 12,000 |
| Series K | \$2.063 | 9,488 | \$1.965 | 9,040 | — | — |
| Series L | \$2.063 | 9,488 | \$1.673 | 7,695 | — | — |
| Series M | \$2.188 | 4,922 | \$0.820 | 1,846 | — | — |
| Convertible | | — | | — | \$1.032 | 2,163 |
| | | 100,138 | | 94,793 | | 78,375 |
| Common Stock: | | | | | | |
| Equity Stock, Series A | \$2.363 | 11,042 | — | — | — | — |
| Common Stock ^(A) | \$1.480 | 184,084 | \$1.520 | 195,383 | \$0.880 | 100,726 |
| Class B Common Stock | \$1.436 | 10,049 | — | — | — | — |
| | | \$305,313 | | \$290,176 | | \$179,101 |

(A) \$82,086,000 (\$0.64 per share) of the common dividend in 1999 was accrued at December 31, 1999, of which \$38,075,000 was paid on January 14, 2000 in cash and \$44,011,000 was paid in the issuance of depositary shares of the Company's Equity Stock, Series A.

The dividend rate on the Series C Preferred Stock is adjusted quarterly and is equal to the highest of one of three U.S. Treasury indices (Treasury Bill Rate, Ten Year Constant Maturity Rate, and Thirty Year Constant Maturity Rate) multiplied by 110%. However, the dividend rate for any dividend period will not be less than 6.75% per annum nor greater than 10.75% per annum. The dividend rate with respect to the first quarter of 2001 will be equal to 6.75% per annum.

Note 10 — Stock Options

The Company has a 1990 Stock Option (the "1990 Plan") which provides for the grant of non-qualified stock options. The Company has a 1994 Stock Option Plan (the "1994 Plan"), a 1996 Stock Option and Incentive Plan (the "1996 Plan") and a 2000 Non-Executive/Non-Director Stock Option and Incentive Plan (the "2000 Plan"), each of which provides for the grant of non-qualified options and incentive stock options. (The 1990 Plan, the 1994 Plan, the 1996 Plan and the 2000 Plan are collectively referred to as the "PSI Plans"). Under the PSI Plans, the Company has granted non-qualified options to certain directors, officers and key employees to purchase shares of the Company's common stock at a price equal to the fair market value of the common stock at the date of grant. Generally, options under the Plans vest over a three-year period from the date of grant at the rate of one-third per year and expire (i) under the 1990 Plan, five years after the date they became exercisable and (ii) under the 1994 Plan, the 1996 Plan and the 2000 Plan, ten years after the date of grant. The 1996 Plan and the 2000 Plan also provide for the grant of restricted stock to officers, key

employees and service providers on terms determined by an authorized committee of the Board of Directors; no shares of restricted stock have been granted. In connection with the Storage Trust merger in March 1999, we assumed the outstanding non-qualified options under the Storage Trust Realty 1994 Share Incentive Plan (the "Storage Trust Plan"), which were converted into non-qualified options to purchase our common stock (the PSI Plans and the Storage Trust Plan are collectively referred to as the "Plans"). The Company determined there was no material impact from the use of the fair value method for the years ended December 31, 2000, 1999 and 1998.

Information with respect to the Plans during 2000, 1999, and 1998 is as follows:

| | 2000 | | 1999 | | 1998 | |
|--|-------------------|-------------------------|-------------------|-------------------------|-------------------|-------------------------|
| | Number of Options | Average Price per Share | Number of Options | Average Price per Share | Number of Options | Average Price per Share |
| Options outstanding January 1 | 3,024,274 | \$24.08 | 2,054,285 | \$22.85 | 1,696,215 | \$20.03 |
| Granted or assumed | 3,762,500 | 23.06 | 1,576,626 | 24.39 | 590,000 | 28.23 |
| Exercised | (242,598) | 18.99 | (511,989) | 19.53 | (219,596) | 15.20 |
| Canceled | (131,600) | 26.01 | (94,648) | 27.28 | (12,334) | 28.66 |
| Options outstanding December 31 | 6,412,576 | 23.65 | 3,024,274 | \$24.08 | 2,054,285 | \$22.85 |
| | | \$14.125 | | \$9.375 | | \$9.375 |
| Option price range at December 31 ^(A) | | to \$33.563 | | to \$33.563 | | to \$33.563 |
| Options exercisable at December 31 | 1,680,083 | \$23.83 | 1,259,771 | \$21.97 | 1,044,249 | \$19.94 |
| Options available for grant at December 31 | 33,171 | | 1,683,505 | | 2,881,337 | |

(A) Approximately 5,772,160, 2,210,695 and 1,037,500 of options outstanding at December 31, 2000, 1999 and 1998, respectively, had exercise prices in excess of \$23.

In 1996, the Company adopted the disclosure requirement provision of SFAS 123 in accounting for stock-based compensation issued to employees. As of December 31, 2000, 1999, and 1998 there were 6,372,741, 2,935,338 and 1,900,837 options outstanding, respectively, that were subject to SFAS 123 disclosure requirements. The fair value of these options was estimated utilizing the Black-Scholes method with a risk-free interest rate of 5.63% for 1998, 5.55% for 1999 and 6.16% for 2000, an expected life of 5 years for each of 1998, 1999 and 2000, an expected volatility of .192 for 1998, .201 for 1999 and .191 for 2000, and an expected dividend yield of 7% for each of 1998, 1999 and 2000. Based upon the results of such estimates, the Company determined that there was no material impact from the use of the fair value method for the years ended December 31, 2000, 1999 and 1998. The remaining contractual lives were 8.9 years, 8.2 years, and 7.8 years, respectively, at December 31, 2000, 1999, and 1998.

Note 11 —

Disclosures Regarding Segment Reporting

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

Description of each reportable segment

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

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

Measurement of segment profit or loss

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

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

Measurement of segment assets

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

Presentation of segment information

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

| (Dollar amounts in thousands) | Year Ended December 31, | | | Year Ended December 31, | | |
|---|-------------------------|-----------|-----------|-------------------------|-----------|-----------|
| | 2000 | 1999 | Change | 1999 | 1998 | Change |
| Reconciliation of Revenues by Segment: | | | | | | |
| Self-storage | | | | | | |
| Storage property rentals | \$653,524 | \$592,619 | \$ 60,905 | \$592,619 | \$488,291 | \$104,328 |
| Equity in earnings – storage property operations | 21,265 | 20,382 | 883 | 20,382 | 21,058 | (676) |
| Equity in earnings – Depreciation (self-storage) | (7,153) | (7,591) | 438 | (7,591) | (6,581) | (1,010) |
| Self Storage segment revenues | 667,636 | 605,410 | 62,226 | 605,410 | 502,768 | 102,642 |
| Containerized storage | 37,914 | 27,028 | 10,886 | 27,028 | 24,466 | 2,562 |
| Commercial properties | | | | | | |
| Commercial property rentals | 11,341 | 8,204 | 3,137 | 8,204 | 23,112 | (14,908) |
| Equity in earnings – commercial property operations | 42,562 | 35,623 | 6,939 | 35,623 | 23,301 | 12,322 |
| Equity in earnings – Depreciation (commercial properties) | (14,672) | (12,130) | (2,542) | (12,130) | (7,303) | (4,827) |
| Commercial properties segment revenues | 39,231 | 31,697 | 7,534 | 31,697 | 39,110 | (7,413) |
| Other items not allocated to segments | | | | | | |
| Equity in earnings – general and administrative and other | (5,893) | (4,101) | (1,792) | (4,101) | (3,873) | (228) |
| Interest and other income | 18,422 | 16,700 | 1,722 | 16,700 | 18,614 | (1,914) |
| Total other items not allocated to segments | 12,529 | 12,599 | (70) | 12,599 | 14,741 | (2,142) |
| Total consolidated revenues | \$757,310 | \$676,734 | \$ 80,576 | \$676,734 | \$581,085 | \$ 95,649 |

| (Dollar amounts in thousands) | Year Ended December 31, | | | Year Ended December 31, | | |
|---|-------------------------|-------------------|-----------------|-------------------------|------------------|-----------------|
| | 2000 | 1999 | Change | 1999 | 1998 | Change |
| Reconciliation of Net Income by Segment: | | | | | | |
| Self-storage | | | | | | |
| Storage properties | \$ 443,062 | \$ 408,138 | \$ 34,924 | \$408,138 | \$ 338,915 | \$69,223 |
| Depreciation and amortization – storage real estate | (141,425) | (131,118) | (10,307) | (131,118) | (103,045) | (28,073) |
| Equity in earnings – storage property operations | 21,265 | 20,382 | 883 | 20,382 | 21,058 | (676) |
| Equity in earnings – depreciation (storage) | (7,153) | (7,591) | 438 | (7,591) | (6,581) | (1,010) |
| Total self-storage segment income | 315,749 | 289,811 | 25,938 | 289,811 | 250,347 | 39,464 |
| Containerized storage | | | | | | |
| Containerized storage | 116 | (2,481) | 2,597 | (2,481) | (24,042) | 21,561 |
| Depreciation | (5,251) | (4,915) | (336) | (4,915) | (4,317) | (598) |
| Total containerized storage segment loss | (5,135) | (7,396) | 2,261 | (7,396) | (28,359) | 20,963 |
| Commercial properties | | | | | | |
| Commercial properties | 7,515 | 5,378 | 2,137 | 5,378 | 15,161 | (9,783) |
| Depreciation and amortization – commercial properties | (2,291) | (1,686) | (605) | (1,686) | (4,437) | 2,751 |
| Equity in earnings – commercial property operations | 42,562 | 35,623 | 6,939 | 35,623 | 23,301 | 12,322 |
| Equity in earnings – depreciation (commercial properties) | (14,672) | (12,130) | (2,542) | (12,130) | (7,303) | (4,827) |
| Total commercial property segment income | 33,114 | 27,185 | 5,929 | 27,185 | 26,722 | 463 |
| Other items not allocated to segments | | | | | | |
| Equity in earnings – general and administrative and other | (5,893) | (4,101) | (1,792) | (4,101) | (3,873) | (228) |
| Interest and other income | 18,422 | 16,700 | 1,722 | 16,700 | 18,614 | (1,914) |
| Corporate general and administrative | (21,306) | (12,491) | (8,815) | (12,491) | (11,635) | (856) |
| Interest expense | (3,293) | (7,971) | 4,678 | (7,971) | (4,507) | (3,464) |
| Minority interest in income | (38,356) | (16,006) | (22,350) | (16,006) | (20,290) | 4,284 |
| Gain on disposition of real estate | 3,786 | 2,154 | 1,632 | 2,154 | — | 2,154 |
| Total other items not allocated to segments | (46,640) | (21,715) | (24,925) | (21,715) | (21,691) | (24) |
| Total consolidated company net income | \$ 297,088 | \$ 287,885 | \$ 9,203 | \$287,885 | \$227,019 | \$60,866 |

