

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2004

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____.

Commission File Number: 1-8389

PUBLIC STORAGE, INC.

(Exact name of registrant as specified in its charter)

<u>California</u>	<u>95-3551121</u>
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
<u>701 Western Avenue, Glendale, California</u>	<u>91201-2349</u>
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (818) 244-8080.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of May 6, 2004:

Common Stock, \$.10 Par Value – 128,541,960 shares

Depository Shares Each Representing 1/1,000 of a Share of Equity Stock, Series A, \$.01 Par Value – 8,776,102 depository shares (representing 8,776,102 shares of Equity Stock, Series A)

Equity Stock, Series AA, \$.01 Par Value – 225,000 shares

Equity Stock, Series AAA, \$.01 Par Value – 4,289,544 shares

PUBLIC STORAGE, INC.

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PUBLIC STORAGE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share data)

	March 31, 2004 (Unaudited)	December 31, 2003
<u>ASSETS</u>		
Cash and cash equivalents.....	\$ 319,635	\$ 204,833
Real estate facilities, at cost:		
Land	1,342,685	1,332,882
Buildings	3,823,058	3,792,616
	5,165,743	5,125,498
Accumulated depreciation.....	(1,196,142)	(1,153,059)
	3,969,601	3,972,439
Construction in process	51,199	69,620
Land held for development.....	12,236	12,236
	4,033,036	4,054,295
Investment in real estate entities.....	335,739	336,696
Goodwill.....	78,204	78,204
Intangible assets, net	109,638	111,289
Notes receivable, including amounts due from related parties	488	100,510
Other assets	83,640	82,242
Total assets	\$ 4,960,380	\$ 4,968,069
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Notes payable	\$ 49,313	\$ 76,030
Preferred stock called for redemption	-	115,000
Accrued and other liabilities.....	134,500	131,103
Total liabilities.....	183,813	322,133
Minority interest:		
Preferred partnership interests.....	285,000	285,000
Other partnership interests.....	139,528	141,137
Commitments and contingencies		
Shareholders' equity:		
Cumulative Preferred Stock, \$0.01 par value, 50,000,000 shares authorized, 7,368,486 shares issued (in series) and outstanding, (5,763,986 at December 31, 2003) at liquidation preference.....	2,019,525	1,867,025
Common Stock, \$0.10 par value, 200,000,000 shares authorized, 127,712,895 shares issued and outstanding (126,986,734 at December 31, 2003)	12,771	12,699
Equity Stock, Series A, \$0.01 par value, 200,000,000 shares authorized, 8,776.102 shares issued and outstanding.....	-	-
Paid-in capital.....	2,449,998	2,438,632
Cumulative net income.....	2,435,727	2,366,660
Cumulative distributions paid.....	(2,565,982)	(2,465,217)
Total shareholders' equity	4,352,039	4,219,799
Total liabilities and shareholders' equity	\$ 4,960,380	\$ 4,968,069

See accompanying notes.

PUBLIC STORAGE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Amounts in thousands, except net income per share amounts)

(Unaudited)

	Three Months Ended	
	March 31,	
	2004	2003
Revenues:		
Rental income:		
Self-storage facilities	\$ 206,045	\$ 189,496
Commercial properties	2,695	2,846
Containerized storage facilities.....	6,606	7,442
Tenant reinsurance premiums.....	5,963	5,215
Interest and other income	1,357	1,699
	222,666	206,698
Expenses:		
Cost of operations:		
Self-storage facilities	75,562	65,299
Commercial properties	1,141	1,193
Containerized storage facilities.....	4,014	4,638
Tenant reinsurance.....	3,135	2,699
Depreciation and amortization.....	46,770	45,367
General and administrative.....	5,884	4,250
Interest expense	100	453
	136,606	123,899
Income before equity in earnings of real estate entities, minority interest in income, discontinued operations and gain on disposition of real estate investments	86,060	82,799
Equity in earnings of real estate entities (Note 5).....	4,057	4,687
Minority interest in income:		
Preferred partnership interests:		
Based on ongoing distributions	(6,554)	(6,726)
Special distribution and restructuring allocation (Note 8)	(10,063)	-
Other partnership interests.....	(4,003)	(3,942)
Income before discontinued operations and gain on disposition of real estate investments	69,497	76,818
Discontinued operations (Note 3).....	(430)	(193)
Gain on disposition of real estate investments.....	-	14
Net income	\$ 69,067	\$ 76,639
Net income allocation:		
Allocable to preferred shareholders:		
Based on distributions paid	\$ 38,042	\$ 37,022
Based on redemptions of preferred stock (Note 2)	3,723	2,297
Allocable to Equity Stock, Series A	5,375	5,375
Allocable to common shareholders (Restated - Note 2)	21,927	31,945
	\$ 69,067	\$ 76,639
Per common share – basic and diluted (Restated – Note 2)		
Continuing operations	\$ 0.17	\$ 0.26
Discontinued operations (Note 3).....	-	-
	\$ 0.17	\$ 0.26
Net income per depositary share of Equity Stock, Series A (basic and diluted)	\$ 0.61	\$ 0.61
Basic weighted average common shares outstanding	127,182	124,078
Diluted weighted average common shares outstanding.....	128,387	125,232
Weighted average shares of Equity Stock, Series A (basic and diluted)	8,776	8,776

See accompanying notes.

PUBLIC STORAGE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Amounts in thousands, except share data)

(Unaudited)

	<u>Cumulative Preferred Stock</u>	<u>Common Stock</u>	<u>Paid-in Capital</u>	<u>Cumulative Net Income</u>	<u>Cumulative Distributions</u>	<u>Total Shareholders' Equity</u>
Balances at December 31, 2003.....	\$ 1,867,025	\$ 12,699	\$ 2,438,632	\$ 2,366,660	\$ (2,465,217)	\$ 4,219,799
Issuance of cumulative preferred stock:						
Series Y (1,600,000 shares)	40,000	-	-	-	-	40,000
Series Z (4,500 shares).....	112,500	-	(3,744)	-	-	108,756
Series A (4,600 shares)	115,000	-	(3,823)	-	-	111,177
Redemption of cumulative preferred stock, including redemption costs:						
Series L (4,600 shares).....	(115,000)	-	(21)	-	-	(115,021)
Restructuring of Series N preferred units (Note 8)	-	-	2,063	-	-	2,063
Issuance of common stock:						
Exercise of employee stock options (811,161 shares).....	-	81	20,261	-	-	20,342
Stock based compensation (Note 11)	-	-	588	-	-	588
Repurchase of common stock (85,000 shares).....	-	(9)	(3,958)	-	-	(3,967)
Net income.....	-	-	-	69,067	-	69,067
Cash distributions:						
Cumulative preferred stock (Note 9).....	-	-	-	-	(38,042)	(38,042)
Equity Stock, Series A (\$0.61 per depositary share).....	-	-	-	-	(5,375)	(5,375)
Common Stock (\$0.45 per share).....	-	-	-	-	(57,348)	(57,348)
Balances at March 31, 2004.....	<u>\$ 2,019,525</u>	<u>\$ 12,771</u>	<u>\$ 2,449,998</u>	<u>\$ 2,435,727</u>	<u>\$ (2,565,982)</u>	<u>\$ 4,352,039</u>

See accompanying notes.

PUBLIC STORAGE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2004	2003
Cash flows from operating activities:		
Net income	\$ 69,067	\$ 76,639
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of assets, net of impairment charge included in equity in earnings of real estate entities (Note 5).....	-	2,130
Gain on sale of real estate investments.....	-	(14)
Depreciation and amortization	46,770	45,367
Depreciation included in equity in earnings of real estate entities.....	8,275	6,294
Minority interest in income	20,620	10,668
Depreciation, impairment charges and adjustments associated with discontinued operations (Note 3)	247	673
Other	1,948	5,158
Total adjustments.....	77,860	70,276
Net cash provided by operating activities	146,927	146,915
Cash flows from investing activities:		
Principal payments received on mortgage notes receivable.....	100,022	43
Capital improvements to real estate facilities	(2,705)	(2,333)
Construction in process and acquisition of land held for development.....	(19,119)	(24,184)
Proceeds from the disposition of land and real estate facilities	-	7,713
Investment in real estate entities.....	(8,261)	(10,302)
Other investments.....	(701)	-
Net cash used in investing activities	69,236	(29,063)
Cash flows from financing activities:		
Borrowings on revolving line of credit.....	-	25,000
Principal payments on notes payable.....	(26,717)	(26,756)
Net proceeds from the issuance of common stock.....	20,342	3,472
Net proceeds from the issuance of preferred stock	259,933	-
Repurchase of common stock.....	(3,967)	-
Redemption of preferred stock	(230,021)	(57,517)
Distributions paid to shareholders	(100,765)	(98,392)
Distributions paid to holders of preferred partnership interests	(6,554)	(6,726)
Special distribution paid to holders of preferred partnership interests (Note 8)..	(8,000)	-
Distributions paid to other partnership interests	(5,578)	(5,588)
Investment (divestment) by minority interests.....	(34)	548
Net cash used in provided by financing activities.....	(101,361)	(165,959)
Net increase (decrease) in cash and cash equivalents.....	114,802	(48,107)
Cash and cash equivalents at the beginning of the period.....	204,833	103,124
Cash and cash equivalents at the end of the period.....	\$ 319,635	\$ 55,017

See accompanying notes.

PUBLIC STORAGE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2004

(Unaudited)

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 self-storage facilities which offer storage spaces 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, containing commercial and industrial rental space, and interests in facilities that lease storage containers.

We invest in real estate facilities by acquiring facilities directly or by acquiring interest in real estate entities that own facilities. At March 31, 2004, we had direct and indirect equity interests in 1,413 self-storage facilities with 85.5 million net rentable square feet located in 37 states operating under the “Public Storage” name. We also have direct and indirect equity interests in approximately 20.1 million net rentable square feet of commercial and industrial space located in 10 states.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2004 are not necessarily indicative of the results that may be expected for the year ended December 31, 2004. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s annual report on Form 10-K for the year ended December 31, 2003.

The consolidated financial statements include the accounts of the Company and 38 controlled entities (the “Consolidated Entities”). Collectively, the Company and the Consolidated Entities own a total of 1,385 real estate facilities, consisting of 1,377 self-storage facilities, five industrial facilities used by the containerized storage operations and three commercial properties. All intercompany transactions among the Company and the Consolidated Entities are eliminated in consolidation.

At March 31, 2004, we had equity investments in seven limited partnerships in which we do not have a controlling interest. These limited partnerships collectively own 36 self-storage facilities, which are managed by the Company. In addition, at March 31, 2004, we own approximately 44% of the common equity of PS Business Parks, Inc. (“PSB”), which owns and operates approximately 18.3 million net rentable square feet of commercial space at March 31, 2004. We do not control these entities. Accordingly, our investment in these limited partnerships and PSB (these entities are referred to collectively as the “Unconsolidated Entities”) are accounted for using the equity method.

Certain amounts previously reported have been reclassified to conform to the March 31, 2004 presentation, including discontinued operations (see Note 3), and the application of the Securities and Exchange Commission (“SEC”) Observer’s clarification of Emerging Issues Task Force Topic (“EITF”) D-42 (see “Net Income per Common Share” below).

PUBLIC STORAGE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2004

(Unaudited)

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 will meet these tests during 2004 and, 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 are 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 financial instruments included in 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 notes payable approximates fair value because the aggregate applicable interest rate approximates current market rates for similar loans and because the relatively short time until maturity reduces the effect of differing interest rates.

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. Accounts receivable are not a significant portion of total assets and are comprised of a large number of individual customers.

Included in cash and cash equivalents at March 31, 2004 is \$391,000 (\$1,835,000 at December 31, 2003) held by STOR-Re Mutual Insurance Company, Inc. ("STOR-Re"), an association captive insurance company owned by the Company and its affiliates, which is 90.1% owned by the Company and the Consolidated Entities. Insurance and other regulations place significant restrictions on our ability to withdraw these funds for purposes other than insurance activities. Other assets at March 31, 2004 include investments totaling \$27,185,000 (\$27,995,000 at December 31, 2003) in held to maturity debt securities owned by STOR-Re stated at amortized cost, which approximates fair value.

Real Estate Facilities

Real estate facilities are recorded at cost. Costs associated with the acquisition, development, construction, renovation and improvement of properties are capitalized. Interest, property taxes, and other costs

PUBLIC STORAGE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2004

(Unaudited)

associated with development incurred during the construction period are capitalized as building cost. Expenditures for repairs and maintenance are charged to expense as incurred. 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 August 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). In June 2001, the FASB issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). We adopted both of these statements effective January 1, 2002.

With respect to goodwill, we evaluate impairment annually through a two-step process. In the first step, if the fair value of the reporting unit to which the goodwill applies is equal to or greater than the carrying amount of the assets of the reporting unit, including the goodwill, the goodwill is considered unimpaired and the second step is unnecessary. If, however, the fair value of the reporting unit including goodwill is less than the carrying amount, the second step is performed. In this test, we compute the implied fair value of the goodwill based upon the allocations that would be made to the goodwill, other assets and liabilities of the reporting unit if a business combination transaction were consummated at the fair value of the reporting unit. An impairment loss is recorded to the extent that the implied fair value of the goodwill is less than the goodwill's carrying amount. No impairments of our goodwill were identified in our annual evaluation at December 31, 2003.

With respect to other long-lived assets, we evaluate such assets on a quarterly basis. We first evaluate these assets for indicators of impairment such as a) a significant decrease in the market price of a long-lived asset, b) a significant adverse change in the extent or manner in which a long-lived asset is being used or in its physical condition, c) a significant adverse change in legal factors or the business climate that could affect the value of the long-lived asset, d) an accumulation of costs significantly in excess of the amount originally projected for the acquisition or construction of the long-lived asset, or e) a current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of the long-lived asset. When any such indicators of impairment are noted, we compare the carrying value of these assets to the future estimated undiscounted cash flows attributable to these assets. If the asset's recoverable amount is less than the carrying value of the asset, then an impairment charge is booked for the excess of carrying value over the asset's fair value.

Any long-lived assets which we expect to sell or otherwise dispose of prior to their previously estimated useful life are stated at what we estimate to be the lower of their estimated net realizable value (less cost to sell) or their carrying value. We recorded \$169,000 in impairment charges related to a containerized storage facility that was identified for closure in the first quarter of 2004 (see Note 3). No additional impairments were identified from our evaluations as of March 31, 2004.