Note 12 —**Events Subsequent to December 31, 2000 (Unaudited)**

On January 19, 2001, we completed a public offering of 6,900,000 depository shares (\$25 stated value per depository share) each representing 1/1,000 of a share of 8.600% Cumulative Preferred Stock, Series Q (“Series Q Preferred Stock”). The Series Q Preferred Stock has general preference rights over the Common Stock with respect to distributions and liquidation proceeds. Except in certain conditions relating to the Company’s qualification as a REIT, the Series Q preferred stock is not redeemable prior to January 19, 2006. After January 19, 2006, the Series Q preferred stock will be redeemable at the option of the Company, in whole or in part, at \$25 per depository share, plus accrued and unpaid dividends.

On March 15, 2001, the Company's disinterested directors approved the acquisition of PS Insurance Company ("PSIC"). PSIC is currently owned by B. Wayne Hughes (Chairman) and members of his family. PSIC is engaged in the business of reinsuring risks relating to damage, destruction, or other loss of goods stored by tenants in self-storage facilities owned and operated by the Company. In the transaction the Company will acquire all of the capital stock of PSIC from the Hughes family in exchange for 1,243,298 shares of the Company's Common Stock, subject to adjustment for changes in PSIC's working capital. PSIC owns 301,032 shares of the Company's Common Stock, which would continue to be owned by PSIC after the transaction. The transaction (1) is conditioned on, among other things, adoption of changes to California's tax laws that would permit the Company to acquire PSIC and (2) is scheduled to close on December 31, 2001, although there can be no assurance.

Note 13 —

Recent Accounting Pronouncements and Guidance

Accounting for Derivative Instruments and Hedging Activities

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," as amended in June 2000 by Statement of Financial Accounting Standards No. 138 ("SFAS 138"), "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which requires companies to recognize all derivatives as either assets or liabilities in the balance sheet and measure such instruments at fair value. As amended by Statement of Financial Accounting Standards No. 137 ("SFAS 137"), "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133," the provisions of SFAS 133 will require adoption by the Company on January 1, 2001. The Company adopted SFAS 133, as amended by SFAS 138, on January 1, 2001, and the adoption had no material impact on the Company's consolidated financial statements.

Emerging Issues Task Force Discussion of Capitalization of Acquisition Costs

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

Note 14 —

Commitments and Contingencies

Lease Obligations

As of December 31, 2000, we leased 28 containerized storage facilities from third parties; in addition, certain trucks and related equipment are leased. Total lease expense for the facilities and equipment, comprised entirely of minimum lease payments, was approximately \$10.7 million, \$13.6 million, and \$19.2 million for the years ended December 31, 2000, 1999, and 1998, respectively. Future minimum lease payments at December 31, 2000 under these non-cancelable operating leases are as follows (in thousands):

| | |
|------------|----------|
| 2001 | \$10,635 |
| 2002 | 6,699 |
| 2003 | 2,329 |
| 2004 | 1,273 |
| 2005 | 558 |
| Thereafter | 405 |
| | <hr/> |
| | \$21,899 |

Note 15 —

Supplementary Quarterly Financial Data (Unaudited)

| (In thousands, except per share data) | Three months ended | | | |
|---------------------------------------|--------------------|------------------|-----------------------|----------------------|
| | March 31, 2000 | June 30, 2000 | September 30, 2000 | December 31, 2000 |
| Revenues | \$176,595 | \$188,150 | \$195,966 | \$196,599 |
| Net income | \$ 72,561 | \$ 74,303 | \$ 75,652 | \$ 74,572 |
| Per Common Share (Note 2): | | | | |
| Net income – Basic | \$ 0.34 | \$ 0.35 | \$ 0.37 | \$ 0.35 |
| Net income – Diluted | \$ 0.34 | \$ 0.35 | \$ 0.37 | \$ 0.35 |

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

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Public Storage, Inc.

We have audited the accompanying consolidated balance sheets of Public Storage, Inc. as of December 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

Ernst + Young LLP

Los Angeles, California
February 23, 2001

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

FORWARD LOOKING STATEMENTS:

When used within this document, the words "expects," "believes," "anticipates," "should," "estimates," and similar expressions are intended to identify "forward-looking statements" within the meaning of that term in Section 27A of the Securities Exchange Act of 1933, as amended, and in Section 21F of the Securities Exchange Act of 1934, as amended. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors, which may cause the actual results and performance of the Company to be materially different from those expressed or implied in the forward-looking statements. Such factors include the impact of competition from new and existing storage and commercial facilities which could impact rents and occupancy levels at the Company's facilities; the Company's ability to evaluate, finance, and integrate acquired and developed properties into the Company's existing operations; the Company's ability to effectively compete in the markets that it does business in; the impact of the regulatory environment as well as national, state, and local laws and regulations including, without limitation, those governing Real Estate Investment Trusts; the acceptance by consumers of the containerized storage concept; the impact of general economic conditions upon rental rates and occupancy levels at the Company's facilities; and the availability of permanent capital at attractive rates.

OVERVIEW:

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

We are the largest owner and operator of storage facilities in the United States with ownership interests as of December 31, 2000 in 1,361 storage facilities containing approximately 81.3 million net rentable square feet. All of our facilities are operated under the "Public Storage" brand name, which we believe is the most recognized and established name in the storage industry. Located in the major metropolitan markets of 37 states, our storage facilities are geographically diverse, giving us national recognition and prominence. This concentration establishes us as one of the dominant providers of storage space in each market in which we operate and enables us to use a variety of promotional activities, such as radio advertising as well as targeted discounting and referrals and, to a lesser extent, television advertising, which are generally not economically viable to our competitors. In addition, we believe that the geographic diversity of the portfolio reduces the impact from regional economic downturns and provides a greater degree of revenue stability.

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

- We will continue to focus upon enhancing the operating performance of our existing traditional self-storage properties, primarily through increases in revenues achieved through the telephone reservation center and associated marketing efforts. These increases in revenue levels are expected to result primarily from increases in realized rent per occupied square foot rather than significant increases in occupancy levels.
- We expect to continue our storage facility development program. Over the past three years, the Company and related development joint ventures opened a total of 70 storage facilities at a cost of approximately \$334 million, with 4,475,000 net rentable square feet. The Company and a related development joint venture partnership have a total of 110 projects identified for openings after December 31, 2000 at a total cost of \$628 million. These 110 projects (which includes Combination Facilities) are comprised of 53 storage facilities for which we have acquired the land at December 31, 2000 (total estimated costs upon completion of \$368 million), 25 storage facilities identified for which we have not acquired the land (estimated costs upon

completion of approximately \$174 million) and 32 expansions of existing self-storage facilities (total estimated costs upon completion of \$86 million). Generally, the construction period takes nine to 12 months, followed by an 18 to 24 month fill-up process. Throughout the fill-up period, we experience earnings dilution to the extent of our interest in the developed properties.

- We will acquire facilities from third parties and affiliated entities when appropriate. During 2000, we acquired a total of 8 storage properties and two commercial properties from third parties. In addition, during 2000, we acquired 4 storage properties as well as the remaining partnership interest in 13 properties that we did not already own from affiliated entities. We believe that our national telephone reservation system and marketing organization present an opportunity for increased revenues through higher occupancies of the properties acquired, as well as cost efficiencies through greater critical mass.
- We will continue to focus on improving the operations of the containerized storage operations. The Company is developing facilities that combine containerized storage and traditional self-storage ("Combination Facilities") which will replace existing third-party leased facilities and reduce third-party lease expense. We believe that Combination Facilities offer efficiencies and a more effective method to meet customers' needs than a stand-alone containerized storage facility. We expect that, upon completion of our combination facility development program, substantially all of the containerized storage facilities will be operated in Combination Facilities.
- Through our investment in PS Business Parks, Inc., we will continue to participate in the growth of this company's investment in approximately 140 commercial properties.

RESULTS OF OPERATIONS

Net income and earnings per common share: Net income for 2000, 1999 and 1998 was \$297,088,000, \$287,885,000 and \$227,019,000 respectively. The increase in net income was primarily the result of improved property operations, reduced operating losses from the containerized storage business, and the acquisition of additional real estate investments during 1999 and 2000 (including the acquisition of Storage Trust). The impact of these items was offset partially by an increased allocation of income to minority interests (as a result of the issuance of preferred operating partnership units, referred to below) combined with an increase in general and administration expense.

During 2000, our capital raising activities included the issuance of approximately \$365.0 million in preferred operating partnership units in one of our controlled partnerships. Unlike distributions to preferred shareholders, distributions to preferred unitholders are presented as minority interest in income and a reduction in computing the Company's net income. As a result of these preferred distributions, minority interest in income increased \$24,859,000 in the year ended December 31, 2000 as compared to 1999 and 1998.