Accounting for Stock-Based Compensation

We utilize the Fair Value Method (as defined in Note 11) of accounting for our employee stock options issued after December 31, 2001, and utilize the APB 25 Method (as defined in Note 11) for employee stock options issued prior to January 1, 2002. Restricted Stock Unit expense is recorded over the relevant vesting period. For the three months ended March 31, 2004, a total of \$119,000 in compensation expense (\$99,000 for the three months ended March 31, 2003) with respect to stock options was included in general and administrative expense. During the three months ended March 31, 2004, a total of \$534,000 (none for the three months ended March 31, 2003) in restricted stock compensation expense was included in general and

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(Unaudited)

administrative expense. See Note 11 for a full discussion of our accounting policies with respect to employee stock options and restricted stock units.

Other Assets

Other assets primarily consist of containers and equipment associated with the containerized storage operations, assets associated with the truck rental business, accounts receivable, and prepaid expenses. Accounts receivable from customers are net of allowances for doubtful accounts.

Containers and equipment utilized in our containerized storage business totaled \$9,445,000 at March 31, 2004 (\$10,895,000 at December 31, 2003). The carrying amounts are net of accumulated depreciation and asset impairment charges. As discussed in Note 3, during the three months ended March 31, 2004, impairment charges amounting to \$169,000 were recorded with respect to containers and equipment utilized in the discontinued containerized storage operations.

Included in depreciation and amortization expense for the three months ended March 31, 2004 and 2003 is \$2,059,000 and \$1,703,000, respectively, related to other assets. Included in discontinued operations for the three months ended March 31, 2004 and 2003, respectively, is depreciation expense of \$55,000 and \$503,000 related to depreciation of containers and equipment of the discontinued operations of the containerized storage business.

Other assets at March 31, 2004 also include \$27,185,000 (\$27,995,000 at December 31, 2003) in held to maturity debt securities owned by STOR-Re stated at amortized cost which approximates fair market value.

Accrued and Other Liabilities

Accrued and other liabilities consist primarily of trade payables, real and personal property tax accruals, accrued interest, and losses and loss adjustment liabilities, as discussed below.

Liabilities for losses and loss adjustment expenses include an amount determined from loss reports and individual cases and an amount, based on recommendations from an outside actuary using a frequency and severity method, for losses incurred but not reported. Determining the liability for unpaid losses and loss adjustment expense is based upon estimates. While we believe that the amount is adequate, the ultimate loss may be in excess of or less than the amounts provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed.

STOR-Re, which is consolidated with the Company, was formed in 1994 as an association captive insurance company owned by the Company and affiliates of the Company. STOR-Re provides limited property and liability insurance to the Company and its affiliates. The Company also utilizes other insurance carriers to provide property and liability insurance coverage in excess of STOR-Re's limitations which are described in Note 14. STOR-Re accrues liabilities for losses and loss adjustment expense that it covers, which at March 31, 2004 totaled \$30,079,000 (\$28,741,000 at December 31, 2003).

PS Insurance Company, Ltd., a wholly-owned subsidiary of the Company, reinsures policies against claims for losses to goods stored by tenants in our self-storage facilities. PS Insurance Company, Ltd. has outside third-party insurance coverage for losses from any individual event that exceeds a loss of \$500,000, to a maximum of \$10,000,000. Losses below the third-party insurers' deductible amounts are accrued as cost of operations for the tenant insurance operations. The accrued liability for losses and loss adjustment expense totaled \$2,845,000 at March 31, 2004 (\$2,486,000 at December 31, 2003).

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(Unaudited)

Intangible Assets and Goodwill

Intangible assets consist of property management contracts (\$165,000,000) and the excess of acquisition cost over the fair value of net tangible and identifiable intangible assets or "goodwill" (\$94,719,000) acquired in business combinations. Our goodwill has an indeterminate life and, accordingly, is not amortized. Our other intangibles have a defined life and are amortized on a straight-line basis over a 25 year period.

Goodwill is net of accumulated amortization of \$16,515,000 at March 31, 2004 and December 31, 2003. At March 31, 2004, property management contracts are net of accumulated amortization of \$55,362,000 (\$53,711,000 at December 31, 2003). Included in depreciation and amortization expense for each of the three months ended March 31, 2004 and 2003 is \$1,651,000 with respect to the amortization of property management contracts.

Revenue and Expense Recognition

Rental income, which is generally earned pursuant to month-to-month leases for storage space, is recognized as earned. Promotional discounts are recognized as a reduction to rental income over the promotional period, which is generally during the first month of occupancy. Late charges and administrative fees are recognized as rental income when collected. Tenant reinsurance premiums are recognized as premium revenue when collected. Interest income is recognized as earned. Equity in earnings of real estate entities is recognized based on our ownership interest in the earnings of each of the unconsolidated real estate entities.

We accrue for property tax expense based upon estimates and historical trends. If these estimates are incorrect, the timing of expense recognition could be affected.

Cost of operations, general and administrative expense, interest expense, as well as television, yellow page, and other advertising expenditures are expensed as incurred. Accordingly, the amounts incurred in an interim period may not be indicative of the amounts to be incurred during a full year. Television, yellow page, and other advertising expense totaled \$6,844,000 and \$4,387,000 for the three months ended March 31, 2004 and 2003, respectively.

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 cost 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

Distributions paid (or accrued) to the holders of our Cumulative Preferred Stock totaling \$38,042,000 and \$37,022,000 for the three months ended March 31, 2004 and 2003, respectively, have been deducted from net income to arrive at net income allocable to our common shareholders.

Emerging Issues Task Force ("EITF") Topic D-42, "The Effect on the Calculation of Earnings per Share for the Redemption or the Induced Conversion of Preferred Stock" provides, among other things, that any excess of (1) the fair value of the consideration transferred to the holders of preferred stock redeemed over (2) the carrying amount of the preferred stock should be subtracted from net earnings to determine net earnings

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March 31, 2004

(Unaudited)

available to common stockholders in the calculation of earnings per share. At the July 31, 2003 meeting of the EITF, the Securities and Exchange Commission Observer clarified that for purposes of applying EITF Topic D-42, the carrying amount of the preferred stock should be reduced by the issuance costs of the preferred stock, regardless of where in the stockholders' equity section those costs were initially classified on issuance. We implemented the SEC Observer's clarification in the quarter ended September 30, 2003.

In conformity with the SEC Observer's clarification, an additional \$3,723,000 (\$0.03 per diluted share) and \$2,297,000 (\$0.02 per diluted share) was allocated to preferred stockholders for the excess of the redemption amount over the carrying amount of our Cumulative Preferred Stock for the three months ended March 31, 2004 and 2003, respectively. It is our policy to record such allocation at the time the securities are called for redemption.

Prior to the SEC Observer's clarification, we had not allocated additional income to the preferred shareholders upon redemption of our preferred securities, because the amounts paid in redemption were equal to the redemption value stated on our balance sheet. Accordingly, amounts previously presented for the three months ended March 31, 2003 have been restated to conform to the SEC Observer's clarification.

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 was allocated net income of \$5,375,000 for each of the three months ended March 31, 2004 and 2003. The remaining \$21,927,000 and \$31,945,000 (as restated for the impact of EITF Topic D-42) for the three months ended March 31, 2004 and 2003, respectively, was allocated to the regular common shares.

Basic net income per share is computed using the weighted average common shares outstanding (prior to the dilutive impact of stock options and restricted stock units outstanding). Diluted net income per common share is computed using the weighted average common shares outstanding (adjusted for the dilutive impact of stock options and restricted stock units outstanding). Weighted average common shares excludes shares owned by the Consolidated Entities for the three months ended March 31, 2004 and 2003, as these shares of common stock are eliminated in consolidation (see Note 9).

3. Discontinued Operations

Statement of Financial Accounting Standards No. 144 ("SFAS No. 144") addresses accounting for discontinued operations. SFAS No. 144 requires the segregation of all disposed components of an entity with operations that (i) can be distinguished from the rest of the entity and (ii) will be eliminated from the ongoing operations of the entity in a disposal transaction.

During 2002, we adopted a business plan that included the closure of 22 non-strategic containerized storage facilities. During 2003 and the three months ended March 31, 2004, an additional ten facilities (nine and one, respectively) were identified as non-strategic and scheduled for closure. Each of these 32 containerized storage facilities (collectively, the "Closed Facilities") represented components of our containerized storage business segment. The related assets of the Closed Facilities (consisting primarily of storage containers) were deemed not recoverable from operations in future periods, and as a result asset impairment charges for the excess of these assets' net book value over their fair value, determined based upon the values of similar assets, was recorded. In the three months ended March 31, 2004, we recorded asset impairment charges in the amount of \$169,000 relating to the closure of the one facility during this period (none

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in the three months ended March 31, 2003). There are no significant assets or liabilities of the Closed Facilities, other than remaining lease obligations with total future payments of \$711,000 through May 2005.

Four self storage facilities that we owned in the Knoxville market (the “Knoxville Facilities”) were disposed of on July 25, 2003 for aggregate gross proceeds of \$11.0 million. The Company financed a substantial part of the buyer’s consideration in exchange for a note receivable from the buyer, and in accordance with generally accepted accounting principles, the Company deferred the sale and the corresponding gain of approximately \$4.5 million until October 2003 at which time the note receivable was collected in full.

On October 16, 2003, we sold a self-storage facility located in Perrysburg, Ohio for \$2.3 million in cash. A gain of approximately \$1.1 million was recognized from the sale of this property in the fourth quarter of 2003. This facility and the Knoxville Facilities (collectively, the “Sold Self-Storage Facilities”) are reported as discontinued operations.

The historical operations of the Closed Facilities (including the asset impairment charges) and the Sold Self-Storage Facilities are classified as discontinued operations. The rental income, cost of operations, and depreciation expense with respect to these facilities for each period presented are included in the line-item “Discontinued Operations” on the consolidated statement of income.

The following table summarizes the historical operations of the Closed Facilities and the Sold Self-Storage Facilities:

Discontinued Operations:

	Three Months Ended March 31,		
	2004	2003	Change
(Amounts in thousands)			
Rental income (a):			
Closed Facilities	802	3,572	(2,770)
Sold Self-Storage Facilities	-	463	(463)
Total rental income	802	4,035	(3,233)
Cost of operations (a):			
Closed Facilities	985	3,369	(2,384)
Sold Self-Storage Facilities	-	186	(186)
Total cost of operations	985	3,555	(2,570)
Depreciation expense (a):			
Closed Facilities	78	514	(436)
Sold Self-Storage Facilities	-	159	(159)
Total depreciation	78	673	(595)
Asset impairment charges (b):			
Closed Facilities	169	-	169
Net discontinued operations (c)	\$ (430)	\$ (193)	\$ (237)

- (a) These amounts represent the historical operations of the Closed Facilities and the Sold Self-Storage Facilities, and include amounts previously classified as rental income, cost of operations, and depreciation expense in the financial statements in prior periods.
- (b) Asset impairment charges with respect to the containerized storage assets of one facility in the amount of \$169,000 were recorded in the three months ended March 31, 2004 (none in the three months ended March 31, 2003).
- (c) There was no significant per-share impact from discontinued operations for the three months ended March 31, 2004 and 2003.

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4. Real Estate Facilities

Activity in real estate facilities is as follows:

	Three Months Ended March 31, 2004 (In thousands)
Operating facilities, at cost:	
Balance at December 31, 2003	\$ 5,125,498
Newly developed facilities opened for operations	37,540
Capital improvements	2,705
Balance at March 31, 2004	5,165,743
Accumulated depreciation:	
Balance at December 31, 2003	(1,153,059)
Additions during the year	(43,083)
Balance at March 31, 2004	(1,196,142)
Construction in process:	
Balance at December 31, 2003	69,620
Current development	19,119
Newly developed facilities opened for operations	(37,540)
Balance at March 31, 2004	51,199
Land held for development:	
Balance at December 31, 2003	12,236
Disposition of land	-
Transfers to construction in progress	-
Balance at March 31, 2004	12,236
Total real estate facilities	\$ 4,033,036

During the three months ended March 31, 2004, we opened three newly developed self-storage facilities (237,000 net rentable square feet) with an aggregate cost of \$27,395,000. We also completed projects to convert 105,000 net rentable square feet of industrial space previously used by the discontinued containerized storage business into 116,000 net rentable square feet of self-storage space for an aggregate of \$3,296,000, \$326,000 in additional costs on newly developed facilities opened in 2003, and \$6,523,000 in various expansion and remodeling projects to enhance the visual and structural appeal of certain of the Company's existing self-storage facilities.

Construction in process at March 31, 2004 consists primarily of 11 self-storage facilities (718,000 net rentable square feet) and 31 expansion projects and various remodeling projects to enhance the visual and structural appeal of existing self-storage facilities. In addition, we have five parcels of land held for development with total costs of approximately \$12,236,000.

Our policy is to capitalize interest incurred on debt during the course of construction of our self-storage facilities. Interest capitalized during the three months ended March 31, 2004 was \$1,125,000 compared to \$1,525,000 for the same period in 2003.

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5. Investment in Real Estate Entities

At March 31, 2004, our investments in real estate entities consist of ownership interests in seven partnerships, which principally own self-storage facilities, and our ownership interest in PSB. These 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.

For the three months ended March 31, 2004, we recognized earnings from our investments of \$4,057,000 as compared to \$4,687,000 for the same period in 2003. For the three months ended March 31, 2004, our equity in earnings includes our net pro-rata share of PSB's application of EITF Topic D-42, which reduced our equity in earnings a total of \$943,000. For the three months ended March 31, 2003, our equity in earnings includes our pro-rata share of PSB's impairment charge with respect to impending real estate sales, offset by a gain on sale of their real estate assets, which reduced our equity in earnings \$2,130,000. See the condensed financial information with respect to PSB below for further information regarding these items recorded by PSB.

There were no investments made in the real estate entities for the three months ended March 31, 2004 and March 31, 2003. We received distributions from our investments for the three months ended March 31, 2004 and 2003, in the amount of \$5,014,000 and \$2,809,000, respectively.

The following table sets forth our investments in real estate entities at March 31, 2004 and December 31, 2003, and our equity in earnings of real estate entities for the three months ended March 31, 2004 and 2003 (amounts in thousands):

	Investments in Real Estate Entities at		Equity in Earnings of Real Estate Entities for the Three Months Ended March 31,	
	March 31, 2004	December 31, 2003	2004	2003
PSB (a).....	\$ 281,269	\$ 282,428	\$ 2,524	\$ 3,419
Other Investments	54,470	54,268	1,533	1,268
Total.....	<u>\$ 335,739</u>	<u>\$ 336,696</u>	<u>\$ 4,057</u>	<u>\$ 4,687</u>

(a) Equity in earnings of real estate entities includes our pro-rata share of the net impact of gains on sale of assets and impairment charges relating to the impending sale of real estate assets as well as our pro-rata share of the impact of the application of EITF Topic D-42 on redemptions of preferred securities recorded by PSB. Our net pro-rata impact from these items resulted in a reduction of equity in earnings of \$943,000 for the three months ended March 31, 2004, as compared to a reduction in equity in earnings of \$2,130,000 for the three months ended March 31, 2003.

Investment in PS Business Parks, Inc.

PS Business Parks, Inc. is a REIT traded on the American Stock Exchange, which controls an operating partnership (collectively, the REIT and the operating partnership are referred to as "PSB"). The Company has a 44% common equity interest in PSB as of March 31, 2004. This 44% common equity interest is comprised of the ownership of 5,418,273 shares of common stock and 7,305,355 limited partnership units in the operating partnership; these limited partnership units are convertible at our option, subject to certain conditions, on a one-for-one basis into PSB common stock. Based upon the closing price at March 31, 2004 (\$46.35 per share of PSB common stock), the shares and units had a market value of approximately \$589.7 million as compared to a book value of \$281.3 million.

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At March 31, 2004, PSB owned and operated approximately 18.3 million net rentable square feet of commercial space. In addition, PSB manages approximately 960,000 net rentable square feet of commercial space owned by the Company and the Consolidated Entities pursuant to property management agreements.

The following table sets forth the condensed statements of operations for the three months ended March 31, 2004 and for the same period in 2003, and the condensed balance sheets of PSB at March 31, 2004 and December 31, 2003. The amounts below represent 100% of PSB's balances and not our pro-rata share.

	Three Months Ended March 31,	
	2004	2003
	(Amounts in thousands)	
Total revenue prior to gains on sale.....	\$ 55,357	\$ 49,607
Cost of operations and other expenses.....	(19,029)	(15,575)
Depreciation and amortization.....	(17,884)	(13,685)
Discontinued operations (a).....	21	(3,841)
Minority interest.....	(6,482)	(6,775)
Net income.....	<u>\$ 11,983</u>	<u>\$ 9,731</u>
	March 31,	December 31,
	2004	2003
	(Amounts in thousands)	
Total assets (primarily real estate).....	\$ 1,348,726	\$ 1,358,861
Total debt.....	80,540	264,694
Preferred stock and units called for redemption.....	65,573	-
Other liabilities.....	37,585	35,701
Preferred equity and preferred minority interest.....	493,350	386,423
Common equity.....	671,678	672,043

- (a) Includes income from discontinued operations totaling \$21,000 and \$270,000 for the three months ended March 31, 2004 and 2003, respectively, and equity in income of discontinued joint venture totaling \$1,796,000 for the three months ended March 31, 2003 (none for the same period in 2004). Included in discontinued operations for the three months ended March 31, 2003 is an impairment charge of \$5,907,000 on properties held for sale (none for the same period in 2004).

Other Investments

The Other Investments consist primarily of an average 41% common equity ownership, which we owned during each of the three months ended March 31, 2004 and 2003, in seven limited partnerships (collectively, the "Other Investments") owning an aggregate of 36 storage facilities. For the three months ended March 31, 2004 and 2003, we did not acquire any additional equity interests in these entities.

The following table sets forth certain condensed financial information (representing 100% of these entities' balances and not our pro-rata share) with respect to Other Investments:

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	Three Months Ended March 31,	
	2004	2003
	(Amounts in thousands)	
Total revenue.....	\$ 6,855	\$ 6,380
Cost of operations and other expenses.....	(2,184)	(2,251)
Depreciation and amortization.....	(578)	(620)
Net income	\$ 4,093	\$ 3,509
	(Amounts in thousands)	
	March 31, 2004	December 31, 2003
Total assets (primarily storage facilities).....	\$ 56,667	\$ 56,592
Total debt	1,435	1,930
Other liabilities	1,735	1,618
Partners' equity	53,497	53,044

6. Revolving Line of Credit

On March 25, 2004, we amended our \$200 million credit facility with Wells Fargo. The amendment extends the maturity date to April 1, 2007 and bears an annual interest rate ranging from the London Interbank Offered Rate ("LIBOR") plus 0.45% to LIBOR plus 1.20% depending on our credit ratings (currently LIBOR plus 0.45%). In addition, we are required to pay a quarterly commitment fee ranging from 0.15% per annum to 0.30% per annum depending on our credit ratings (currently the fee is 0.15% per annum). At March 31, 2004 and at May 6, 2004, we had no outstanding borrowings on our line of credit.

The amended Credit Agreement includes various covenants, the more significant of which require us to (i) maintain a balance sheet leverage ratio of less than 0.55 to 1.00, (ii) maintain certain quarterly interest and fixed-charge coverage ratios (as defined therein) of not less than 2.25 to 1.0 and 1.5 to 1.0, respectively, and (iii) maintain a minimum total shareholders' equity (as defined therein). In addition, we are limited in our ability to incur additional borrowings (we are required to maintain unencumbered assets with an aggregate book value equal to or greater than 1.5 times our unsecured recourse debt). We were in compliance with all covenants of the Credit Agreement at March 31, 2004.

7. Notes Payable

Notes payable at March 31, 2004 and December 31, 2003 consist of the following:

	Carrying Amount	
	March 31, 2004	December 31, 2003
	(Amounts in thousands)	
Unsecured senior notes:		
7.47% note due January 2004.....	-	14,600
7.66% note due January 2007.....	33,600	44,800
Mortgage notes payable:		
10.55% mortgage notes secured by real estate facilities, principal and interest payable monthly, due August 2004....	13,981	14,863
7.134% to 8.75% mortgage notes secured by real estate facilities, principal and interest payable monthly, due at varying dates between May 2004 and September 2028.....	1,732	1,767
Total notes payable.....	\$ 49,313	\$ 76,030

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All of our notes payable are fixed rate. The unsecured senior notes require interest and principal payments to be paid semi-annually and have various restrictive covenants, all of which have been met at March 31, 2004 and December 31, 2003. The 10.55% mortgage notes consist of five notes, which are cross-collateralized by 19 properties and are due to a life insurance company. Mortgage notes payable are secured by 21 real estate facilities having an aggregate net book value of approximately \$55 million at March 31, 2004 and \$56 million at December 31, 2003.

At March 31, 2004, approximate principal maturities of notes payable are as follows:

	Unsecured Senior Notes	Mortgage Notes (Amounts in thousands)	Total
2004 (remainder of)	\$ -	\$ 14,093	\$ 14,093
2005	11,200	156	11,356
2006	11,200	170	11,370
2007	11,200	185	11,385
2008	-	202	202
Thereafter	-	907	907
	<u>\$ 33,600</u>	<u>\$ 15,713</u>	<u>\$ 49,313</u>
Weighted average rate.....	<u>7.7%</u>	<u>10.3%</u>	<u>8.5%</u>

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 Consolidated Entities.

Preferred Partnership Interests

During 2000, one of our consolidated operating partnerships issued preferred partnership units: March 17, 2000 - \$240.0 million of 9.5% Series N Cumulative Redeemable Perpetual Preferred Units and March 29, 2000 - \$75.0 million of 9.125% Series O Cumulative Redeemable Perpetual Preferred. A portion of the 9.125% Series O Cumulative Redeemable Perpetual Preferred (\$30 million) was repurchased by the Company in 2001.

On March 22, 2004, certain investors who held \$200 million of our 9.5% Series N Cumulative Redeemable Perpetual Preferred Units agreed, in exchange for a special distribution of \$8,000,000, to exchange their 9.5% Series N Cumulative Redeemable Perpetual Preferred Units for \$200 million of our 6.4% Series NN Cumulative Redeemable Perpetual Preferred Units. The investors also received a distribution for dividends that accrued from January 1, 2004 through the effective date of the exchange.

The restructure of these Preferred Units resulted in an increase in income allocated to minority interests and a reduction to the Company's net income for the three months ended March 31, 2004 of \$10,063,000 from (1) the special distribution to the holders of the preferred units (\$8,000,000) and (2) the application of the SEC's recent clarification of EITF Topic D-42 (\$2,063,000). The \$2,063,000 additional reduction in the Company's net income represents the excess of the stated amount of the preferred units over their carrying amount.

For the three months ended March 31, 2004 and 2003, the holders of preferred units were paid distributions aggregating approximately \$14,554,000 (including the \$8,000,000 special distribution) and \$6,726,000, respectively. Income allocated to the minority interest was \$16,617,000 (comprised of the

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distributions paid and an allocation of income of \$2,063,000 resulting from the application of EITF Topic D-42) and \$6,726,000 for the three months ended March 31, 2004 and 2003, respectively.

The following table summarizes the preferred partnership units outstanding at March 31, 2004 and December 31, 2003:

Series	Earliest Redemption Date (a)	Distribution Rate	At March 31, 2004		At December 31, 2003	
			Units Outstanding	Carrying Amount	Units Outstanding	Carrying Amount
(Amounts in thousands)						
Series N	March 17, 2005	9.500%	1,600	\$ 40,000	9,600	\$ 240,000
Series NN	March 17, 2010	6.400%	8,000	200,000	-	-
Series O	March 29, 2005	9.125%	1,800	45,000	1,800	45,000
Total			<u>11,400</u>	<u>\$ 285,000</u>	<u>11,400</u>	<u>\$ 285,000</u>

(a) After these dates, 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 our 9.5% Series N Cumulative Preferred Stock, the Series O preferred units are convertible into shares of our 9.125% Series O Cumulative Preferred Stock, and the Series NN preferred units are convertible into shares of our 6.4% Series NN Cumulative Preferred Stock.

Other Partnership Interests

The following table sets forth the minority interests at March 31, 2004 and December 31, 2003 as well as the distributions paid to minority interests for the three months ended March 31, 2004 and 2003 with respect to the other partnership interests (amounts in thousands):

Description	Minority Interest at		Distributions to Minority Interests for the Three Months Ended	
	March 31, 2004	December 31, 2003	March 31, 2004	March 31, 2003
Consolidated Development Joint Venture	\$ 66,986	\$ 68,490	\$ 2,461	\$ 2,463
Convertible Partnership Units	6,192	6,259	107	107
Other consolidated partnerships	66,350	66,388	3,044	2,470
Total other partnership interests	<u>\$ 139,528</u>	<u>\$ 141,137</u>	<u>\$ 5,612</u>	<u>\$ 5,040</u>

Income is allocated to the minority interests based upon their pro-rata interest in the operating results of the Consolidated Entities. The following table sets forth the income allocated to minority interest in income with respect to the other partnership interests for the three months ended March 31, 2004 and 2003 (amounts in thousands):

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Description	Minority Interest in Income for the Three Months Ended March 31,	
	2004	2003
Consolidated Development Joint Venture.....	\$ 957	\$ 743
Convertible Partnership Units.....	40	65
Other Consolidated Partnerships.....	3,006	3,134
Total other partnership interests.....	<u>\$ 4,003</u>	<u>\$ 3,942</u>

Consolidated Development Joint Venture

In November 1999, we formed a development joint venture (the “Consolidated Development Joint Venture”) with a joint venture partner (PSAC Storage Investors, LLC) whose partners include a third party institutional investor and B. Wayne Hughes (“Mr. Hughes”), to develop approximately \$100 million of self-storage facilities and to purchase \$100 million of the Company’s Equity Stock, Series AAA (see Note 9). At March 31, 2004, the Consolidated Development Joint Venture was fully committed having completed construction on 22 self-storage facilities for a total cost of \$108.6 million.

The Consolidated Development Joint Venture is funded solely with equity capital consisting of 51% from the Company and 49% from PSAC Storage Investors, LLC. The accounts of the Consolidated Development Joint Venture are included in the Company’s consolidated financial statements. The accounts of PSAC Storage Investors, LLC are not included in the Company’s consolidated financial statements, as the Company has no ownership interest in this entity. Minority interests primarily represent the total contributions received from PSAC Storage Investors combined with the accumulated net income allocated to PSAC Storage Investors, LLC, net of cumulative distributions. The amounts included in our financial statements with respect to the minority interest in the Consolidated Development Joint Venture are denoted in the tables above.

The term of the Consolidated Development Joint Venture is 15 years; however, during the sixth year PSAC Storage Investors, LLC has the right to cause an early termination of the partnership. If PSAC Storage Investors, LLC exercises this right, we then have the option, but not the obligation, to acquire their interest for an amount that will allow them to receive an annual return of 10.75%. If the Company does not exercise its option to acquire PSAC Storage Investors, LLC’s interest, the partnership’s assets will be sold to third parties and the proceeds distributed to the Company and PSAC Storage Investors, LLC in accordance with the partnership agreement. If PSAC Storage Investors, LLC does not exercise its right to early termination during the sixth year, the partnership will be liquidated 15 years after its formation with the assets sold to third parties and the proceeds distributed to the Company and PSAC Storage Investors, LLC in accordance with the partnership agreement.

PSAC Storage Investors, LLC provides Mr. Hughes with a fixed yield of approximately 8.0% per annum on his preferred non-voting interest (representing an investment of approximately \$64.1 million at March 31, 2004). In addition, Mr. Hughes receives 1% of the remaining cash flow of PSAC Storage Investors, LLC (estimated to be less than \$50,000 per year). If PSAC Storage Investors, LLC does not elect to cause an early termination, Mr. Hughes’ 1% interest in residual cash flow can increase to 10%.

In consolidation, the Equity Stock, Series AAA owned by the joint venture and the related dividend income have been eliminated. Minority interests primarily represent the total contributions received from PSAC Storage Investors combined with the accumulated net income allocated to PSAC Storage Investors, net of cumulative distributions.

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See Note 13, "Recent Accounting Pronouncements" for further discussion of the impact of recent accounting pronouncements on the accounting for these interests.

Convertible Partnership Units

As of March 31, 2004 and December 31, 2003, one of our Consolidated Entities had approximately 237,935 convertible operating partnership units ("Convertible Units") outstanding, representing a limited partnership interest in the partnership. The Convertible Units are convertible on a one-for-one basis (subject to certain limitations) into the Company's common stock at the option of the unitholder. Minority interest in income with respect to the Convertible Units reflects the Convertible Units' share of the net income of the Company, with net income allocated to minority interests with respect to weighted average outstanding Convertible Units on a per unit basis equal to diluted earnings per common share. During the three months ended March 31, 2004 and the year ended December 31, 2003, no units were converted.

Other Consolidated Partnerships

At March 31, 2004, the other consolidated partnerships reflect common equity interests that the Company does not own in 25 entities owning an aggregate of 123 self-storage facilities.

On April 28, 2003 we acquired through a merger all of the remaining limited partnership interest not currently owned by the Company in PS Partners IV, Ltd., a partnership which is consolidated with the Company. The acquisition cost was \$23,377,000, consisting of the issuance of 426,859 shares of our common stock (\$13,510,000) valued at the closing price of our common stock on the date of acquisition and cash of \$9,867,000; this acquisition had the effect of reducing minority interest by \$6,690,000, with the excess of cost over underlying book value (\$16,687,000) allocated to real estate.