Net income allocable to common shareholders for 2000, 1999 and 1998 was \$185,908,000, \$193,092,000 and \$148,644,000, respectively. On a diluted basis, net income was \$1.41 per common share (based on weighted average shares outstanding of 131,657,000) for 2000, \$1.52 per common share (based on weighted average shares outstanding of 126,669,000) for 1999 and \$1.30 per common share (based on weighted average shares outstanding of 114,357,000) for 1998. The decrease in net income per common share in 2000 as compared to 1999 reflects the inclusion of 6,790,000 common equivalent shares related to the Company's Class B common shares in 2000, but not in 1999 or 1998, as described more fully below. The decrease in net income per share also includes increased dilution from uninvested proceeds from the Company's issuance of fixed-rate preferred securities, increased dilution from development activities, increased general and administrative expense, and the impact of the Company's issuance of the Equity Stock, Series A. These factors were offset partially by improved property operations and reduced operating losses from the containerized storage business. The increase in net income per share for 1999 compared to 1998 was principally the result of improved real estate operations and the impact of decreased operating losses of the containerized storage business.

In computing net income allocable to common shareholders for each period, aggregate dividends paid to the holders of the Equity Stock, Series A and preferred equity securities have been deducted in determining net income allocable to the common shareholders. Distributions paid to the holders of the Equity Stock, Series A totaled \$11,042,000 in 2000 (none in 1999 or 1998). Distributions paid to preferred shareholders totaled \$100,138,000 in 2000, \$94,793,000 in 1999 and \$78,375,000 in 1998.

Commencing January 1, 2000, the Company's 7,000,000 Class B common shares outstanding began to participate in distributions of the Company's earnings. Distributions per share of Class B common stock are equal to 97% of the per share distribution paid to the Company's regular common shares. As a result of this participation in distributions of earnings, for purposes of computing net income

per common share, the Company began to include 6,790,000 (7,000,000 x 97%) Class B common shares in the weighted average common equivalent shares effective January 1, 2000. Weighted average diluted shares for the years ended 1998 and 1999 do not include any shares with respect to the Class B common stock as these shares did not participate in distributions of the Company's earnings prior to January 1, 2000.

REAL ESTATE OPERATIONS

Self-storage operations: Our self-storage operations are by far the largest component of our operations, representing approximately 86% of total revenues generated during 2000. At the end of 1997, we had a total of 894 self-storage facilities included in our consolidated financial statements. Since that time we have increased the number of self-storage facilities by 353 (1998 – 57 facilities, 1999 – 250 facilities and 2000 – 46 facilities). As a result of significant acquisitions of self-storage facilities in each of the past three years, year over year comparisons as presented on the consolidated statements of income with respect to our self-storage operations are not meaningful.

To enhance year over year comparisons, the following table summarizes the operating results (before depreciation) of (i) the 891 self-storage facilities that are reflected in the financial statements for the entire three years ended December 31, 2000 (the "Consistent Group") and (ii) all other self-storage facilities for which operations were not reflected in the financial statements for the entire three years ended December 31, 2000 (the "Other Facilities"):

Self-storage operations:

| (Dollar amounts in thousands, except rents per square foot) | Year Ended December 31, | | Percentage Change | Year Ended December 31, | | Percentage Change |
|--|-------------------------|-----------|-------------------|-------------------------|-----------|-------------------|
| | 2000 | 1999 | | 1999 | 1998 | |
| Rental income (a): | | | | | | |
| Consistent Group | \$508,878 | \$487,942 | 4.3% | \$487,942 | \$468,673 | 4.1% |
| Other Facilities | 144,646 | 104,677 | 38.2% | 104,677 | 19,618 | 433.6% |
| | 653,524 | 592,619 | 10.3% | 592,619 | 488,291 | 21.4% |
| Cost of operations: | | | | | | |
| Consistent Group | 155,458 | 146,931 | 5.8% | 146,931 | 143,068 | 2.7% |
| Other Facilities | 55,004 | 37,550 | 46.5% | 37,550 | 6,308 | 495.3% |
| | 210,462 | 184,481 | 14.1% | 184,481 | 149,376 | 23.5% |
| Net operating income: | | | | | | |
| Consistent Group | 353,420 | 341,011 | 3.6% | 341,011 | 325,605 | 4.7% |
| Other Facilities | 89,642 | 67,127 | 33.5% | 67,127 | 13,310 | 404.3% |
| | 443,062 | 408,138 | 8.6% | 408,138 | 338,915 | 20.4% |
| Depreciation and Amortization | 141,425 | 131,118 | 7.9% | 131,118 | 103,045 | 27.2% |
| Operating Income | \$301,637 | \$277,020 | 8.9% | \$277,020 | \$235,870 | 17.4% |
| Consistent Group data: | | | | | | |
| Gross margin | 69.5% | 69.9% | (0.4)% | 69.9% | 69.5% | 0.4% |
| Weighted average: | | | | | | |
| Occupancy | 91.9% | 92.1% | (0.2)% | 92.1% | 92.1% | 0.0% |
| Realized annual rent per square foot ^(b) | \$ 10.14 | \$ 9.69 | 4.6% | \$ 9.69 | \$ 9.29 | 4.3% |
| Scheduled annual rent per square foot | \$ 11.18 | \$ 10.30 | 8.5% | \$ 10.30 | \$ 10.08 | 2.2% |
| Number of self-storage facilities (at end of period): | | | | | | |
| Consistent Group | 891 | 891 | 0.0% | 891 | 891 | 0.0% |
| Other Facilities | 356 | 310 | 14.8% | 310 | 60 | 416.7% |
| Net rentable sq. ft. (at end of period): | | | | | | |
| Consistent Group | 52,566 | 52,566 | 0.0% | 52,566 | 52,566 | 0.0% |
| Other Facilities | 22,004 | 18,903 | 16.4% | 18,903 | 4,543 | 316.1% |

(a) Rental income includes late charges and administrative fees. For the Consistent Group late charges and administrative fees in aggregate totaled \$18,816,000, \$18,825,000 and \$18,730,000 for 2000, 1999 and 1998, respectively.

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

The Consistent Group of facilities experienced increased revenues in 2000 and 1999 of 4.3% and 4.1%, respectively, as compared to the preceding year. The 4.3% increase in revenues in 2000 as compared to 1999 was caused primarily by a 4.6% increase in realized rent per occupied square foot, offset by a 0.2% reduction in average occupancy levels. Similarly, the 4.1% increase in revenues in 1999 as compared to 1998 was caused primarily by a 4.3% increase in realized rent per occupied square foot, with no change in average occupancy levels.

Over the past several months, we have increased scheduled rents (rental rates charged to new customers) throughout the portfolio. Scheduled rental rates for the Consistent Group of facilities are approximately 14.5% higher as of December 31, 2000 than they were at the same time last year. We are currently evaluating the impact of higher rental rates on our move-in and move-out activity. In addition, we are evaluating market supply and demand factors and based on these analyses we may adjust rental rates further, either increasing or decreasing them.

As indicated above, the scheduled rental rates are the rates being charged to new customers. The rental rates charged to our existing customer base, is on average, less than the current scheduled rates. For 2000, the average realized rental rate per square foot was approximately \$1.04 or 9.3% below current scheduled rents. Our rental agreements are generally on a month-by-month basis giving us the flexibility to increase rates to our existing customers. During the first quarter of fiscal 2001, we began to implement higher rental rates to our existing customer base. The amount of increase will depend on a number of factors and may not result in rental rates equal to the level of scheduled rental rates. There can be no assurance that higher rental rates will not adversely affect our occupancies.

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

| | 2000 | 1999 | 1998 |
|------------------------------------|-----------|-----------|-----------|
| Payroll expense | \$ 43,833 | \$ 42,637 | \$ 42,152 |
| Property taxes | 44,028 | 44,294 | 44,356 |
| Repairs and maintenance | 14,964 | 12,193 | 12,033 |
| Advertising | 8,148 | 7,161 | 4,940 |
| Telephone reservation center costs | 9,159 | 7,520 | 6,748 |
| Other | 35,326 | 33,126 | 32,839 |
| | \$155,458 | \$146,931 | \$143,068 |

Increases in advertising cost are principally due to expanded yellow page advertising in telephone directories. Promotional advertising is an important part of our operational strategy. Our advertising activities have increased customer call volume into our national reservation system, where one of our representatives discusses with the customer space requirements, price and location preferences and also informs the customer of other products and services provided by the Company and its subsidiaries. During 2000, call volume averaged approximately 200,000 calls per month, as compared to approximately 185,000 and 180,000 in 1999 and 1998, respectively.

While there can be no assurance, we do not believe that the power crisis experienced currently in California will have any material impact upon our operations; for the year ended December 31, 2000, total Consistent Group utility expense was less than 2% of total revenues.

Telephone reservation center costs have increased due to the expansion of our telephone reservation system. During 2000, we opened our second call center in Plano, Texas. In connection with the national telephone reservation system, we implement various pricing and promotional discount strategies designed to increase rental activity. For the Consistent Group promotional discounts (which are included as a reduction to gross rents to arrive at rental income) were \$13,372,000 in 2000, \$14,374,000 in 1999, and \$14,735,000 in 1998.

During the past three years, we have opened 30 newly developed facilities (24 in 2000, 6 in 1999 and none in 1998) with a total cost of approximately \$145.7 million. Included in the table on page 34, under the caption "Other Facilities", are revenues of \$3,870,000 and \$4,000 for 2000 and 1999, respectively, and cost of operations of \$2,980,000 and \$38,000 for 2000 and 1999, respectively, with respect to these facilities.