The partnership agreements of the other consolidated partnerships have termination dates that cannot be unilaterally extended by the Company and, upon termination of each partnership, the net assets of these entities would be liquidated and paid to the minority interests and the Company based upon their relative ownership interests. See Note 13, "Recent Accounting Pronouncements – Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" for further discussion of the impact of recent accounting pronouncements on the accounting for these interests.

9. Shareholders' Equity

Cumulative Preferred Stock

At March 31, 2004 and December 31, 2003, we had the following series of Cumulative Preferred Stock outstanding:

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Series	Earliest Redemption Date (a)	Dividend Rate	At March 31, 2004		At December 31, 2003	
			Shares Outstanding	Carrying Amount	Shares Outstanding	Carrying Amount
(Dollar amount in thousands)						
Series D	9/30/04	9.500%	1,200,000	\$ 30,000	1,200,000	\$ 30,000
Series E	1/31/05	10.000%	2,195,000	54,875	2,195,000	54,875
Series F	4/30/05	9.750%	2,300,000	57,500	2,300,000	57,500
Series K	1/19/04 (b) (c)	8.250%	-	-	-	-
Series L	3/10/04 (c)	8.250%	-	-	4,600	115,000
Series M	8/17/04	8.750%	2,250	56,250	2,250	56,250
Series Q	1/19/06	8.600%	6,900	172,500	6,900	172,500
Series R	9/28/06	8.000%	20,400	510,000	20,400	510,000
Series S	10/31/06	7.875%	5,750	143,750	5,750	143,750
Series T	1/18/07	7.625%	6,086	152,150	6,086	152,150
Series U	2/19/07	7.625%	6,000	150,000	6,000	150,000
Series V	9/30/07	7.500%	6,900	172,500	6,900	172,500
Series W	10/6/08	6.500%	5,300	132,500	5,300	132,500
Series X	11/13/08	6.450%	4,800	120,000	4,800	120,000
Series Y	1/2/09	6.850%	1,600,000	40,000	-	-
Series Z	3/5/09	6.250%	4,500	112,500	-	-
Series A	3/31/09	6.125%	4,600	115,000	-	-
Total Cumulative Preferred Stock			<u>7,368,486</u>	<u>\$ 2,019,525</u>	<u>5,763,986</u>	<u>\$ 1,867,025</u>

- (a) Except under certain conditions relating to the Company's qualification as a REIT, the Cumulative Preferred Stock outstanding at March 31, 2004 is not redeemable prior to the dates indicated. On or after the dates indicated, each series of Cumulative Senior Preferred Stock will be redeemable, at the option of the Company, in whole or in part, at \$25.00 per share (or depository share in the case of the Series K through X, and Series Z and A), plus accrued and unpaid dividends.
- (b) The Series K Cumulative Preferred Stock was called for redemption in December 2003 and was redeemed in January 2004 along with the unpaid distributions from January 1, 2004 through the redemption date. Accordingly, the redemption value of \$115,000,000 was classified as a liability at December 31, 2003.
- (c) Series was redeemed on the date indicated.

Our Cumulative Preferred Stock, issued in series, has general preference rights with respect to liquidation and quarterly distributions. Holders of the preferred stock, except under certain conditions and as noted below, 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 March 31, 2004, there were no dividends in arrears and the Debt Ratio was 0.8%.

During the first quarter of 2004, we issued three series of Cumulative Preferred Stock: Series Y – issued January 2, 2004, net proceeds \$40,000,000, Series Z – issued March 5, 2004, net proceeds \$108,756,000, and Series A – issued March 31, 2004, net proceeds \$111,177,000. In addition during the first quarter of 2004, we redeemed our Series K (which was called for redemption in December 2003) and Series L Cumulative

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Preferred Stock, at par. The total cost of redemption of Series L was \$115,021,000 (including redemption expenses), plus accrued dividends.

During 2003, we issued our Series W and Series X Cumulative Preferred Stock: Series W – issued on October 6, 2003, net proceeds of \$128,126,000 and Series X – issued November 13, 2003, net proceeds of \$116,020,000. In addition during 2003, we redeemed our Series B and Series C Cumulative Preferred Stock, at par, at a total cost of \$57,517,000 and \$30,018,000 (including related redemption expenses), respectively. In December 2003, we called for redemption our Series K Cumulative Preferred Stock, at par. The total cost of redemption of the Series K was approximately \$115,000,000, plus accrued dividends, on the redemption date, January 20, 2004.

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.

Equity Stock, Series A

At March 31, 2004, we had 8,776,102 depositary shares outstanding, each representing 1/1,000 of a share of Equity Stock, Series A (“Equity Stock A”). The Equity Stock A ranks on a parity with common stock and junior to the Cumulative 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: (i) five times the per share dividend on our common stock or (ii) \$2.45 per annum. We have no obligation to pay distributions on the depositary shares if no distributions are paid to common shareholders.

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, 2010. On or after March 31, 2010, 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 at the option of the shareholder into .956 shares of common stock. The depositary shares are otherwise not convertible into common stock. Holders of depositary shares vote as a single class with holders of our common stock on shareholder matters, but the depositary shares have the equivalent of one-tenth of a vote per depositary share.

Equity Stock, Series AA

In June 1997, we contributed \$22,500,000 (225,000 shares) of equity stock, now designated as Equity Stock, Series AA (“Equity Stock AA”) to a partnership in which we are the general partner. The Company has a controlling interest in the partnership and therefore consolidates the accounts of the partnership. As a result, the Equity Stock AA is eliminated in consolidation. The Equity Stock AA ranks on a parity with our common stock and junior to the Cumulative 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 share of common stock or (ii) \$2.20. We have no obligation to pay distributions on these shares if no distributions are paid to common shareholders.

If the Company determines that it is necessary to maintain its status as a Real Estate Investment Trust, subject to certain limitations it may cause the redemption of shares of Equity Stock, Series AA at a price of

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\$100 per share. The shares are not otherwise redeemable or convertible into shares of any other class or series of the Company's capital stock. Other than as required by law, the Equity Stock, Series AA has no voting rights.

Equity Stock, Series AAA

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 our common stock and junior to the Cumulative Preferred Stock with respect to general preference rights, and has a liquidation amount equal to 120% of the amount distributed to each common share. Annual distributions per share are equal to the lesser of (i) five times the amount paid per common share or (ii) \$2.1564. We have no obligation to pay distributions on these shares if no distributions are paid to common shareholders.

Upon liquidation of the Consolidated Development Joint Venture, at the Company's option either a) each share of Equity Stock AAA shall convert into 1.2 shares of our common stock or b) the Company can redeem the Equity Stock AAA at a per share amount equal to 120% of the market price of our common stock. In addition, if the Company determines that it is necessary to maintain its status as a Real Estate Investment Trust, subject to certain limitations it may cause the redemption of shares of Equity Stock AAA at a per share amount equal to 120% of the market price of our common stock. The shares are not otherwise redeemable or convertible into shares of any other class or series of the Company's capital stock. Other than as required by law, the Equity Stock AAA has no voting rights.

Common Stock

At March 31, 2004, entities consolidated with the Company owned 808,732 common shares of the Company. These shares continue to be legally issued and outstanding. In the consolidation process, these shares and the related balance sheet amounts have been eliminated. In addition, these shares are not included in the computation of weighted average shares outstanding.

The following chart reconciles the Company's legally issued and outstanding shares of common stock and the reported outstanding shares of common stock at March 31, 2004 and December 31, 2003:

<u>Reconciliation of Common Shares Outstanding</u>	At March 31, 2004	At December 31, 2003
Legally issued and outstanding shares.....	128,521,627	127,710,466
Less – Shares owned by the Consolidated Entities that are eliminated in consolidation	(808,732)	(723,732)
Reported issued and outstanding shares	<u>127,712,895</u>	<u>126,986,734</u>

The Company's Board of Directors authorized the repurchase from time to time of up to 25,000,000 shares of the Company's common stock on the open market or in privately negotiated transactions. During the first quarter of 2004 we purchased 85,000 shares through one of the Consolidated Entities for a total of \$3,967,000. From the initial authorization through March 31, 2004, we repurchased a total of 21,757,020 shares of common stock at an aggregate cost of approximately \$545,830,000. From March 31, 2004 through April 23, 2004, the Company purchased an aggregate of 324,700 shares at an aggregate cost of \$14,267,000.

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Dividends

The following table summarizes dividends declared and paid during the three months ended March 31, 2004:

	Distributions Per Share or Depository Share	Total Distributions
<u>Preferred Stock:</u>		
Series D.....	\$0.594	\$ 713,000
Series E.....	\$0.625	1,372,000
Series F.....	\$0.609	1,401,000
Series K.....	\$0.109	501,000
Series L.....	\$0.395	1,818,000
Series M.....	\$0.547	1,230,000
Series Q.....	\$0.538	3,709,000
Series R.....	\$0.500	10,200,000
Series S.....	\$0.492	2,830,000
Series T.....	\$0.477	2,900,000
Series U.....	\$0.477	2,860,000
Series V.....	\$0.469	3,234,000
Series W.....	\$0.406	2,153,000
Series X.....	\$0.403	1,935,000
Series Y.....	\$0.424	678,000
Series Z.....	\$0.113	508,000
Series A.....	-	-
		38,042,000
<u>Common Stock:</u>		
Equity Stock, Series A.....	\$0.613	5,375,000
Common.....	\$0.450	57,348,000
Total dividends.....		\$ 100,765,000

The dividend rate on the common stock was \$0.45 per common share for the three months ended March 31, 2004. The dividend rate on the Equity Stock A was \$0.6125 per depository share for the three months ended March 31, 2004.

10. Segment Information

Description of Each Reportable Segment

Our reportable segments reflect significant operating activities that are evaluated separately by management. We have four reportable segments: self-storage operations, containerized storage operations, commercial property operations, and tenant reinsurance 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 self-storage properties. The containerized storage operations represent another 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. The tenant reinsurance segment reflects the operations of PS Insurance Company, Ltd., which reinsures policies against losses to goods stored by tenants in our self-storage facilities.

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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 accounting principles generally accepted in the United States and our significant accounting policies as denoted in Note 2, before interest and other income, 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, interest expense, corporate general and administrative expense, and minority interest in income and gains and losses on sales of real estate assets 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 management does not consider the historical cost of the Company's real estate facilities and investments in real estate entities in evaluating the performance of operating management or in evaluating alternative courses of action. 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.

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 four 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."

The following table reconciles the revenue by segment to the Company's consolidated revenues:

	Three Months Ended		
	March 31,		
	2004	2003	Change
	(Dollar amounts in thousands)		
<u>Reconciliation of Revenues by Segment:</u>			
Self-storage property rentals	\$ 206,045	\$ 189,496	\$ 16,549
Commercial property rentals.....	2,695	2,846	(151)
Containerized storage	6,606	7,442	(836)
Tenant re-insurance	5,963	5,215	748
Interest and other income.....	1,357	1,699	(342)
Total revenues	\$ 222,666	\$ 206,698	\$ 15,968

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The following table reconciles the performance of each segment to our consolidated net income. It further provides detail of the segment components of the income statement item, "Equity in earning of real estate entities."

	Three Months Ended March 31,		
	2004	2003	Change
(Amounts in thousands)			
<u>Reconciliation of Net Income by Segment:</u>			
<u>Self-storage</u>			
Self-storage net operating income.....	\$ 130,483	\$ 124,197	\$ 6,286
Self-storage depreciation.....	(44,747)	(43,235)	(1,512)
Equity in earnings – self - storage property operations.....	1,684	1,428	256
Equity in earnings – depreciation (self-storage).....	(394)	(265)	(129)
Discontinued operations (Note 3).....	-	118	(118)
Total self-storage segment net income.....	87,026	82,243	4,783
<u>Commercial properties</u>			
Commercial properties.....	1,554	1,653	(99)
Depreciation and amortization – commercial properties.....	(585)	(625)	40
Equity in earnings – commercial property operations.....	17,193	14,700	2,493
Equity in earnings – depreciation (commercial properties).....	(7,881)	(6,029)	(1,852)
Total commercial property segment net income.....	10,281	9,699	582
<u>Containerized storage</u>			
Containerized storage net operating income.....	2,592	2,804	(212)
Containerized storage depreciation.....	(1,438)	(1,507)	69
Discontinued operations (Note 3).....	(430)	(311)	(119)
Total containerized storage segment net income.....	724	986	(262)
<u>Tenant Reinsurance</u>			
Tenant reinsurance net income.....	2,828	2,516	312
<u>Other items not allocated to segments</u>			
Equity in earnings – general and administrative and other.....	(6,545)	(5,147)	(1,398)
Interest and other income.....	1,357	1,699	(342)
General and administrative.....	(5,884)	(4,250)	(1,634)
Interest expense.....	(100)	(453)	353
Minority interest in income.....	(20,620)	(10,668)	(9,952)
Gain on disposition of real estate.....	-	14	(14)
Total other items not allocated to segments	(31,792)	(18,805)	(12,987)
Total consolidated net income.....	\$ 69,067	\$ 76,639	\$ (7,572)

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11. Stock-Based Compensation

Stock Options

The Company has a 1990 Stock Option Plan (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 PSI 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.

Accounting principles generally accepted in the United States permit, but do not require, companies to recognize compensation expense for stock-based awards based on their fair value at date of grant, which is then amortized as compensation expense over the vesting period (the "Fair Value Method"). Companies can also elect to disclose, but not recognize as an expense, stock option expense when stock options are granted to employees at an exercise price equal to the market price at the date of grant (the "APB 25 Method").

For periods prior to December 31, 2001, we utilized the APB 25 Method of accounting for employee stock options. As of January 1, 2002, we adopted the Fair Value Method, and have elected to use the prospective method of transition, whereby the Company applies the recognition provisions of the Fair Value Method to all stock options granted after the beginning of the year in which the Company adopts such method. Accordingly, we recognize compensation expense in our income statement using the Fair Value Method only with respect to stock options issued after January 1, 2002.

For the three months ended March 31, 2004, we recorded \$119,000 in stock option compensation expense (\$99,000 for the three months ended March 31, 2003) related to options granted after January 1, 2002. The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model. The estimated average value of stock options granted in the first three months of 2004 was based upon an estimated life of 5 years, a risk-free rate of 3.0%, an expected dividend yield of 7%, and expected volatility of 0.185.

If we had recorded stock option expense applying the Fair Value Method to all awards, we would have recognized an additional \$146,000 and \$701,000 for the three months ended March 31, 2004 and 2003, respectively, in stock option compensation expense. Basic and diluted earnings per share would have been \$0.17 and \$0.25 for the three months ended March 31, 2004 and 2003, respectively.