Due to the fill-up nature of a newly developed self-storage facility, our earnings have been negatively impacted by our development activities. Unlike many other types of real estate, we do not pre-lease our storage space prior to the opening of a newly developed facility. Generally, it takes approximately 24 months for a newly developed facility to reach a stabilized occupancy level of 90%. At this stabilized occupancy level, operating costs represent approximately 30% of stabilized rental revenues. Since the operating costs are substantially fixed in nature, a newly developed facility will not reach a break-even operating cash flow until it achieves an occupancy level of approximately 30%. At December 31, 2000, the 30 newly developed facilities had an average occupancy level of approximately 40%. We expect that over at least the next twelve months our development activities will continue to have a negative impact to our earnings as additional newly developed facilities are opened. See "Liquidity and Capital Resources – Acquisition and Development of Facilities."

During 2000, the Company acquired 12 operating self-storage facilities for an aggregate cost of \$61.2 million. Included in the above table for 2000, under the caption "Other Facilities", are revenues of \$2,442,000 and cost of operations of \$790,000 with respect to these facilities.

As described in Note 3 to the financial statements, on September 15, 2000, we acquired the remaining ownership interests in a partnership of which we are the general partner, for an aggregate acquisition cost of \$81.2 million, consisting of cash of \$66.8 million and the reduction of our pre-existing investment in the amount of \$14.4 million. Included in the table on page 34, under the caption "Other Facilities", for 2000 are revenues of \$3,242,000 and cost of operations of \$1,051,000, with respect to these facilities.

Commercial property operations: Commercial property operations included in the consolidated financial statements include commercial space owned by the Company and Consolidated Entities. Effective April 1, 1998, our investment in PSB is accounted for on the equity method of accounting, and accordingly our share of PSB's earnings is reflected as "Equity in earnings of real estate entities."

During 2000, we acquired two commercial facilities (which are expected to be converted into storage facilities) for an aggregate cost of \$5,930,000. Included within commercial property operations for 2000 with respect to these facilities was revenues of \$475,000 and cost of operations of \$131,000.

The following table sets forth the historical commercial property amounts included in the financial statements:

Commercial Property Operations:

| (Amounts in thousands) | Year Ended December 31, | | | Year Ended December 31, | | |
|------------------------|-------------------------|---------|--------|-------------------------|----------|---------|
| | 2000 | 1999 | Change | 1999 | 1998 | Change |
| Rental income | \$11,341 | \$8,204 | 38.2% | \$8,204 | \$23,112 | (64.5)% |
| Cost of operations | 3,826 | 2,826 | 35.4% | 2,826 | 7,951 | (64.5)% |
| Net operating income | 7,515 | 5,378 | 39.7% | 5,378 | 15,161 | (64.5)% |
| Depreciation expense | 2,291 | 1,686 | 35.9% | 1,686 | 4,437 | (62.0)% |
| Operating income | \$ 5,224 | \$3,692 | 41.5% | \$3,692 | \$10,724 | (65.6)% |

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

CONTAINERIZED STORAGE OPERATIONS

In August 1996, Public Storage Pickup & Delivery ("PSPUD"), a subsidiary of the Company, made its initial entry into the containerized storage business through its acquisition of a single facility operator located in Irvine, California. At December 31, 2000, PSPUD operated 41 facilities in 13 states. The facilities are located in major markets in which we have significant market presence with respect to our traditional storage facilities.

Due to the start-up nature of the business, PSPUD incurred operating losses totaling approximately \$5.1 million, \$7.4 million, and \$28.4 million for the years ended December 31, 2000, 1999 and 1998, respectively, summarized as follows:

| Containerized storage: (Dollar amounts in thousands) | Year Ended December 31, | | Dollar Change | Year Ended December 31, | | Dollar Change |
|--|-------------------------|------------|------------------|-------------------------|-------------|------------------|
| | 2000 | 1999 | | 1999 | 1998 | |
| Rental and other income | \$37,914 | \$27,028 | \$10,886 | \$27,028 | \$ 24,466 | \$ 2,562 |
| Cost of operations: | | | | | | |
| Direct operating costs | 27,849 | 18,397 | 9,452 | 18,397 | 24,902 | (6,505) |
| Marketing and advertising | 1,283 | 1,333 | (50) | 1,333 | 9,206 | (7,873) |
| Facility lease expense | 8,666 | 9,779 | (1,113) | 9,779 | 14,400 | (4,621) |
| Total cost of operations | 37,798 | 29,509 | 8,289 | 29,509 | 48,508 | (18,999) |
| Operating gain (loss) prior to depreciation | 116 | (2,481) | 2,597 | (2,481) | (24,042) | 21,561 |
| Depreciation expense ^(a) | 5,251 | 4,915 | 336 | 4,915 | 4,317 | 598 |
| Operating losses | \$ (5,135) | \$ (7,396) | \$ 2,261 | \$ (7,396) | \$ (28,359) | \$ 20,963 |

(a) Depreciation for 2000 includes \$450,000 with respect to real estate assets.

Rental and other income includes monthly rental charges to customers for storage of the containers and service fees charged for pickup and delivery of containers to customers' homes. Rental income increased to \$37,914,000 in 2000 as compared to \$27,028,000 in 1999 as a result of higher per container rents and an increase in occupied containers. Rental income increased to \$27,028,000 in 1999 compared to \$24,466,000 in 1998 principally as a result in increases in the number of occupied containers. At December 31, 2000, there were approximately 59,443 occupied containers compared to 57,405 at December 31, 1999 and 48,360 at December 31, 1998.

Direct operating costs principally include payroll, equipment lease expense, utilities and vehicle expenses (fuel and insurance). In addition, during 2000, included in direct operating costs was \$1,853,000 expensed due to the obsolescence of containers.

Marketing and advertising expense decreased to \$1,333,000 in 1999 from \$9,206,000 in 1998 primarily due to the curtailment of television advertising in the second half of 1998.

Substantially all of the facilities in which PSPUD operates are leased from third parties. Over the past three years, facility lease expense has continued to decrease (\$8,666,000 in 2000, \$9,779,000 in 1999, and \$14,400,000 in 1998). The reduction from 1999 to 2000 is principally the result of moving the operations from leased facilities to wholly-owned facilities, and thus eliminating the lease expense paid to third parties. The reduction from 1998 to 1999 is principally the result of the reduction in the number of facilities being operated.

At December 31, 2000, 25 of the 41 containerized storage facilities are leased from third parties. We anticipate developing 45 combination facilities (which includes 14 storage facilities that are being converted to combination facilities) that combine self-storage and containerized storage space in the same location. These facilities are expected to replace 22 of the leased facilities during 2001. We expect that an increasing part of the containerized storage business will be operated from this type of facility. To the extent that these developed combination facilities replace existing third-party leased facilities, lease expense should continue to be reduced.

The containerized storage operations may continue to adversely impact the Company's future earnings and cash flows. There can be no assurance as to the level of the containerized storage business's expansion, level of gross rentals, level of move-outs or profitability.

Equity in earnings of real estate entities: In addition to our ownership of equity interests in PSB, we had general and limited partnership interests in 11 limited partnerships at December 31, 2000 (PSB and the limited partnerships are collectively referred to as the "Unconsolidated Entities"). Due to our limited ownership interest and control of these entities, we do not consolidate the accounts of these entities for financial reporting purposes, and account for such investments using the equity method.

Equity in earnings of real estate entities for the year ended December 31, 2000 consists of our pro rata share of the Unconsolidated Entities based upon our ownership interest for the period. Similar to the Company, the Unconsolidated Entities (other than PSB) generate substantially all of their income from their ownership of storage facilities, which we manage. In the aggregate, the Unconsolidated Entities (including PSB) own a total of 254 real estate facilities, 114 of which are storage facilities. The following table sets forth the significant components of equity in earnings of real estate entities:

| Historical summary: (Amounts in thousands) | Year Ended December 31, | | Dollar Change | Year Ended December 31, | | Dollar Change |
|---|-------------------------|------------------|------------------|-------------------------|------------------|------------------|
| | 2000 | 1999 | | 1999 | 1998 | |
| Property operations: | | | | | | |
| PSB | \$ 42,562 | \$ 35,623 | \$ 6,939 | \$ 35,623 | \$ 23,301 | \$12,322 |
| Development Joint Venture | 4,541 | 2,346 | 2,195 | 2,346 | 729 | 1,617 |
| Other investments – primarily storage | 16,724 | 18,036 | (1,312) | 18,036 | 20,329 | (2,293) |
| | 63,827 | 56,005 | 7,822 | 56,005 | 44,359 | 11,646 |
| Depreciation: | | | | | | |
| PSB | (14,672) | (12,130) | (2,542) | (12,130) | (7,303) | (4,827) |
| Development Joint Venture | (1,887) | (1,320) | (567) | (1,320) | (564) | (756) |
| Other investments – primarily storage | (5,266) | (6,271) | 1,005 | (6,271) | (6,017) | (254) |
| | (21,825) | (19,721) | (2,104) | (19,721) | (13,884) | (5,837) |
| Other: ⁽¹⁾ | | | | | | |
| PSB ⁽²⁾ | (7,150) | (4,505) | (2,645) | (4,505) | (1,220) | (3,285) |
| Development Joint Venture | 40 | 153 | (113) | 153 | 97 | 56 |
| Other investments – primarily storage | 1,217 | 251 | 966 | 251 | (2,750) | 3,001 |
| | (5,893) | (4,101) | (1,792) | (4,101) | (3,873) | (228) |
| Total equity in earnings of real estate entities | \$ 36,109 | \$ 32,183 | \$ 3,926 | \$ 32,183 | \$ 26,602 | \$ 5,581 |

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

(2) During 2000, the company also recorded its pro-rata share of gain on disposition of real estate investments totaling \$3,210,000. This gain is included in the line item "Gain on disposition of real estate and real estate investments" on our consolidated statements of income.