Restricted Stock Units

Restricted stock units vest over a five-year period from the date of grant at the rate of one-fifth per year. The employee receives additional compensation equal to the per-share dividends received by common shareholders. Upon vesting, the employee receives regular common shares equal to the number of vested restricted stock units in exchange for the units. The total value of each restricted stock unit grant, based upon

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the market price of the Company's common stock at the date of grant, combined with the estimated payroll taxes and other payroll burden costs to be incurred upon vesting, is amortized over the vesting period as compensation expense. Outstanding restricted stock units are included on a one-for-one basis in the Company's diluted weighted average shares, less a reduction for the treasury stock method applied to the average cumulative measured but unrecognized compensation expense during the period.

Throughout 2003, we granted a total of 249,000 restricted stock units to employees of the Company. An additional 7,000 restricted stock units were granted in the first quarter of 2004. A total of \$534,000 in restricted stock expense was recorded for the three months ended March 31, 2004, of which \$469,000 represents amortization of the fair value of the grant, which was reflected as an increase to paid-in capital, and the remainder represents accrued estimated burden to be incurred upon vesting.

12. Related Party Transactions

Relationships and Transactions with the Hughes Family

B. Wayne Hughes, Chairman of the Board of Directors, and his family (the "Hughes Family") have ownership interests in, and operate, approximately 38 self-storage facilities in Canada under the name "Public Storage." We currently do not own any interests in these facilities nor do we own any facilities in Canada. The Hughes Family owns approximately 36% of our common stock outstanding at March 31, 2004. We have a right of first refusal to acquire the stock or assets of the corporation engaged in the operation of the 38 self-storage facilities in Canada if the Hughes family or the corporation agrees to sell them. However, we have no interest in the operations of this corporation, have no right to acquire this stock or assets unless the Hughes family decides to sell, and receive no benefit from the profits and increases in value of the Canadian self-storage facilities.

Our personnel have been engaged in the supervision and the operation of these 38 self-storage facilities and currently provide certain administrative services for the Canadian owners, and certain other services, primarily tax services, with respect to certain other Hughes Family interests. The Hughes Family and the Canadian owners reimbursed us at cost for these services, amounting to \$268,000 for the three months ended March 31, 2003 (none for the three months ended March 31, 2004). There have been conflicts of interest in allocating the time of our personnel between our properties, the Canadian properties, and certain other Hughes Family interests. The sharing of personnel and systems with the Canadian entities was substantially discontinued by December 31, 2003. The Canadian entities claim that the Company owes them CND \$653,424, representing the amount charged to them for the development of certain systems that they no longer utilize. This amount has been accrued on the Company's financial statements for the three months ended March 31, 2004.

In November 1999, we formed the Consolidated Development Joint Venture with a joint venture partner whose partners include an institutional investor and Mr. Hughes. This transaction is discussed more fully in Note 8.

PS Business Parks, Inc.

Ronald L. Havner Jr., our vice-chairman and chief executive officer, is also chairman of PSB and was CEO of PSB until August 12, 2003. For 2003 services, Mr. Havner was compensated by PSB, as well as by the Company.

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Pursuant to a cost-sharing and administrative services agreement, PSB reimburses the Company for certain administrative services. PSB's share of these costs totaled approximately \$85,000 for each of the three month periods ended March 31, 2004 and 2003.

PSB manages certain of the commercial facilities owned by the Company pursuant to management agreements for a management fee equal to 5% of revenues. The Company paid a total of \$138,000 and \$140,000 for the three months ended March 31, 2004 and 2003, respectively, in management fees with respect to PSB's property management services.

In December 2003, the Company loaned \$100,000,000 to PSB. This loan bore interest at the rate of 1.45% per year. This loan, which was fully repaid by March 8, 2004, was included in Notes Receivable at December 31, 2003. For the three months ended March 31, 2004, we recorded approximately \$127,000 of interest income with respect to this loan.

STOR-Re Mutual Insurance Company, Inc.

STOR-Re, an entity that is consolidated by the Company and is partially owned by PSB (approximately 4.0%) and the owners of the Canadian self-storage facilities (approximately 2.2%), provides limited property and liability insurance to PSB and the owners of the Canadian self-storage facilities at commercially competitive rates. PSB and the Company utilize unaffiliated insurance carriers to provide property and liability insurance in excess of STOR-Re's limitations. Effective April 1, 2004, PSB and the owners of the Canadian self-storage facilities have obtained their own insurance coverage independent from the Company for losses occurring after March 31, 2004.

At March 31, 2004, the Canadian entities owed STOR-Re USD \$63,526 for insurance premiums.

13. Recent Accounting Pronouncements

Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150 – "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS No. 150"). This statement prescribes reporting standards for financial instruments that have characteristics of both liabilities and equity. This standard generally indicates that certain financial instruments that give the issuer a choice of settling an obligation with a variable number of securities or settling an obligation with a transfer of assets, any mandatorily redeemable security, and certain put options and forward purchase contracts, should be classified as a liability on the balance sheet. With the exception of minority interests, described below, we implemented SFAS No. 150 on July 1, 2003, and the adoption had no impact on our financial statements.

The provisions of SFAS No. 150 indicate certain minority interests in consolidated entities are to be classified as liabilities at fair value. However, on October 29, 2003, the FASB decided to defer indefinitely the implementation of SFAS No. 150 as it relates to these minority interests.

Assuming the FASB had not deferred the implementation of SFAS 150 as it relates to minority interests, the impact on the Company's balance sheet at March 31, 2004 would have been to reclassify the Company's minority interests described in Note 8 as the "Consolidated Development Joint Venture and the "Other Consolidated Partnerships", as liabilities at their estimated fair value. Such adoption would reduce the Company's common minority interest by approximately \$133,336,000 and increase liabilities by \$319,100,000, representing the estimated settlement value of these minority interests at March 31, 2004.

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FASB Interpretation No. 46 – Consolidation of Variable Interest Entities

In January 2003, the FASB issued FASB Interpretation No. 46 – “Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51.” This interpretation explains how to identify variable interest entities and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights, or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. We adopted this statement effective January 1, 2004 and the adoption had no effect.

14. Commitments and Contingencies

Legal Matters

Serrao v. Public Storage, Inc. (filed April 2003) (Superior Court – Orange County)

The plaintiff in this case filed a suit against the Company on behalf of a putative class of renters who rented self-storage units from the Company. Plaintiff alleges that the Company misrepresented the size of its storage units, has brought claims under California statutory and common law relating to consumer protection, fraud, unfair competition, and negligent misrepresentation, and is seeking monetary damages, restitution, and declaratory and injunctive relief.

The claim in this case is substantially similar to those in Henriquez v. Public Storage, Inc., which was disclosed in prior reports. In January 2003, the plaintiff caused the Henriquez action to be dismissed. Based upon the uncertainty inherent in any putative class action, the Company cannot presently determine the potential damages, if any, or the ultimate outcome of this litigation. On November 3, 2003, the court granted the Company’s motion to strike the plaintiff’s nationwide class allegations and to limit any putative class to California residents only. The Company is vigorously contesting the claims upon which this lawsuit is based including class certification efforts.

Salaam et al v. Public Storage, Inc. (filed February 2000) (Superior Court – Los Angeles County)

The plaintiffs in this case are suing the Company on behalf of a putative class of California resident property managers who claim that they were not compensated for all the hours they worked. The named plaintiffs have indicated that their claims total less than \$20,000 in aggregate. On December 1, 2003, the California Court of Appeals affirmed the Supreme Court’s 2002 denial of plaintiff’s motion for class certification. The maximum potential liability cannot be estimated, but can only be increased if claims are permitted to be brought on behalf of others under the California Unfair Business Practices Act. The affirmation of denial of class certification does not address the claim under the California Unfair Business Practices Act.

The Company is continuing to vigorously contest the claims in this case and intends to resist any expansion beyond the named plaintiffs, including by opposing claims on behalf of others under the California Unfair Business Practices Act. The Company cannot presently determine the potential damages, if any, or the ultimate outcome of this litigation.

Gustavson et al. v. Public Storage, Inc. (filed June 2003) (Superior Court – Los Angeles County)

In November 2002, a shareholder of the Company made a demand on the Board of Directors that challenged the fairness of the Company’s acquisition of PS Insurance Company, Ltd. (“PSIC”) and demanded

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that the Board recover the profits earned by PSIC from November 1995 through December 2001 and that the entire purchase price paid by the Company for PSIC in excess of PSIC's net assets be returned to the Company.

The contract to acquire PSIC was approved by the independent directors of the Company in March 2001, and the transaction was closed in December 2001. PSIC was formerly owned by B. Wayne Hughes, currently the Chairman of the Board (and in 2001 also the Chief Executive Officer) of the Company, B. Wayne Hughes, Jr., currently a director (and in 2001 also an officer) of the Company and Tamara H. Gustavson, who in 2001 was an officer of the Company. In exchange for the Hughes family's shares in PSIC, the Company issued to them 1,439,765 shares of common stock (or a net of 1,138,733 shares, after taking into account 301,032 shares held by PSIC).

The shareholder has threatened litigation against the Hughes family and the directors of the Company arising out of this transaction and alleged a pattern of deceptive disclosures with respect to PSIC since 1995. In December 2002, the Board held a special meeting to authorize an inquiry by its independent directors to review the fairness to the Company's shareholders of its acquisition of PSIC and the ability of the Company to have started its own tenant reinsurance business in 1995. The Company believes that, prior to the effectiveness in 2001 of the federal REIT Modernization Act and corresponding California legislation that authorized the creation and ownership of "taxable REIT subsidiaries," the ownership by the Company of a reinsurance business relating to its tenants would have jeopardized the Company's status as a REIT and that other REITs faced similar concerns about tenant insurance programs.

In June 2003, the Hughes family filed a complaint for declaratory relief relating to the Company's acquisition of PSIC naming the Company as defendant. The Hughes family is seeking that the court make (i) a binding declaration that the Company either is not entitled to recover profits or other moneys earned by PSIC from November 1995 through December 2001; or alternatively the amounts that the Hughes family should be ordered to surrender to the Company if the court determines that the Company is entitled to recover any such profits or moneys; and (ii) a binding declaration either that the Company cannot establish that the acquisition agreement was not just and reasonable as to the Company at the time it was authorized, approved or ratified; or alternatively the amounts that the Hughes family should surrender to the Company, if the court determines that the agreement was not just and reasonable to the Company at that time. The Hughes family is not seeking any payments from the Company. In the event of a determination that the Hughes family is obligated to pay certain amounts to the Company, the complaint states that they have agreed to be bound by that determination to pay such amounts to the Company.

In July 2003 the Company filed an answer to the Hughes family's complaint requesting a final judicial determination of the Company's rights of recovery against the Hughes family in respect of PSIC. In September 2003, by order of the Superior Court, Justice Malcolm Lucas, a former chief justice of the California Supreme Court, was appointed to try the case. Discovery is proceeding and it is expected that in mid-2004, Justice Lucas will set a trial date for the matter. The Company believes that the lawsuit by the Hughes family will ultimately resolve matters relating to PSIC and will not have any financially adverse effect on the Company (other than the costs and other expenses relating to the lawsuit).

Other Items

The Company is a party to various claims, complaints, and other legal actions that have arisen in the normal course of business from time to time, that are not described above. We believe that it is unlikely that the outcome of these other pending legal proceedings including employment and tenant claims, in the aggregate, will have a material adverse impact upon the operations or financial position of the Company.

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Insurance and Loss Exposure

Our facilities have historically carried comprehensive insurance, including fire, earthquake, liability and extended coverage through STOR-Re, one of the Consolidated Entities, and insure portions of these risks through nationally recognized insurance carriers. STOR-Re also insures affiliates of the Company.

The Company, STOR-Re, and its affiliates' maximum aggregate annual exposure for losses that are below the deductibles set forth in the third-party insurance contracts, assuming multiple significant events occur, is approximately \$30 million. In addition, if losses exhaust the third-party insurers' limit of coverage of \$125,000,000 for property coverage and \$101,000,000 for general liability, our exposure could be greater. These limits are higher than estimates of maximum probable losses that could occur from individual catastrophic events (i.e. earthquake and wind damage) determined in recent engineering and actuarial studies.

PS Insurance Company reinsures policies against claims for losses to goods stored by tenants at our self-storage facilities. PSIC reinsures its risks with third-party insurers from any individual event that exceeds a loss of \$500,000, up to the policy limit of \$10,000,000.

Development of Real Estate Facilities

We currently have 42 projects in our development pipeline, including 11 newly developed self-storage facilities and expansions to 31 existing self-storage facilities, with total estimated development costs of \$148,724,000, of which \$51,199,000 has been spent through March 31, 2004. Development of these facilities is subject to contingencies.

15. Subsequent Events

During April 2004, we repurchased 324,700 shares of our common stock at an aggregate cost of approximately \$14,267,000. These repurchases were made under a previously announced plan approved by our Board of Directors to repurchase up to 25,000,000 shares of our common stock.

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

The following discussion and analysis should be read in conjunction with our 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 21E 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 are described in Item 2A, “Risk Factors” and include changes in general economic conditions and in the markets in which the Company operates and the impact of competition from new and existing storage and commercial facilities and other storage alternatives, which could impact rents and occupancy levels at the Company’s facilities; difficulties in the Company’s ability to evaluate, finance and integrate acquired and developed properties into the Company’s existing operations and to fill up those properties, which could adversely affect the Company’s profitability; 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, which could increase the Company’s expense and reduce the Company’s cash available for distribution; consumers’ failure to accept the containerized storage concept which would reduce the Company’s profitability; difficulties in raising capital at reasonable rates, which would impede the Company’s ability to grow; delays in the development process, which could adversely affect the Company’s profitability; and economic uncertainty due to the impact of war or terrorism could adversely affect our business plan. We disclaim any obligation to publicly release the results of any revisions to these forward-looking statements reflecting new estimates, events or circumstances after the date of this report.

Critical Accounting Policies

Qualification as a REIT – Income Tax Expense: We believe that we have been organized and operated, and we intend to continue to operate, as a qualifying Real Estate Investment Trust (“REIT”) under the Internal Revenue Code and applicable state laws. A qualifying REIT generally does not pay corporate level income taxes on its taxable income that is distributed to its shareholders, and accordingly, we do not pay or record as an expense income tax on the share of our taxable income that is distributed to shareholders.

Given the complex nature of the REIT qualification requirements, the ongoing importance of factual determinations and the possibility of future changes in our circumstances, we cannot provide any assurance that we actually have satisfied or will satisfy the requirements for taxation as a REIT for any particular taxable year. For any taxable year that we fail or have failed to qualify as a REIT and applicable relief provisions did not apply, we would be taxed at the regular corporate rates on all of our taxable income, whether or not we made or make any distributions to our shareholders. Any resulting requirement to pay corporate income tax, including any applicable penalties or interest, could have a material adverse impact on our financial condition or results of operations. Unless entitled to relief under specific statutory provisions, we also would be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost. There can be no assurance that we would be entitled to any statutory relief.