The increase in 2000 equity in earnings as compared to 1999 is principally the result of improved operations of PSB, offset partially by the impact of certain business combinations occurring in 2000 and 1999 whereby we obtained a controlling interest in certain entities and began to include the accounts of such entities in the consolidated financial statements. Prior to the inclusion of these entities in the consolidated financial statements, we used the equity method to report our share of the entities' earnings. Equity in earnings of real estate entities includes income of \$866,000, \$3,539,000, and \$1,034,000 for 2000, 1999 and 1998, respectively, with respect to investments which no longer existed at December 31, 2000.

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

Equity in earnings of PSB represents our pro rata share (approximately 42%) of earnings of PS Business Parks, Inc., a publicly traded real estate investment trust. As of December 31, 2000, we owned 5,418,273 common shares and 7,305,352 operating partnership units (units which are convertible into common shares on a one-for-one basis) in PSB. PSB is a publicly traded real estate investment trust organized by the Company on January 2, 1997. At December 31, 2000, PSB owned 140 properties located in 9 states. PSB also manages the commercial properties owned by the Company and affiliated entities

In April 1997, we formed a joint venture partnership (the "Development Joint Venture") with an institutional investor to participate in the development of approximately \$220 million of storage facilities. The venture is funded solely with equity capital consisting of 30% from the Company and 70% from the institutional investor. Equity in earnings from the Development Joint Venture reflects our pro rata share, based upon our ownership interest, of the operations of the Development Joint Venture. Since inception through December 31, 2000, the Development Joint Venture has developed and opened 47 storage facilities with an aggregate cost of approximately \$231.5 million. Generally the construction period takes nine to 12 months followed by a 18 to 24 month fill-up process until the newly constructed facility reaches a stabilized occupancy level of approximately 90%. For fiscal 1997, 1998, and 1999, the majority of the completed facilities are in the fill-up process and had not reached a stabilized occupancy level. We expect that our earnings with respect to our investment in the Development Joint Venture will continue to increase in 2001 as compared to 2000 as the existing properties continue to fill up.

During the first six months of fiscal 2000, we acquired controlling interests in certain entities. As a result of our ownership and control, we began to consolidate the accounts of these entities into our financial statements. Since we no longer account for our investment using the equity method, equity in earnings with respect to the "Other partnerships" has decreased in 2000 as compared 1999.

OTHER INCOME AND EXPENSE ITEMS

Interest and other income: Interest in other income includes (i) the net operating results from our property management operations, (ii) merchandise sales and consumer truck rentals and (iii) interest income.

Interest and other income has increased in 2000 as compared to 1999 principally as a result of higher cash balances invested in interest bearing accounts. Higher cash balances are primarily due to our issuance of preferred operating partnership units in 2000 and the timing of investing the proceeds into real estate assets.

Depreciation and amortization: Depreciation and amortization expense was \$148,967,000 in 2000, \$137,719,000 in 1999 and \$111,799,000 in 1998. Depreciation expense with respect to the real estate facilities was \$134,857,000 in 2000, \$123,495,000 in 1999 and \$98,173,000 in 1998; the increases are due to the acquisition of additional real estate facilities in 1998 through 2000. Depreciation expense with respect to non real estate assets, primarily depreciation of equipment associated with the containerized storage operations, was \$4,801,000 in 2000, \$4,915,000 in 1999 and \$4,317,000 in 1998. Amortization expense with respect to intangible assets totaled \$9,309,000 for each of the three years ended December 31, 2000.

General and administrative expense: General and administrative expense was \$21,306,000 in 2000, \$12,491,000 in 1999 and \$11,635,000 in 1998. General and administrative costs for each year principally consist of state income taxes, investor relation expenses, certain overhead associated with the acquisition and development of real estate facilities, and overhead associated with the containerized storage business. The increase includes an expansion in our product research and development efforts, as well as costs associated with lease terminations on leased containerized storage facilities which were replaced by newly-developed facilities, and increased consulting fees. The total amount of such expenses was approximately \$5,963,000 in 2000 and \$1,291,000 in 1999 (none in 1998). In addition, during 2000, we experienced an increase in costs relating to our development activities of approximately \$1,447,000 when compared to 1999.

Although we expect that our general and administrative expense for fiscal 2001 will be less than what we experienced in 2000 we expect to exceed the level of general and administrative expense experienced in 1999 due to the following: (i) the growth in the size of the Company, (ii) additional lease termination cost with respect to the leased containerized storage facilities, and (iii) Company's property acquisition and development activities have continued to expand, resulting in certain additional costs incurred in connection with the acquisition of additional real estate facilities.

Interest expense: Interest expense was \$3,293,000 in 2000, \$7,971,000 in 1999 and \$4,507,000 in 1998. Debt and related interest expense remain relatively low compared to our overall asset base. The decrease in interest expense in 2000 compared to 1999 is principally the result of increased capitalized interest. Capitalized interest expense totaled \$9,778,000 in 2000, \$4,509,000 in 1999 and \$3,481,000 in 1998 in connection with our development activities.

The combined interest expense and capitalized interest was \$13,071,000 in 2000, \$12,480,000 in 1999 and \$7,988,000 in 1998. The increase in 2000 as compared to 1999 is due to the carrying the \$100 million of notes payable assumed in the merger with Storage Trust for one full year in 2000 compared to 8.5 months during 1999, partially offset by regular principal amortization. The increase in 1999 as compared to 1998 is due to the \$100 million of notes payable assumed in the merger with Storage Trust.

Minority interest in income: Minority interest in income represents the income allocable to equity interests in Consolidated Entities, which are not owned by the Company. Since 1990, we have acquired portions of these equity interests through our acquisition of limited and general partnership interests in the Consolidated Entities. These acquisitions have resulted in reductions to the “Minority interest in income” from what it would otherwise have been in the absence of such acquisitions, and accordingly, have increased our share of the Consolidated Entities’ income.

In fiscal 1999 and 1998, we acquired sufficient ownership interest and control in various partnerships and commenced including the accounts of these partnerships in the consolidated financial statements, resulting in an increase in minority interest in income. The increase in minority interest in income in 2000 compared to 1999 is primarily related to the issuance of preferred operating partnership units in one of our consolidated partnerships (see Note 8 to the consolidated financial statements). The decrease in minority interest in income in 1999 compared to 1998 is the result of the deconsolidation of PSB, partially offset by the consolidation of additional partnerships.

In determining income allocable to the minority interest for 2000, 1999 and 1998 consolidated depreciation and amortization expense of approximately \$7,138,000, \$9,294,000 and \$12,022,000, respectively, was allocated to the minority interest. The changes in depreciation allocated to the minority interest were principally the result of the factors denoted above with respect to minority interest in income.

SUPPLEMENTAL PROPERTY DATA AND TRENDS

At December 31, 2000, there were approximately 46 ownership entities owning in aggregate 1,361 storage facilities, including the facilities which we own and/or operate. At December 31, 2000, 114 of these facilities were owned by Unconsolidated Entities, entities in which we have an ownership interest and use the equity method for financial statement presentation. The remaining 1,247 facilities are owned by the Company and Consolidated Entities.

The following table summarizes our investment in real estate facilities as of December 31, 2000:

| | Number of Facilities in which the Company has an ownership interest | | | Net Rentable Square Footage (in thousands) | | |
|--|--|--------------------------|-------|---|--------------------------|--------|
| | Storage Facilities | Commercial Properties | Total | Storage Facilities | Commercial Properties | Total |
| Wholly-owned facilities | 618 | 6 | 624 | 37,853 | 394 | 38,247 |
| Facilities owned by Consolidated Entities | 629 | — | 629 | 36,717 | — | 36,717 |
| Total consolidated facilities | 1,247 | 6 | 1,253 | 74,570 | 394 | 74,964 |
| Facilities owned by Unconsolidated Entities | 114 | 140 | 254 | 6,732 | 12,626 | 19,358 |
| Total facilities in which the Company has an ownership interest | 1,361 | 146 | 1,507 | 81,302 | 13,020 | 94,322 |

In order to evaluate how our overall portfolio has performed, we analyze the operating performance of a consistent group of storage facilities representing 949 (55.2 million net rentable square feet) of the 1,361 storage facilities (herein referred to as “Same Store” storage facilities). The 949 facilities represent a consistent pool of properties which have been operated under the “Public Storage” name, at a stabilized level, by the Company since January 1, 1994. From time to time, we remove facilities from the “Same Store” pool as a result of expansions, dispositions or other activities which make such facilities’ results not comparable to previous periods.

The Same Store group of properties includes 82 facilities that are not consolidated in the financial statements. Accordingly, rental income and cost of operations with respect to these 82 facilities are not reflected on the consolidated statements of income. As of December 31, 2000, the remaining 867 facilities are included in the consolidated financial statements, however, many of them were

not included in the consolidated financial statements throughout each of the three years presented. The following table summarizes the pre-depreciation historical operating results of the Same Store storage facilities:

Same Store storage facilities:

(historical property operations)

| (Dollar amounts in thousands, except rents per square foot) | Year Ended December 31, | | Percentage Change | Year Ended December 31, | | Percentage Change |
|--|-------------------------|-----------|----------------------|-------------------------|-----------|----------------------|
| | 2000 | 1999 | | 1999 | 1998 | |
| Rental income ⁽¹⁾ | \$547,904 | \$524,880 | 4.4% | \$524,880 | \$503,274 | 4.3% |
| Cost of operations ⁽²⁾ | 164,197 | 154,974 | 6.0% | 154,974 | 151,604 | 2.2% |
| Net operating income | \$383,707 | \$369,906 | 3.7% | \$369,906 | \$351,670 | 5.2% |
| Gross profit margin ⁽³⁾ | 70.0% | 70.5% | (0.5)% | 70.5% | 69.9% | 0.6% |
| Weighted Average: | | | | | | |
| Occupancy | 92.3% | 92.5% | (0.2)% | 92.5% | 92.5% | 0.0% |
| Realized annual rent per sq. ft ⁽⁴⁾ | \$ 10.36 | \$ 9.89 | 4.8% | \$ 9.89 | \$ 9.46 | 4.5% |
| Scheduled annual rent per sq. ft | \$ 11.46 | \$ 10.50 | 9.1% | \$ 10.50 | \$ 10.20 | 2.9% |

- Rental income includes late charges and administrative fees that in aggregate totaled \$19,937,000 in 2000, \$19,908,000 in 1999, and \$19,874,000 in 1998.
- Cost of operations consists of the following:

| | 2000 | 1999 | 1998 |
|------------------------------------|-----------|-----------|-----------|
| Payroll expense | \$ 46,460 | \$ 45,293 | \$ 44,807 |
| Property taxes | 46,234 | 46,279 | 46,833 |
| Repairs and maintenance | 15,827 | 12,933 | 12,874 |
| Advertising | 8,632 | 7,501 | 5,187 |
| Telephone reservation center costs | 9,560 | 7,888 | 7,071 |
| Utilities | 11,944 | 11,646 | 11,625 |
| Other | 25,540 | 23,434 | 23,207 |
| | \$164,197 | \$154,974 | \$151,604 |

- Gross profit margin is computed by dividing property net operating income (before depreciation expense) by rental revenues.
- Realized annual rent per square foot is computed by annualizing rental income excluding late charges and administrative fees divided by weighted average occupied square footage for the year.

In early 1996, we implemented a national telephone reservation system designed to provide added customer service for all the storage facilities under management. We believe that the improved operating results, as indicated in the above table, in large part are due to the success of the national telephone reservation system.

Rental income for the Same Store facilities was net of promotional discounts totaling \$14,035,000 in 2000 compared to \$14,830,000 in 1999 and \$15,048,000 in 1998.

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

Same-Store Operating Trends by Region (Dollar amounts in thousands, except weighted average amounts)

| | Northern California | | Southern California | | Texas | | Florida | | Illinois | | Other states | | Total | |
|--|---------------------|--------------------------|---------------------|--------------------------|----------|--------------------------|----------|--------------------------|----------|--------------------------|--------------|--------------------------|-----------|--------------------------|
| | Amount | % change from prior year | Amount | % change from prior year | Amount | % change from prior year | Amount | % change from prior year | Amount | % change from prior year | Amount | % change from prior year | Amount | % change from prior year |
| Rental income: | | | | | | | | | | | | | | |
| 2000 | \$82,081 | 5.3% | \$105,848 | 7.5% | \$46,242 | 1.4% | \$32,664 | 3.2% | \$38,592 | 4.9% | \$242,477 | 3.4% | \$547,904 | 4.4% |
| 1999 | \$77,973 | 2.9% | \$ 98,460 | 8.2% | \$45,601 | 2.1% | \$31,649 | 2.4% | \$36,779 | 6.0% | \$234,418 | 3.6% | \$524,880 | 4.3% |
| 1998 | \$75,771 | 10.2% | \$ 90,978 | 10.1% | \$44,670 | 6.0% | \$30,896 | 6.0% | \$34,709 | 9.5% | \$226,250 | 5.9% | \$503,274 | 7.6% |
| Cost of operations: | | | | | | | | | | | | | | |
| 2000 | \$19,033 | 6.9% | \$ 24,485 | 7.8% | \$18,097 | 1.0% | \$11,588 | 3.7% | \$14,366 | 6.9% | \$ 76,628 | 6.5% | \$164,197 | 6.0% |
| 1999 | \$17,803 | 1.2% | \$ 22,711 | 2.1% | \$17,915 | 4.4% | \$11,177 | 3.2% | \$13,437 | (5.5)% | \$ 71,931 | 3.5% | \$154,974 | 2.2% |
| 1998 | \$17,598 | 9.8% | \$ 22,252 | 7.6% | \$17,166 | 11.7% | \$10,835 | 5.8% | \$14,222 | 7.0% | \$ 69,531 | 5.0% | \$151,604 | 6.9% |
| Net operating income: | | | | | | | | | | | | | | |
| 2000 | \$63,048 | 4.8% | \$81,363 | 7.4% | \$28,145 | 1.7% | \$21,076 | 3.0% | \$24,226 | 3.8% | \$165,849 | 2.1% | \$383,707 | 3.7% |
| 1999 | \$60,170 | 3.4% | \$75,749 | 10.2% | \$27,686 | 0.7% | \$20,472 | 2.0% | \$23,342 | 13.9% | \$162,487 | 3.7% | \$369,906 | 5.2% |
| 1998 | \$58,173 | 10.4% | \$68,726 | 11.0% | \$27,504 | 2.7% | \$20,061 | 6.1% | \$20,487 | 11.2% | \$156,719 | 6.3% | \$351,670 | 7.8% |
| Weighted avg. occupancy: | | | | | | | | | | | | | | |
| 2000 | 94.60% | 1.4% | 95.70% | 0.8% | 90.40% | (1.6)% | 89.40% | (0.7)% | 91.80% | (0.8)% | 91.50% | (0.4)% | 92.30% | (0.2)% |
| 1999 | 93.20% | (1.5)% | 94.90% | 0.6% | 92.00% | (0.6)% | 90.10% | (0.5)% | 92.60% | (0.1)% | 91.90% | 0.3% | 92.50% | 0.0% |
| 1998 | 94.70% | (1.4)% | 94.30% | 2.8% | 92.60% | 0.7% | 90.60% | 0.6% | 92.70% | 0.8% | 91.60% | 0.7% | 92.50% | 0.8% |
| Weighted avg. annual realized rents per occupied sq. ft.: | | | | | | | | | | | | | | |
| 2000 | \$13.14 | 3.9% | \$12.70 | 6.7% | \$7.30 | 3.5% | \$8.94 | 4.2% | \$11.49 | 5.8% | \$9.68 | 4.0% | \$10.36 | 4.8% |
| 1999 | \$12.65 | 4.8% | \$11.90 | 7.9% | \$7.05 | 2.9% | \$8.58 | 2.8% | \$10.86 | 6.1% | \$9.31 | 3.2% | \$9.89 | 4.5% |
| 1998 | \$12.07 | 12.3% | \$11.03 | 7.6% | \$6.85 | 5.5% | \$8.35 | 5.4% | \$10.24 | 8.2% | \$9.02 | 5.3% | \$9.46 | 6.9% |
| Number of facilities | | | | | | | | | | | | | | |
| | 121 | | 136 | | 107 | | 70 | | 56 | | 459 | | 949 | |

LIQUIDITY AND CAPITAL RESOURCES

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

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

| (Amount in thousands) | For the Year Ended December 31, | | |
|--|---------------------------------|------------|------------|
| | 2000 | 1999 | 1998 |
| Net income | \$ 297,088 | \$ 287,885 | \$ 227,019 |
| Depreciation and amortization ^(A) | 148,967 | 137,719 | 111,799 |
| Depreciation from equity investments | 21,825 | 19,721 | 13,884 |
| Less – Gain on sale of real estate | (3,786) | (2,154) | — |
| Minority interest in income | 38,356 | 16,006 | 20,290 |
| Net cash provided by operating activities | 502,450 | 459,177 | 372,992 |
| Allocable to minority interests (Preferred OP Units) | (24,859) | — | — |
| Allocable to minority interests (Common equity) | (20,635) | (25,300) | (32,312) |
| Cash from operations allocable to the Company's shareholders | 456,956 | 433,877 | 340,680 |
| Less: preferred stock dividends | (100,138) | (94,793) | (78,375) |
| Less: Equity Stock, Series A dividends | (11,042) | — | — |
| Cash from operations available to common shareholders | 345,776 | 339,084 | 262,305 |
| Capital improvements to maintain facilities: | | | |
| Storage facilities | (33,023) | (29,023) | (29,677) |
| Commercial properties | — | — | (2,037) |
| Add back: minority interest share of capital improvements to maintain facilities | 728 | 1,269 | 2,476 |
| Cash available for principal payments on debt, common dividends and reinvestment | 313,481 | 311,330 | 233,067 |
| Regular cash distributions to common and Class B shareholders | (115,460) | (113,297) | (100,726) |
| Cash available for principal payments on debt and reinvestment prior to special distribution | 198,021 | 198,033 | 132,341 |
| Special distributions to common shareholders ^(B) | (78,673) | (82,086) | — |
| Cash available for principal payments on debt and reinvestment | \$ 119,348 | \$ 115,947 | \$ 132,341 |

(A) Depreciation and amortization includes \$4,801,000, \$4,915,000 and \$4,317,000, respectively, with respect to non-real estate assets in 2000, 1999 and 1998, respectively.

(B) The special distribution for 2000 was declared in August 2000 and paid in September 2000. The special distribution for 1999 was declared in 1999 and paid in January 2000. In each instance, the special distribution enabled the Company to maintain its REIT status with respect to the distribution requirements.

Our financial profile is characterized by a low level of debt to total capitalization, increasing net income, increasing cash flow from operations, and a conservative dividend payout ratio with respect to the common stock. We expect to fund our growth strategies with cash on hand at December 31, 2000, internally generated retained cash flows, proceeds from issuing equity securities and borrowings under our credit facility. We intend to repay amounts borrowed under the credit facility from undistributed operating cash flow or, as market conditions permit and are determined to be advantageous, from the public or private placement of equity securities.

As of December 31, 2000, there were no outstanding borrowings under our \$150.0 million bank line of credit. Outstanding debt at December 31, 2000 totaled \$156.0 million, consisting of mortgage debt of \$26.7 million and unsecured debt of \$129.3 million. By comparison, our real estate facilities had a net book value of \$3.7 billion at December 31, 2000. Accordingly, our portfolio of real estate facilities is substantially unencumbered.