Impairment of Long-Lived Assets: Substantially all of our assets consist of long-lived assets, including real estate, assets associated with the containerized storage business, goodwill, and other intangible assets. We evaluate our goodwill for impairment on an annual basis, and on a quarterly basis evaluate other long-lived assets for impairment. As described in Note 2 to the consolidated financial statements, the evaluation of goodwill for impairment entails valuation of the reporting unit to which goodwill is allocated, which involves significant judgment in the area of projecting earnings, determining appropriate price-earnings multiples, and discount rates. In addition, the evaluation of other long-lived assets for impairment requires determining whether indicators of impairment exist, which is a subjective process. When any indicators of impairment are found, the evaluation of such long-lived assets then entails projections of future operating cash flows, which also involves significant judgment. We identified an impairment charge as of March 31, 2004 related to our plan to close a containerized storage facility - see Note 3 to the consolidated financial statements. Future events, or facts and circumstances that

currently exist, that we have not yet identified, could cause us to conclude in the future that other long lived assets are impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations.

Estimated Useful Lives of Long-Lived Assets: Substantially all of our assets consist of depreciable, long-lived assets. We record depreciation expense with respect to these assets based upon their estimated useful lives. Any change in the estimated useful lives of those assets, caused by functional or economic obsolescence or other factors, could have a material adverse impact on our financial condition or results of operations.

Estimated Level of Retained Risk Liabilities: As described in Notes 2 and 14 to the consolidated financial statements, we retain certain risks with respect to property perils, legal liability, and other such risks. In connection with our retention of these risks, we accrue losses based upon our estimated level of losses incurred using certain actuarial assumptions followed in the insurance industry and based upon our experience. While we believe that the amounts of the accrued losses are adequate, the ultimate liability may be in excess of or less than the amounts provided.

Accruals for Contingencies: We are exposed to business and legal liability risks with respect to events that have occurred, but in accordance with accounting principles generally accepted in the United States, we have not accrued for such potential liabilities because the loss is either not probable or not estimable or because we are not aware of the event. Future events and the result of pending litigation could result in such potential losses becoming probable and estimable, which could have a material adverse impact on our financial condition or results of operations. Some of these potential losses, which we are aware of, are described in Note 14 to the consolidated financial statements.

Accruals for Operating Expenses: We accrue for property tax expense and other operating expenses based upon estimates and historical trends and current and anticipated local and state government rules and regulations. If these estimates and assumptions are incorrect, our expenses could be misstated. Cost of operations, interest expense, general and administrative expense, as well as television, yellow page, and other advertising expenditures are expensed as incurred. Accordingly, the amounts incurred in an interim period may not be indicative of the amounts to be incurred in a full year.

Results of Operations

For the three months ended March 31, 2004

Net income for the three months ended March 31, 2004 was \$69,067,000 compared to \$76,639,000 for the same period in 2003, representing a decrease of \$7,572,000 or 9.9%. This decrease is primarily due to an increase in minority interest in income of \$10,063,000 attributable to the restructuring of our preferred partnership interests (as discussed in Note 8 to the consolidated financial statements), an increase in depreciation expense due to newly opened facilities, and increased general and administrative expense attributable primarily to increased stock-based compensation expense and terminated employee expense. The effect of these items was partially offset by improved operations of the Consistent Group self-storage facilities (as discussed below), and increased net income from our newly developed self-storage facilities.

Net income allocable to our common shareholders (after allocating net income to our preferred and equity shareholders) was \$21,927,000 or \$0.17 per common share on a diluted basis (based on 128,387,000 weighted average diluted common equivalent shares) for the three months ended March 31, 2004 compared to \$31,945,000 or \$0.26 per common share on a diluted basis (based on 125,232,000 weighted average diluted common equivalent shares) for the same period in 2003, representing a decrease of 34.6% on a per share basis. The decrease in net income allocable to common shareholders and earnings per common diluted share is due to the impact of the factors described above with respect to net income as well as an increase in income allocated to our preferred shareholders. The increase in income allocated to preferred shareholders was caused by increased allocations of income in connection with redemptions of preferred securities (described below), as well as an increase in distributions to preferred shareholders due to an increase in average outstanding securities offset by lower average coupon rates.

For the three months ended March 31, 2004 and 2003, we allocated \$38,042,000 and \$37,022,000 of our net income, respectively, to our preferred shareholders based on their distributions. During the third quarter of 2003, we implemented the Securities and Exchange Commission's clarification of Emerging Issues Task Force ("EITF") Topic D-42, "The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock." This implementation resulted in an additional allocation of net income to our preferred shareholders and a corresponding reduction of net income allocable to our common shareholders for the three months ended March 31, 2004 of \$3,723,000 or \$0.03 per common share. This allocation represents the excess of the redemption amount over the carrying amount (primarily representing the underwriter's commission) of our Series L Preferred Stock that was redeemed on March 10, 2004. Similarly, for the three months ended March 31, 2003, we allocated net income to our preferred shareholders and a corresponding reduction of net income allocation to our common shareholders of \$2,297,000 or \$0.02 per common share, representing the excess of the redemption amount over the carrying amount (primarily representing the underwriter's commission) of our Series B Preferred Stock that we called for redemption during the three months ended March 31, 2003.

Since March 31, 2003, we have redeemed \$317.5 million of our preferred stock, including \$230 million that was redeemed during the three months ended March 31, 2004. The average dividend rate with respect to these securities was approximately 8.28% annually. As a result of these redemptions, distributions paid to the holders of these securities were reduced by \$4,254,000 during the three months ended March 31, 2004 as compared to the same period in 2003. Offsetting this reduction was an increase in distributions paid to our preferred shareholders as the result of the issuance of \$520.0 million of preferred stock over the past year, including \$267.5 million that was issued during the three months ended March 31, 2004. The average annual dividend rate with respect to these securities is approximately 6.38%. As a result of these issuances, distributions paid to our preferred shareholders increased by approximately \$5,274,000 during the three months ended March 31, 2004 as compared to the same period in 2003. Approximately \$230.0 million of the \$520.0 million was utilized during the three months ended March 31, 2004 to redeem preferred securities. The remaining net proceeds from the issuances remains on-hand in our invested cash reserves earning interest at nominal rates relative to the distribution requirement of the preferred stock. Net income was negatively impacted by the difference between the distribution rates with respect to these preferred securities and the nominal interest income earned on the net proceeds raised. We expect that the negative impact will continue until such net proceeds are ultimately deployed into the acquisition or development of real estate assets, the redemption of higher rate preferred stock, the repayment of scheduled principal payments on debt, or other corporate purposes, including common stock repurchases.

Real Estate Operations

Self-storage Operations: Our self-storage operations are by far the largest component of our operations, representing approximately 93% of our total revenues generated for the three months ended March 31, 2004. As a result of acquisitions and development of self-storage facilities, 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, and the ensuing discussion describes, the operating results of (i) 1,194 self-storage facilities that are reflected in the financial statements on a stabilized basis since January 1, 2002 (the “Consistent Group”), (ii) 64 facilities that were acquired since January 1, 2000 (the “Acquired Facilities”), (iii) 41 facilities that were owned prior to January 1, 2002 but were not stabilized due primarily to expansions in their net rentable square footage (the “Expansion Facilities”) and (iv) 78 newly-developed facilities that were opened after January 1, 2000 (the “Developed Facilities”):

<u>Self - storage operations summary:</u>	Three Months Ended March 31,		
	2004	2003	Percentage Change
	(Amounts in thousands)		
<u>Rental income (a):</u>			
Consistent Group (b).....	\$ 175,923	\$ 165,821	6.1%
Acquired Facilities (c).....	11,945	10,799	10.6%
Expansion Facilities (d).....	6,604	5,880	12.3%
Developed Facilities (e).....	11,573	6,996	65.4%
Total rental income.....	<u>206,045</u>	<u>189,496</u>	<u>8.7%</u>
<u>Cost of operations:</u>			
Consistent Group.....	63,022	55,379	13.8%
Acquired Facilities.....	4,180	3,752	11.4%
Expansion Facilities.....	2,518	2,228	13.0%
Developed Facilities.....	5,842	3,940	48.3%
Total cost of operations.....	<u>75,562</u>	<u>65,299</u>	<u>15.7%</u>
<u>Net operating income (before depreciation):</u>			
Consistent Group.....	112,901	110,442	2.2%
Acquired Facilities.....	7,765	7,047	10.2%
Expansion Facilities.....	4,086	3,652	11.9%
Developed Facilities.....	5,731	3,056	87.5%
Total net operating income.....	<u>130,483</u>	<u>124,197</u>	<u>5.1%</u>
Depreciation.....	(44,747)	(43,235)	(3.5%)
Operating Income.....	<u>\$ 85,736</u>	<u>\$ 80,962</u>	<u>5.9%</u>
Number of self-storage facilities (at end of period):.....	1,377	1,365	1.1%
Net rentable square feet (at end of period - in thousands):.....	83,285	82,019	1.5%

- (a) Rental income includes late charges and administrative fees and is net of promotional discounts given. Rental income does not include retail sales, truck rental income or tenant insurance revenues generated at the facilities.
- (b) The Consistent Group includes 1,194 facilities containing 69,402,000 net rentable square feet that have been owned prior to January 1, 2002, and operated at a mature, stabilized occupancy level since January 1, 2002.
- (c) The Acquired Facilities includes 64 facilities containing 3,975,000 net rentable square feet that were acquired after January 1, 2000, that were substantially all mature, stabilized facilities at the time of their acquisition.
- (d) The Expansion Facilities includes 41 facilities containing 4,036,000 net rentable square feet (of which 823,000 square feet is industrial space developed for containerized storage activities). These facilities were owned since January 1, 2002, however, operating results are not comparable throughout the periods presented due primarily to expansions in their net rentable square feet or their conversion into Combination Facilities (described below). Such construction activities can cause a drop in revenue levels, as existing capacity is made unavailable in order to accommodate construction activities. Since January 1, 2000, we completed construction on expansion projects to these facilities with a total cost of \$65.3 million.

- (e) The Developed Facilities includes 78 facilities containing 5,872,000 net rentable square feet (of which 607,000 square feet is industrial space initially developed for use in containerized storage activities, see “Containerized Storage” and “Discontinued Operations”). These facilities were developed and opened since January 1, 2000 at a total cost of \$540.4 million.

Self-Storage Operations – Consistent Group

For the three months ended March 31, 2004, we increased the number of facilities included in the Consistent Group of facilities from 1,164 at December 31, 2003 to 1,194 facilities. The increase in the Consistent Group’s pool of facilities is due to the inclusion of 30 facilities that were previously in the Acquired Facilities, Developed Facilities, or the Expansion Facilities, because they had reached stabilization and had been owned at January 1, 2002.

As a result of the change in the Consistent Group, the relative weighting of markets has changed. Accordingly, comparisons should not be made between information presented in 2003 for the Consistent Group pool of 1,164 facilities and the current Consistent Group pool of 1,194 facilities in order to identify trends in occupancies, realized rents per square foot, or operating results.

The Consistent Group consists of facilities that have operated at a stabilized level of operations since January 1, 2002. This group of facilities contains approximately 69,402,000 net rentable square feet, representing approximately 83% of the aggregate net rentable square feet of our self-storage portfolio. Revenues and operating expenses with respect to this group of properties are set forth in the above Self-Storage Operations table under the caption, “Consistent Group.” The following table sets forth additional operating data with respect to the Consistent Group of facilities:

CONSISTENT GROUP

	Three Months Ended March 31,		
	2004	2003	Percentage Change
	(Dollar amounts in thousands except weighted average amounts)		
Base rental income	\$ 181,388	\$ 169,655	6.9%
Promotional discounts	(13,225)	(10,434)	26.7%
Adjusted base rental income	168,163	159,221	5.6%
Late charges and administrative fees collected....	7,760	6,600	17.6%
Total rental income	175,923	165,821	6.1%
Cost of operations:			
Property taxes.....	17,489	16,734	4.5%
Direct property payroll.....	13,772	12,951	6.3%
Cost of managing facilities.....	5,825	5,172	12.6%
Advertising and promotion	5,216	3,601	44.8%
Utilities	4,300	3,896	10.4%
Repairs and maintenance.....	5,006	3,801	31.7%
Telephone reservation center	2,584	2,272	13.7%
Property insurance.....	2,145	1,430	50.0%
Other	6,685	5,522	21.1%
Total cost of operations.....	63,022	55,379	13.8%
Net operating income before depreciation.....	112,901	110,442	2.2%
Depreciation	(36,401)	(35,807)	1.7%
Operating income	\$ 76,500	\$ 74,635	2.5%
Gross margin (before depreciation).....	64.2%	66.6%	(3.6)%
Weighted average for the period:			
Square foot occupancy (a).....	89.5%	84.9%	5.4%
Realized annual rent per occupied square foot (b).....	\$ 10.83	\$ 10.81	0.2%
REVPAF (c).....	\$ 9.69	\$ 9.18	5.6%
Weighted average at March 31:			
Square foot occupancy	89.9%	85.4%	5.3%
In place annual rent per occupied square foot (d)	\$ 11.92	\$ 11.80	1.0%
Posted annual rent per square foot (e).....	\$ 12.53	\$ 11.95	4.9%
Total net rentable square feet (in thousands).....	69,402	69,402	-

- (a) Square foot occupancies represent weighted average occupancy levels over the entire period.
- (b) Realized annual rent per occupied square foot is computed by annualizing the result of dividing adjusted base rental income by the weighted average occupied square footage for the period. Realized rents per square foot take into consideration promotional discounts, bad debt costs, credit card fees and other costs which reduce rental income from the contractual amounts due.
- (c) Annualized revenue per available square foot (“REVPAF”) represents annualized adjusted base rental income divided by total available net rentable square feet.
- (d) In place annual rent per occupied square foot represents contractual rents per occupied square foot without reductions for promotional discounts.
- (e) Posted annual rent per square foot represents the rents charged to new tenants prior to any promotional discounts.

During the first quarter of 2004, net operating income before depreciation for the Consistent Group of facilities increased 2.2% as compared to the same period in 2003, due to the following:

- REVPAF increased 5.6% from \$9.18 per square foot in the first quarter of 2003 to \$9.69 in the first quarter of 2004. This was attributable to a 5.4% increase in weighted average occupancy levels from

84.9% in the first quarter of 2003 to 89.5% in the first quarter of 2004. In addition, realized annual rent per occupied square foot increased 0.2% from \$10.81 in the first quarter of 2003 to \$10.83 in the first quarter of 2004, due primarily to higher monthly average rates charged to existing and new tenants, offset in large part by the impact of increased promotional discounts given to incoming tenants from \$10,434,000 for the first quarter of 2003 to \$13,225,000 for the first quarter of 2004.