We have generally only increased our debt in connection with the acquisition of real estate facilities. Over the past three years we have funded substantially all of our acquisitions with permanent capital (both common and preferred stock). We have elected to use preferred stock as a form of leverage despite the fact that the dividend rates of our preferred stock exceeds current interest rates on conventional debt. We have chosen this method of financing for the following reasons: (i) our perpetual preferred stock has no sinking fund requirement, or maturity date and does not require redemption, all of which eliminate any future refinancing risks, (ii) preferred stock allows us to leverage the common stock without the attendant interest rate or refinancing risks of debt, and (iii) like interest payments, dividends on the preferred stock can be applied to our REIT distributions requirements, which have helped us to maintain a low common stock dividend payout ratio and retain cash flow. Our credit ratings on our Senior Preferred Stock by each of the three major credit agencies are “baa2” by Moody’s and “BBB+” by Standard and Poor’s and Fitch IBCA.

We believe that our size and financial flexibility enable us to access capital when appropriate. During 2000, despite difficult capital markets, we privately issued \$365.0 million of preferred partnership units as follows: \$240.0 million of 9.5% Series N Cumulative Redeemable Perpetual Preferred Units (issued March 17, 2000), \$75.0 million of 9.125% Series O Cumulative Redeemable Perpetual Preferred Units (issued March 29, 2000), and \$50.0 million of 8.75% Series P Cumulative Redeemable Perpetual Preferred Units (issued August 11, 2000). In addition, in December, 2000, we publicly issued \$28.5 million of Equity Stock, Series A.

Subsequent to December 31, 2000, we issued approximately \$172.5 million of our 8.600% Series Q Cumulative Perpetual Preferred Stock.

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

During 2000, we paid regular quarterly distributions of \$0.22 per common share. In addition, during the quarter ended September 30, 2000, a special distribution in the amount of \$0.60 per common share (an aggregate of \$78.7 million) was declared and paid. Distributions with respect to the Common Stock and Equity Stock, Series A will be determined based upon our REIT distribution requirements after taking into consideration distributions to the preferred shareholders. We expect to increase our common distribution in 2001 and beyond from the level of our regularly quarterly distribution level of \$0.22 per common share assuming a continuation of our increasing level of taxable income. These increased distributions will be in the form of special distributions of cash or securities, an increase in the regular quarterly common distribution, or a combination thereof.

With respect to the depositary shares of Equity Stock, Series A, we have no obligation to pay distributions if no distributions are paid to the common shareholders. To the extent that we do pay common distributions in any year, the holders of the depositary shares receive the lesser of (i) five times the per share dividend on the common stock or (ii) \$2.45. The depositary shares are noncumulative, and have no preference over our Common Stock either as to dividends or in liquidation.

During 2000, we paid dividends totaling \$100.1 million to the holders of our Senior Preferred Stock, \$184.1 million to the holders of our Common Stock, \$10.0 million to the holders of our Class B Common Stock and \$11.0 million to the holders of our Equity Stock, Series A. We estimate that the distribution requirements for fiscal 2001 with respect to Senior Preferred Stock outstanding at December 31, 2000 will be approximately \$100.1 million. We estimate the annual distribution requirement with respect to the Series Q Cumulative Perpetual Preferred Stock to be approximately \$14.8 million per year.

Our conservative distribution policy has been the principal reason for our ability to retain significant operating cash flows which have been used to make additional investments and reduce debt. During 1998, 1999 and 2000, we paid regular distributions to common and Class B shareholders of approximately 38%, 33% and 33% of our cash available from operations allocable to common shareholders, respectively. Including the special distributions paid in 1999 and 2000, we paid total distributions to common and Class B shareholders of 58% and 56%, respectively, of our cash available from operations allocable to common shareholders.

Capital improvement requirements: During 2001, we have budgeted approximately \$26.8 million for capital improvements.

Debt service requirements: We do not believe we have any significant refinancing risks with respect to our mortgage debt, all of which is fixed rate. At December 31, 2000, we had total outstanding notes payable of approximately \$156.0 million. See Note 7 to the consolidated financial statements for approximate principal maturities of such borrowings. We anticipate that our retained operating cash flow will continue to be sufficient to enable us to make scheduled principal payments.

Growth strategies: During 2001, we intend to continue to expand our asset and capital base through the acquisition of real estate assets and interests in real estate assets from both unaffiliated and affiliated parties through direct purchases, mergers, tender offers or other transactions and through the development of additional storage facilities. In addition to 618 wholly owned storage facilities, we operate, on behalf of approximately 46 ownership entities in which we have an interest, 629 storage facilities under the "Public Storage" name in which we have a partial equity interest. From time to time, some of these storage facilities or interests in them are available for purchase, providing us with a source of additional acquisition opportunities.

Acquisition and development of facilities: During 2000, we have acquired two commercial facilities and 12 storage facilities at an aggregate cost of approximately \$67.1 million. In addition, on September 15, 2000, we acquired the remaining ownership interests in a partnership, of which we were the general partner, for an aggregate acquisition cost of \$81.2 million. This partnership owned 13 self-storage facilities.

As previously announced, in April 1997, we formed a joint venture partnership with an institutional investor for the purpose of developing up to \$220.0 million of self-storage facilities. The joint venture is funded solely with equity capital consisting of 30% from us and 70% from the institutional investor. Our share of the cost of the real estate in the joint venture is approximately \$69 million at December 31, 2000. As of December 31, 2000, the joint venture had 47 operating facilities, with 2,878,000 net rentable square feet and total development costs of approximately \$231.5 million.

In November 1999, we formed a second joint venture partnership for the development of approximately \$100 million of self-storage facilities. The venture is funded solely with equity capital consisting of 51% from us and 49% from the joint venture partner. The term of the joint venture is 15 years. After six years, the joint venture partner has the right to cause the company to purchase the joint venture partner's interest for an amount necessary to provide them with a maximum return of 10.75% or less in certain circumstances. At December 31, 2000, this development joint venture was committed to develop 17 facilities (approximately 1,229,000 net rentable sq. ft.) with an estimated development cost of approximately \$36.9 million, of which 11 facilities (approximately 714,000 net rentable sq. ft.) were completed at an aggregate cost of approximately \$50.8 million. As of December 31, 2000, the second development joint venture is developing six additional projects (approximately 515,000 net rentable square feet) that were in process, with total costs incurred of \$23.8 million and estimated remaining costs to complete of \$13.1 million. We have submitted 5 additional facilities for approval with total estimated costs of approximately \$22.4 million; we have incurred approximately \$8.5 million through December 31, 2000 with respect to these 5 projects. Upon approval, these projects will be transferred to the joint venture and the joint venture partner will contribute its 49% share.

We currently have a development "pipeline" of 110 self storage facilities, combination facilities, and expansions to existing self storage facilities with an aggregate estimated cost of approximately \$628.2 million. Approximately \$238.6 million of development cost is incurred as of December 31, 2000. We have acquired the land for 78 of these projects, which have an aggregate estimated cost of approximately \$425.9 million, and costs incurred as of December 31, 2000 of approximately \$234.3 million. The remaining 32 facilities represent identified sites where we have an agreement in place to acquire the land generally within one year.

The development and fill-up of these storage facilities is subject to significant contingencies. We estimate that the amount remaining to be spent of approximately \$373.9 million will be incurred over the next 24-28 months. The following table sets forth our development pipeline and a range of estimated opening dates for these projects:

| | Number of Facilities | Total Estimated Cost of Development | Total Cost Incurred through December 31, 2000 | Estimated Time Frames of Facility Openings |
|--|----------------------|-------------------------------------|---|--|
| Development – Land Acquired at 12/31/00 | | | | |
| Self-storage facilities | 31 | \$183,459 | \$115,483 | Q1 '01 – Q1 '02 |
| Expansions of existing self-storage facilities | 25 | 73,337 | 39,243 | Q1 '01 – Q1 '02 |
| Combination facilities | 22 | 169,103 | 79,607 | Q1 '01 – Q1 '02 |
| Total | 78 | 425,899 | 234,333 | |
| Potential Development – Land to be Acquired After 12/31/00 | | | | |
| Self-storage facilities – development starts estimated by 6/30/01 | 16 | 106,299 | 2,532 | Q2 '02 – Q3 '02 |
| Self-storage facilities – development starts estimated after 6/30/01 | 5 | 40,863 | 542 | After Q3 '02 |
| Expansions of existing self-storage facilities | 7 | 12,421 | 388 | Q1 '02 – Q3 '02 |
| Combination facilities | 4 | 27,046 | 792 | Q1 '02 – Q3 '02 |
| Total | 32 | 186,629 | 4,254 | |
| Totals | 110 | \$612,528 | \$238,587 | |

Stock repurchase program: As previously announced, the Company's Board of Directors authorized the repurchase from time to time of up to 15,000,000 shares of the Company's common stock on the open market or in privately negotiated transactions. On March 15, 2001, the Board of Directors increased the repurchase authorization to 20,000,000 shares. During 2000, we repurchased a total of 3,417,700 shares, for a total aggregate cost of approximately \$77.8 million. From the inception of the repurchase program through December 31, 2000, we have repurchased a total of 10,826,527 shares of common stock at an aggregate cost of approximately \$257.0 million. From January 1, 2001 until March 14, 2001, the Company repurchased a total of 3,961,800 shares at an aggregate cost of approximately \$102.2 million.

Funds from operations: Total funds from operations or "FFO" increased to \$452.2 million for the year ended 2000 compared to \$429.0 million for the year ended 1999 and \$336.4 million in 1998. FFO available to common shareholders (after deducting preferred stock dividends) increased to \$340.9 million for the year ended December 31, 2000 compared to \$334.2 million in 1999 and \$258.0 million in 1998. FFO means net income (loss) (computed in accordance with generally accepted accounting principles) before (i) gain (loss) on early extinguishment of debt, (ii) minority interest in income and (iii) gain (loss) on disposition of real estate, adjusted as follows: (i) plus depreciation and amortization related to real estate assets (including the Company's pro-rata share of depreciation and amortization of unconsolidated equity interests and amortization of assets acquired in a merger, including property management agreements and goodwill), and (ii) less FFO attributable to minority interests.

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

To limit our exposure to market risk, we principally finance our operations and growth with permanent equity capital consisting either of common or preferred stock. At December 31, 2000, the Company's debt as a percentage of total shareholders' equity (based on book values) was 4.2%.

Our preferred stock is not redeemable at the option of the holders. Except under certain conditions relating to the Company's qualification as a REIT, the Senior Preferred Stock is not redeemable by the Company prior to the following dates: Series A – September 30, 2002, Series B – March 31, 2003, Series C – June 30, 1999, Series D – September 30, 2004, Series E – January 31, 2005, Series F – April 30, 2005, Series G – December 31, 2000, Series H – January 31, 2001, Series I – October 31, 2001, Series J – August 31, 2002, Series K – January 19, 2004, Series L – March 10, 2004, Series M – August 17, 2004 and Series Q – January 19, 2006. On or after the respective dates, each of the series of Senior Preferred Stock will be redeemable at the option of the Company, in whole or in part, at \$25 per share (or depositary share in the case of the Series G, Series H, Series I, Series J, Series K, Series L and Series M), plus accrued and unpaid dividends.

Our market risk sensitive instruments include notes payable which totaled \$156,003,000 at December 31, 2000. All of our notes payable bear interest at fixed rates. See Note 7 to the financial statements for terms, valuations and approximate principal maturities of the notes payable as of December 31, 2000.

DISTRIBUTIONS

Public Storage, Inc. has paid quarterly distributions to its shareholders since 1981, its first full year of operations. Overall distributions of Common Stock for 2000 amounted to \$184.1 million, which includes a special distribution declared on August 30, 2000 to common shareholders of record as of September 15, 2000. The special distribution was paid in cash.

Holders of Common Stock are entitled to receive distributions when and if declared by the Company's Board of Directors out of any funds legally available for that purpose. We are required to distribute at least 95% of our net taxable ordinary income prior to the filing of the Company's tax return and 85%, subject to certain adjustments, during the calendar year, to maintain our REIT status for federal income tax purposes. It is our intention to pay distributions of not less than this required amount.

For Federal tax purposes, distributions to shareholders are treated as ordinary income, capital gains, return of capital or a combination thereof. For 2000, the dividends paid to the common shareholders (\$1.48 per share), on all the various classes of preferred stock, and on Equity Stock, Series A were characterized as ordinary income and long-term capital gain. The quarterly breakdown is as follows:

Treatment of dividends paid for 2000

| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
|------------------------|-------------|-------------|-------------|-------------|
| Ordinary Income | 96.10% | 95.79% | 99.04% | 99.96% |
| Long-term Capital Gain | 3.90% | 4.21% | 0.96% | 0.04% |
| Total | 100.00% | 100.00% | 100.00% | 100.00% |

In 1999, distributions to common shareholders were \$1.53 for common shareholders who elected stock in a special dividend paid in 2000 and \$1.50 for common shareholders who elected cash in the special dividend, and were all ordinary income. For 1998, the dividends paid to the common shareholders (\$0.88 per share) and on all the various classes of preferred stock were all ordinary income for the first, third, and fourth quarter distributions. For the second quarter of 1998, 86.110% of the dividends were characterized as ordinary income and the remainder was characterized as capital gain.

Beginning on January 1, 2000, the Company's Class B Common Stock participates in distributions (other than liquidating distributions) at the rate of 97% of the per-share distributions on the Common Stock, provided that cumulative distributions of at least \$0.22 per quarter per share have been paid on the Common Stock.

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

STOCK PRICE AND HOLDERS

The Common Stock (NYSE:PSA) has been listed on the New York Stock Exchange since October 19, 1984 and on the Pacific Exchange since December 26, 1996. The Depositary Shares Each Representing 1/1,000 of a Share of Equity Stock, Series A (NYSE:PSAA) have been listed on the New York Stock Exchange since February 14, 2000.

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

| Year | Quarter | Range | |
|------|---------|----------------------------------|----------------------------------|
| | | High | Low |
| 1999 | 1st | \$27 ⁷ / ₈ | \$24 ¹ / ₄ |
| | 2nd | 29 ⁷ / ₈ | 23 ³ / ₁₆ |
| | 3rd | 27 ⁷ / ₈ | 23 ⁷ / ₈ |
| | 4th | 26 | 21 ¹ / ₈ |
| 2000 | 1st | 24 ¹³ / ₁₆ | 20 ⁷ / ₈ |
| | 2nd | 24 ⁷ / ₈ | 21 ¹ / ₄ |
| | 3rd | 26 ¹⁵ / ₁₆ | 23 ³ / ₁₆ |
| | 4th | 24 ⁷ / ₈ | 21 ¹ / ₈ |

The following table sets forth the high and low sales prices of the Depositary Shares Each Representing 1/1,000 of a Share of Equity Stock, Series A on the New York Stock Exchange composite tapes for the applicable periods.

| Year | Quarter | Range | |
|------|---------|----------------------------------|------------------------------------|
| | | High | Low |
| 2000 | 1st (a) | \$20 ⁷ / ₈ | \$18 ¹⁵ / ₁₆ |
| | 2nd | 22 ³ / ₄ | 19 ¹ / ₄ |
| | 3rd | 24 ⁵ / ₈ | 20 ³ / ₈ |
| | 4th | 24 | 22 ¹ / ₁₆ |

(a) Commencing February 14, 2000.

As of March 13, 2001, there were approximately 21,168 holders of record of the Common Stock and approximately 15,853 holders of the Depositary Shares Each Representing 1/1,000 of a Share of Equity Stock, Series A.

Corporate Data (as of March 15, 2001)

Directors

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

Harvey Lenkin (1991)
President

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

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

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

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

William C. Baker (1991)
Partner, Baker & Simpson

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

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

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

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

Executive Officers

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

Harvey Lenkin
President

John Reyes
Senior Vice President and Chief Financial Officer

Marvin M. Lotz
Senior Vice President

Carl B. Phelps
Senior Vice President

Bahman Abtahi
Senior Vice President

Obren B. Gerich
Senior Vice President

David Goldberg
Senior Vice President and General Counsel

Ronald L. Harden, Sr.
Senior Vice President

W. David Ristig
Senior Vice President

A. Timothy Scott
Senior Vice President and Tax Counsel

David P. Singelyn
Vice President and Treasurer

Sarah Hass
Vice President and Secretary

Other Corporate Officers

Todd Andrews
Vice President and Controller

Samuel I. Ballard
Vice President

Kelly M. Barnes
Vice President

Noel Evans
Vice President

James F. Fitzpatrick
Vice President

Angus Goldie-Morrison
Vice President

Anthony Grillo
Vice President

Tamara Hughes Gustavson
Vice President-Administration

Frank Hallford
Vice President

Joanne A. Halliday
Vice President

Ray Huddleston
Vice President

Joseph Iazzetta
Vice President

Thomas O. McCutchan, Jr.
Vice President

Thomas Miller
Vice President

Michele Moffitt
Vice President

Brent C. Peterson
Vice President and Chief Information Officer

John M. Sambuco
Vice President

Ed Stapleton
Vice President

James Weber
Vice President

Management Division

Marvin M. Lotz *President*
Ronald L. Harden, Sr.
Executive Vice President
Samuel I. Ballard *SVP, DM*
Kelly M. Barnes *SVP, DM*
Angus Goldie-Morrison
SVP, DM
Ray Huddleston *SVP, DM*
John M. Sambuco *SVP, DM*
Brent C. Peterson *SVP*
Anthony Grillo *SVP*
Noel Evans *SVP-Marketing*
Les Guttman *VP-Marketing*
Emily J. Tufeld *VP-Marketing*
Pete G. Panos *VP*
Matt Halliday *VP*
Bill Dunn *VP, RM*
Ken Morrison *VP, RM*
Elizabeth Barista *VP, RM*
Jeffery A. Biesz *VP, RM*
Brian Block *VP, RM*
Bob Cerrone *VP, RM*
Brian J. Devlin *VP, RM*
William Maloney *VP*
Stuart R. Gohd *VP, RM*
Susan Grindstaff *VP, RM*
Judith Alby Johnson *VP, RM*
Thomas Law *VP, RM*
John McKillip *VP, RM*
Thomas O. Murphy *VP, RM*
Amanda Prentice *VP, RM*
Kerry Richard *VP, RM*
Brian J. Ruthsatz *VP, RM*
Norm Shore *VP, RM*
Gerald Valle *VP, RM*
Christopher White *VP, RM*
Pam Brady *VP, RM*
Jeff Zubia *VP*
Joanne A. Halliday *GC*

PS Orangeco, Inc.

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

Peter Schradly
President

Anthony Grillo
Senior Vice President

Thomas Miller
Senior Vice President

Christopher Boyer
Vice President

David Carline
Vice President

Mark Goodyear
Vice President

Steve Koehler
Vice President

Steve Martin
Vice President

Dennis O'Riley
Vice President

Ron Seagren
Vice President

David Stewart
Vice President

Stephanie Tovar
Vice President

Real Estate Division

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

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

Professional Services

Transfer Agent
Fleet National Bank
c/o EquiServe
P.O. Box 43010
Providence, RI 02940-3010
(781) 575-3120
www.equiserve.com

Independent Auditors
Ernst & Young LLP
Los Angeles, California

Financial Information

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

Stock Exchange Listing

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



Additional Information Sources

The Company's newly enhanced website, www.publicstorage.com, contains financial information of interest to shareholders, brokers, etc.

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