- The impact of the increase in REVPAF was partially offset by a 13.8% increase in operating expenses from \$55,379,000 in the first quarter of 2003 to \$63,022,000 in the first quarter of 2004. This increase in cost of operations is primarily due to 1) a \$1,615,000 (44.8%) increase in advertising and promotion expense, attributable primarily to a \$1,518,000 (96.1%) increase in television advertising expense, 2) a \$1,474,000 (8.1%) increase in direct property payroll and cost of managing facilities, attributable primarily to higher wage rates and increased incentives to property personnel, and 3) a \$1,205,000 (31.7%) increase in repairs and maintenance expense.
- Net operating income also benefited from a 17.6% increase in late charges and administrative fees collected from \$6,600,000 in the first quarter of 2003 to \$7,760,000 in the first quarter of 2004. This increase is primarily attributable to an increase in administrative fees charged to new tenants upon move-in from \$10 to \$15 effective January 1, 2004, combined with a 5.9% increase in move-ins.

Revenue Outlook

As previously reported, we suffered operating difficulties in our self-storage portfolio in 2001, 2002, and 2003. Our occupancy levels dropped below historical levels in late 2001 and 2002 due to a change in marketing strategy to aggressively increase rental rates and reduce the amount of promotional discounts offered to new tenants.

Throughout late 2002 and 2003, we focused upon regaining occupancy levels through increased advertising and promotional discounting. By the end of 2003, we had attained our goal of reestablishing our occupancy levels to historical levels. This improvement in occupancy levels enabled us to begin to increase rates that we charge to new tenants, which as of March 31, 2004 were 4.9% higher than at the same time in 2003. More importantly, throughout 2003 and in the first quarter of 2004 we experienced positive year-over-year trends in the growth of our quarterly REVPAF, resulting in improvements in the growth trends of our rental income. For the Consistent Group, during 2003, rental income for the first quarter decreased 2.4%, for the second quarter - increased 2.3%, for the third quarter - increased 3.2% and for the fourth quarter - increased 6.2% and for the first quarter of 2004 - increased 6.1%, all compared to the same periods in the prior year.

The growth in rental income during the remainder of 2004 will depend on various factors, among which will be our ability to stabilize and maintain high occupancy levels, increase rental rates charged to new and existing tenants, and stabilize or reduce the level of promotional discounts to attract new tenants.

Despite our occupancy gains, our expectations are significantly moderated by our experience that on average approximately 25% to 30% of our new customers will move out within the first 60 to 90 days of their move-in date. Our current occupancy levels have been achieved in large part by the elevated move-in activity experienced over the past four quarters. Our elevated level of move-outs has made it more important to continue to generate a high level of move-ins in order to maintain occupancy levels.

We are working toward a goal of a high level of sustainable occupancy, characterized by a less volatile tenant base that is not as heavily weighted toward recent move-ins, thereby mitigating the level of move-outs. While we have seen some indicators of stabilization in our existing tenant base, including move-out ratios which appear to be stabilizing at historical levels, we expect to continue to remain aggressive in our discounting and television advertising programs at least in the second quarter of 2004, and we continue to regularly evaluate our call volume, reservation activity, and move-in/move-out rates for each of our markets relative to our marketing activities and rental rates. In addition, we are evaluating market supply and demand factors and, based upon these analyses, we are continuing to adjust our marketing activities in specific markets. There can be no assurance that we will achieve our goal of a high level of sustainable occupancy.

Expense Outlook

Our increases in operating expenses in the first quarter of 2004 as compared to the same period in 2003 are primarily attributable to programs which we began to initiate in the second and third quarters of 2003. Repairs and maintenance costs increased 31.7% in the first quarter of 2004 as compared to the same quarter in 2003, due to our desire to continue to address maintenance at our facilities and improve their “rent ready” condition. Payroll and property management costs also increased in the first quarter of 2004 as compared to the same period in 2003, due to our concerted effort to increase staffing levels and incentive programs.

Advertising and promotion costs increased 44.8% in the first quarter of 2004 as compared to the same period in 2003, due primarily to an expansion in our television advertising from \$1,580,000 in the quarter ended March 31, 2003 to \$3,098,000 for the same period in 2004. In April 2004, our television advertising costs were \$877,000, as compared to \$561,000 in the first quarter of 2003, an increase of 56.3%. While we expect television advertising to be higher in the second quarter of 2004 as compared to the same period in 2003, the level of advertising and promotion costs in the third and fourth quarters of 2004 will be dependent primarily upon our future marketing programs.

We expect that property taxes will increase approximately 4% to 5% in the full year of 2004 as compared to 2003. The increases in property insurance for the first quarter of 2004 as compared to 2003 reflect increased insurance costs as a result of the Company’s increasing its self-insured portion of risks. This change in insurance became effective with the policy year ending March 31, 2004; accordingly, year over year increases in the remainder of 2004 will not be as high as those experienced in the first quarter of 2004.

We expect that the year over year rate of growth in our operating expenses should be lower in the remainder of 2004 than what was experienced in the first quarter of 2004.

The following table summarizes selected financial data with respect to the Consistent Group of facilities:

	Three Months Ended				Full Year
	March 31,	June 30,	September 30,	December 31,	
	(Amounts in thousands, except for per square foot amounts)				
Total rental income:					
2004	\$ 175,923				
2003	\$ 165,821	\$ 171,431	\$ 178,301	\$ 176,184	\$ 691,737
Promotional discounts given:					
2004	\$ 13,225				
2003	\$ 10,434	\$ 13,491	\$ 12,277	\$ 12,245	\$ 48,447
Total cost of operations:					
2004	\$ 63,022				
2003	\$ 55,379	\$ 59,271	\$ 60,220	\$ 62,999	\$ 237,869
Television advertising expense:					
2004	\$ 3,098				
2003	\$ 1,580	\$ 2,818	\$ 3,166	\$ 1,098	\$ 8,662
REVPAF:					
2004	\$ 9.69				
2003	\$ 9.18	\$ 9.48	\$ 9.85	\$ 9.75	\$ 9.57
Weighted average realized annual rent per occupied square foot for the period:					
2004	\$ 10.83				
2003	\$ 10.81	\$ 10.63	\$ 10.72	\$ 10.75	\$ 10.72
Weighted average occupancy levels for the period:					
2004	89.5%				
2003	84.9%	89.2%	91.9%	90.7%	89.2%
Weighted average occupancy at April 30:					
2004			91.3%		
2003			86.7%		
Television advertising expense in April:					
2004			\$ 877		
2003			\$ 561		
Promotional discounts given in April:					
2004			\$ 5,194		
2003			\$ 4,037		

Analysis of Regional Trends

The following table sets forth regional trends in our Consistent Group of facilities:

Consistent Group Operating Trends by Region:

	Three Months Ended March 31,		
	2004	2003	Percentage Change
	(Dollar amounts in thousands)		
Rental income:			
Southern California (124 facilities)	\$ 29,687	\$ 27,986	6.1%
Northern California (124 facilities)	22,499	21,755	3.4%
Texas (143 facilities)	16,316	15,381	6.1%
Florida (116 facilities)	15,849	14,792	7.2%
Illinois (79 facilities)	12,396	11,933	3.9%
Georgia (60 facilities)	6,463	6,085	6.2%
All other states (548 facilities)	72,713	67,889	7.1%
Total rental income	175,923	165,821	6.1%
Cost of operations:			
Southern California	7,218	6,766	6.7%
Northern California	5,938	5,655	5.0%
Texas	7,676	6,457	18.9%
Florida	6,228	5,454	14.2%
Illinois	6,170	5,371	14.9%
Georgia	2,289	2,091	9.5%
All other states	27,503	23,585	16.6%
Total cost of operations	63,022	55,379	13.8%
Net operating income (before depreciation):			
Southern California	22,469	21,220	5.9%
Northern California	16,561	16,100	2.9%
Texas	8,640	8,924	(3.2)%
Florida	9,621	9,338	3.0%
Illinois	6,226	6,562	(5.1)%
Georgia	4,174	3,994	4.5%
All other states	45,210	44,304	2.0%
Total net operating income	\$ 112,901	\$ 110,442	2.2%
Weighted average occupancy:			
Southern California	90.2%	88.7%	1.7%
Northern California	88.4%	85.2%	3.8%
Texas	89.3%	84.1%	6.2%
Florida	90.6%	86.7%	4.5%
Illinois	87.7%	82.7%	6.0%
Georgia	90.1%	85.0%	6.0%
All other states	89.7%	84.0%	6.8%
Total weighted average occupancy	89.5%	84.9%	5.4%

Consistent Group Operating Trends by Region: (Continued)

	Three Months Ended March 31,		
	2004	2003	Percentage Change
REVPAF:			
Southern California	\$14.65	\$13.83	5.9%
Northern California	12.97	12.58	3.1%
Texas	7.05	6.65	6.0%
Florida	9.14	8.51	7.4%
Illinois	9.88	9.58	3.1%
Georgia	7.04	6.64	6.0%
All other states	8.88	8.36	6.2%
Total REVPAF:	<u>\$9.69</u>	<u>\$9.18</u>	<u>5.6%</u>
Realized annual rent per occupied square foot:			
Southern California	\$16.24	\$15.59	4.2%
Northern California	14.68	14.76	(0.5)%
Texas	7.89	7.91	(0.3)%
Florida	10.09	9.82	2.7%
Illinois	11.27	11.60	(2.8)%
Georgia	7.82	7.82	-
All other states	9.91	9.94	(0.3)%
Total realized annual rent per occupied square foot:	<u>\$10.83</u>	<u>\$10.81</u>	<u>0.2%</u>

Self-Storage Operations - Acquired Facilities

The “Acquired Facilities,” at March 31, 2004, are comprised of 64 self-storage facilities containing 3,975,000 net rentable square feet that were acquired in 2000, 2001, and 2002. The following table summarizes operating data with respect to these 64 facilities:

ACQUIRED FACILITIES

	Three Months Ended March 31,		
	2004	2003	Change
(Dollar amounts in thousands)			
<u>Rental income:</u>			
Self-storage facilities acquired in 2002 (a).....	\$ 10,566	\$ 9,614	\$ 952
Self-storage facility acquired in 2001 (b).....	137	131	6
Self-storage facilities acquired in 2000 (c).....	1,242	1,054	188
Total rental income.....	<u>11,945</u>	<u>10,799</u>	<u>1,146</u>
<u>Cost of operations:</u>			
Self-storage facilities acquired in 2002 (a).....	3,578	3,234	344
Self-storage facility acquired in 2001 (b).....	60	39	21
Self-storage facilities acquired in 2000 (c).....	542	479	63
Total cost of operations.....	<u>4,180</u>	<u>3,752</u>	<u>428</u>
<u>Net operating income (loss) before depreciation:</u>			
Self-storage facilities acquired in 2002 (a).....	6,988	6,380	608
Self-storage facility acquired in 2001 (b).....	77	92	(15)
Self-storage facilities acquired in 2000 (c).....	700	575	125
Net operating income.....	<u>7,765</u>	<u>7,047</u>	<u>718</u>
Depreciation.....	<u>(2,415)</u>	<u>(2,471)</u>	<u>56</u>
Operating Income.....	<u>\$ 5,350</u>	<u>\$ 4,576</u>	<u>\$ 774</u>
<u>Weighted average square foot occupancy during the period:</u>			
Self-storage facilities acquired in 2002 (a).....	91.8%	85.0%	8.0%
Self-storage facility acquired in 2001 (b).....	91.1%	84.5%	7.8%
Self-storage facilities acquired in 2000 (c).....	90.1%	73.5%	22.6%
	<u>91.6%</u>	<u>83.5%</u>	<u>9.7%</u>
Number of self-storage facilities (at end of period) ...	64	64	-
Net rentable square feet (in thousands, at end of period).....	3,975	3,975	-
Cumulative acquisition cost (at end of period).....	\$ 345,156	\$ 345,156	\$ -

- (a) The 2002 acquisitions includes 47 properties acquired on January 16, 2002 from an affiliated development joint venture at a total cost of \$269,898,000 and nine facilities acquired from third parties at a total cost of \$30,117,000.
- (b) The single 2001 acquisition was acquired from a third party at a cost of \$3,503,000.
- (c) The 2000 acquisitions are comprised of seven facilities acquired from third parties at a total cost of \$41,638,000.

Similar to our Consistent Group of facilities, the Acquired Facilities have experienced improvements in revenues, and increased costs of operations, for the first quarter of 2004 as compared to the same period in 2003.

Self-Storage Operations – Expansion Facilities

Since January 1, 2002, we have expanded, or began the process of expanding, certain self-storage facilities or converted them to Combination Facilities (defined below). These activities caused a drop in revenue levels, as existing capacity was made unavailable in order to accommodate construction activities and, as a result, the current operating results are not comparable with prior periods. For the quarter ended March 31, 2004, the weighted

average occupancy level was approximately 82.1% as compared to 72.3% for the same period in 2003. The operating results for these facilities are presented in the Self-Storage Operations table above under the caption, “Expansion Facilities.”

Depreciation expense with respect to the Expansion Facilities was \$1,885,000 for the three months ended March 31, 2004, as compared to \$1,886,000 for the same period in 2003. These 41 facilities contain approximately 4,036,000 net rentable square feet at March 31, 2004 (which includes the expanded space, and 823,000 square feet of industrial space developed for containerized storage activities – see “Containerized Storage” and “Discontinued Operations”). The aggregate construction costs incurred on completed expansions totaled approximately \$65,334,000.

A portion of the 823,000 net rentable square feet of industrial space included in these facilities was previously used by the discontinued containerized storage operations. As described under “Liquidity and Capital Resources,” we are converting a portion of this industrial space into traditional self-storage units.

Self-Storage Operations – Developed Facilities

Since January 1, 2000, we have opened 61 newly developed self-storage facilities and 17 facilities that were developed to contain both self-storage and containerized storage at the same location (“Combination Facilities”). These newly developed facilities have an aggregate of 5,872,000 net rentable square feet (of which 607,000 net rentable square feet is industrial space initially developed for containerized storage activities – see “Containerized Storage” and “Discontinued Operations”). Aggregate development cost for these 78 facilities was approximately \$540,431,000. The operating results of the self-storage facilities and Combination Facilities are reflected in the Self-Storage Operations table under the caption, “Developed Facilities.”

The following table sets forth the operating results and selected operating data with respect to the Developed Facilities:

<u>DEVELOPED FACILITIES</u>	Three Months Ended March 31,		
	2004	2003	Change
	(Amounts in thousands)		
<u>Rental income:</u>			
Self-storage facilities	\$ 8,396	\$ 4,854	\$ 3,542
Combination Facilities.....	3,177	2,142	1,035
Total rental income.....	<u>11,573</u>	<u>6,996</u>	<u>4,577</u>
<u>Cost of operations:</u>			
Self-storage facilities	4,417	2,758	1,659
Combination Facilities.....	1,425	1,182	243
Total cost of operations.....	<u>5,842</u>	<u>3,940</u>	<u>1,902</u>
<u>Net operating income before depreciation:</u>			
Self-storage facilities	3,979	2,096	1,883
Combination Facilities.....	1,752	960	792
Net operating income	<u>5,731</u>	<u>3,056</u>	<u>2,675</u>
Depreciation	<u>(4,046)</u>	<u>(3,071)</u>	<u>(975)</u>
Operating income (loss)	<u>\$ 1,685</u>	<u>\$ (15)</u>	<u>\$ 1,700</u>
<u>Weighted average square foot occupancies for the period:</u>			
Self-storage facilities	77.4%	57.0%	35.8%
Combination Facilities.....	78.6%	65.3%	20.4%
Total	<u>77.7%</u>	<u>58.9%</u>	<u>31.9%</u>
<u>Self-storage facilities, at end of period:</u>			
Number of facilities.....	61	49	12
Net rentable square feet.....	4,017	3,132	885
Total development cost	\$ 378,458	\$ 276,947	\$ 101,511
<u>Combination Facilities, at end of period:</u>			
Number of facilities.....	17	17	-
Net rentable square feet (a)	1,855	1,844	11
Total development cost (a).....	\$ 161,973	\$ 154,177	\$ 7,796

- (a) During 2003, we completed the conversion of 166,000 net rentable square feet of containerized storage space into 166,000 net rentable square feet of self-storage space at an aggregate cost of \$4,500,000. During the three months ended March 31, 2004, we completed the conversion of 105,000 net rentable square feet of containerized storage space into 116,000 net rentable square feet of self-storage space at an aggregate cost of \$3,296,000.

The following table summarizes operating data for the 61 newly developed self-storage facilities that opened since January 1, 2000:

DEVELOPED SELF-STORAGE FACILITIES

	Three Months Ended March 31,		
	2004	2003	Change
(Dollar Amounts in thousands)			
<u>Rental income:</u>			
Self-storage facilities opened in 2004	\$ 9	\$ -	\$ 9
Self-storage facilities opened in 2003	1,399	4	1,395
Self-storage facilities opened in 2002	2,238	1,127	1,111
Self-storage facilities opened in 2000 and 2001	4,750	3,723	1,027
Total rental income	<u>8,396</u>	<u>4,854</u>	<u>3,542</u>
<u>Cost of operations:</u>			
Self-storage facilities opened in 2004	93	-	93
Self-storage facilities opened in 2003	1,027	75	952
Self-storage facilities opened in 2002	1,119	815	304
Self-storage facilities opened in 2000 and 2001	2,178	1,868	310
Total cost of operations.....	<u>4,417</u>	<u>2,758</u>	<u>1,659</u>
<u>Net operating income (loss) before depreciation:</u>			
Self-storage facilities opened in 2004	(84)	-	(84)
Self-storage facilities opened in 2003	372	(71)	443
Self-storage facilities opened in 2002	1,119	312	807
Self-storage facilities opened in 2000 and 2001	2,572	1,855	717
Net operating income	<u>3,979</u>	<u>2,096</u>	<u>1,883</u>
Depreciation.....	<u>(2,831)</u>	<u>(1,959)</u>	<u>(872)</u>
Operating income.....	<u>\$ 1,148</u>	<u>\$ 137</u>	<u>\$ 1,011</u>
<u>Weighted average square foot occupancy during the period:</u>			
Self-storage facilities opened in 2004	7.3%	-	-
Self-storage facilities opened in 2003	51.9%	6.5%	698.5%
Self-storage facilities opened in 2002	83.1%	39.6%	109.8%
Self-storage facilities opened in 2000 and 2001 ...	92.8%	70.2%	32.2%
	<u>77.4%</u>	<u>57.0%</u>	<u>35.8%</u>
<u>Number of facilities:</u>			
Self-storage facilities opened in 2004	3	-	3
Self-storage facilities opened in 2003	14	5	9
Self-storage facilities opened in 2002	14	14	-
Self-storage facilities opened in 2000 and 2001 ...	30	30	-
	<u>61</u>	<u>49</u>	<u>12</u>
<u>Cumulative Development Cost:</u>			
Self-storage facilities opened in 2004	\$ 27,395	\$ -	\$ 27,395
Self-storage facilities opened in 2003	107,452	33,744	73,708
Self-storage facilities opened in 2002	93,887	93,479	408
Self-storage facilities opened in 2000 and 2001 ...	149,724	149,724	-
	<u>\$ 378,458</u>	<u>\$ 276,947</u>	<u>\$ 101,511</u>

Unlike many other forms of real estate, we are unable to pre-lease our newly developed facilities due to the nature of our tenants. Accordingly, at the time a newly developed facility first opens for operations, the facility is

entirely vacant, generating no rental income. We estimate that on average it takes approximately 36 months for a newly developed facility to fill up and reach a targeted occupancy level of approximately 90%.

We believe that the newly developed self-storage facilities have been affected by the operating trends in occupancy and realized rents noted above with respect to the consistent group of facilities. In addition, move-in discounts, which increased significantly, have had a more pronounced effect upon realized rents for the newly developed facilities, because such facilities tend to have a higher ratio of new tenants. During the three months ended March 31, 2004, the newly developed self-storage facilities had a weighted average occupancy level of approximately 77.7% as compared to 58.9% in the same period in 2003.

Property operating expenses are substantially fixed, consisting primarily of payroll, property taxes, utilities, and marketing costs. The rental revenue of a newly developed facility will generally not cover its property operating expenses (excluding depreciation) until the facility has reached an occupancy level of approximately 30% to 35%. However, at that occupancy level, the rental revenues from the facility are still not sufficient to cover the related depreciation expense and cost of capital with respect to the facility's development cost. During construction of the self-storage facility, we capitalize interest costs and include such cost as part of the overall development cost of the facility. Once the facility is opened for operations, interest is no longer capitalized.

Due to the relationship between the generation of rental income and immediate recognition of expenses upon opening of a facility, our development activities have had a negative impact on our net income. We estimate that our net income has been negatively impacted by approximately \$9,351,000 and \$8,359,000, in the three months ended March 31, 2004 and 2003, respectively, as a result of the difference between the revenues generated by the Developed Facilities and the operating expenses, depreciation, and cost of capital (at an assumed rate of 8%) with respect to these facilities as described above. These amounts include approximately \$4,046,000 and \$3,071,000, for the three months ended March 31, 2004 and 2003, respectively, in depreciation expense.

We continue to develop facilities, despite the short-term earnings dilution experienced during the fill-up period, because we believe that the ultimate returns on developed facilities are favorable. In addition, we believe that it is advantageous for us to continue to expand our asset base and benefit from the resultant increased critical mass, with facilities that will improve our portfolio's overall average construction and location quality.

We expect that over at least the next 24 months, the Developed Facilities will continue to have a negative impact to our earnings. Furthermore, the 42 expansion and newly developed facilities in our development pipeline, with total estimated costs of \$148,724,000, described in "Liquidity and Capital Resources – Acquisition and Development of Facilities" that will be opened for operation over the next 12 – 24 months will also negatively impact our earnings until they reach a stabilized occupancy level. Following completion of our development pipeline, we expect our ongoing development expenditures to approximate \$75,000,000 per year. Our earnings will continue to be negatively impacted by any future newly developed facilities and expansions until they reach a stabilized occupancy level.

Commercial Property Operations: Commercial property operations included in our consolidated financial statements include commercial space owned by the Company and entities consolidated by the Company. We have a much larger interest in commercial properties through our ownership interest in PS Business Parks Inc. and its consolidated operating partnership (PS Business Parks, Inc. and its consolidated operating partnership are hereinafter referred to as "PSB"). 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," see below.

Our commercial operations are comprised of 1,187,000 net rentable square feet of commercial space operated at certain of the self-storage facilities, and three stand-alone commercial facilities having a total of 204,000 net rentable square feet.

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

Commercial Property Operations:

	Three Months Ended March 31,		
	2004	2003	Change
Rental income.....	\$ 2,695	\$ 2,846	\$ (151)
Cost of operations.....	(1,141)	(1,193)	52
Net operating income	1,554	1,653	(99)
Depreciation.....	(585)	(625)	40
Operating income.....	\$ 969	\$ 1,028	\$ (59)

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, 2001, PSPUD had 55 facilities that were opened between 1996 and 2001 either through development or leasing of facilities. During 2002, we reevaluated our operational strategy and closed 22 facilities. In 2003 we closed nine non-strategic facilities and one additional facility in the first quarter of 2004. Collectively the 32 discontinued facilities are referred to as the “Closed Facilities.” At March 31, 2004 PSPUD operated 23 facilities in 10 states and major markets in which we have a significant presence with respect to our traditional self-storage facilities. The operations with respect to the Closed Facilities, including historical operating results for previous periods, are not included in the table below and instead are included in “Discontinued Operations” on our income statement. PSPUD’s operations, which exclude the Closed Facilities, are reflected on the table below:

**Containerized Storage
(excluding discontinued operations)**

	Three Month Ended March 31,		
	2004	2003	Change
	(Amounts in thousands)		
Rental and other income	\$ 6,606	\$ 7,442	\$ (836)
Cost of operations:			
Direct operating costs	3,659	4,293	(634)
Facility lease expense	355	345	10
Total cost of operations	4,014	4,638	(624)
Operating income prior to depreciation ..	2,592	2,804	(212)
Depreciation expense (a).....	(1,438)	(1,507)	69
Operating income	\$ 1,154	\$ 1,297	\$ (143)

(a) Depreciation expense principally relates to the depreciation related to the containers; however, depreciation expense for the three months ended March 31, 2004 and 2003 includes \$345,000 and \$379,000, respectively, related to real estate facilities.

Rental and other income includes monthly rental charges to customers for storage of the containers, service fees charged for pickup and delivery of containers to customers’ homes and businesses and moving service fees to move customers’ goods from city to city. Rental income decreased to \$6,606,000 for the three months ended March 31, 2004 from \$7,442,000 for the same period in 2003, primarily as a result of the discontinuation of our long-distance moving product. At March 31, 2004, there were approximately 34,543 occupied containers in the 23 facilities that are reflected in “ongoing” operations.

Direct operating costs principally includes payroll, equipment lease expense, utilities and vehicle expenses (fuel and insurance). The reduction in direct operating costs is due to the aforementioned discontinuance of our long-distance moving services.

At March 31, 2004, five of the 23 containerized storage facilities are leased from third parties. The remaining 18 facilities were operated in facilities owned by the Company, comprised of 13 Combination Facilities with an aggregate of 805,000 square feet of industrial space (this square footage is a component of the total net rentable square footage of the Expansion Facilities and the Developed Facilities in the table above) and five industrial facilities having an aggregate of 420,000 net rentable square feet.

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. We continue to evaluate the business operations, and additional facilities may be closed.

See "Discontinued Operations" below for a discussion of operating results of the Closed Facilities.

Tenant Reinsurance Operations: On December 31, 2001, we acquired PS Insurance Company, Ltd. ("PS Insurance") from a related party. PS Insurance reinsures policies against losses to goods stored by tenants in our self-storage facilities. The operations of PS Insurance are included in the income statement under "Revenues – tenant reinsurance premiums" and "Cost of operations – tenant reinsurance."

Tenant Reinsurance Operations

	Three Months Ended March 31,		
	2004	2003	Change
	(Amounts in thousands)		
Tenant reinsurance revenues	\$ 5,963	\$ 5,215	\$ 748
Cost of operations	(3,135)	(2,699)	(436)
Operating income	<u>\$ 2,828</u>	<u>\$ 2,516</u>	<u>\$ 312</u>

The level of tenant reinsurance revenues is largely dependent upon our occupancy level and move-in activity. New insurance business comes from tenants who sign up for insurance as they move into our self-storage facilities. During the three months ended March 31, 2004 and 2003, approximately 36% of our tenants had such policies.

The increase in tenant insurance revenues is due to a larger number of insured tenants, as well as higher insurance rates which increased, depending upon the level of insurance selected by the tenant, from 9.1% to 16.7% from the amounts previously charged. These new rates apply to newly-insured tenants after December 31, 2003. As a higher proportion of our insured tenants are subject to these increased insurance rates, our revenue per insured tenant should increase; however, this may be offset by a reduced number of tenants selecting insurance due to the rate increases.

Cost of operations for the tenant reinsurance operations has increased in the three months ended March 31, 2004 as compared to the same period in 2003, due primarily to increased customer claims attributable to a larger tenant base as well as an increase in average claim value.

We have outside third-party insurance coverage for losses from any individual event that exceeds a loss of \$500,000, to a limit of \$10,000,000. Losses below these amounts are recorded as cost of operations for the tenant reinsurance operations.

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 seven limited partnerships at March 31, 2004. (PSB and the limited partnerships are collectively referred to as the "Unconsolidated Entities.") Due to our limited ownership interest and limited control of these entities, we do not consolidate the accounts of these entities for financial reporting purposes. We account for such investments using the equity method.

Equity in earnings of real estate entities for the three months ended March 31, 2004 and 2003 consists of our pro-rata share of the Unconsolidated Entities based upon our ownership interest for the period. The following table sets forth the significant components of equity in earnings of real estate entities:

	Three Months Ended March 31,		
	2004	2003	Change
	(Amounts in thousands)		
Property operations:			
PSB.....	\$17,193	\$14,700	\$2,493
Other investments (1).....	1,684	1,428	256
	<u>18,877</u>	<u>16,128</u>	<u>2,749</u>
Depreciation:			
PSB.....	(7,881)	(6,029)	(1,852)
Other investments (1).....	(394)	(265)	(129)
	<u>(8,275)</u>	<u>(6,294)</u>	<u>(1,981)</u>
Other: (2)			
PSB (3).....	(6,788)	(5,252)	(1,536)
Other investments (1).....	243	105	138
	<u>(6,545)</u>	<u>(5,147)</u>	<u>(1,398)</u>
Total equity in earnings of real estate entities ..	<u>\$4,057</u>	<u>\$4,687</u>	<u>\$(630)</u>

- (1) Amounts primarily reflect equity in earnings recorded for investments that have been held consistently throughout each of the three months ended March 31, 2004 and 2003.
- (2) "Other" reflects our share of general and administrative expense, interest expense, interest income, and other non-property, non-depreciation related operating results of these entities. The amount of interest expense included in "other" is \$564,000 and \$490,000, respectively for the three months ended March 31, 2004 and 2003, respectively.
- (3) "Other" with respect to PSB also includes our pro-rata share of gains on sale of real estate assets, impairment charges relating to pending sales of real estate and the impact of PSB's application of the SEC's clarification of EITF Topic D-42 on redemptions of preferred securities. Our net pro-rata share of these items totaled net income reductions of \$943,000 and \$2,130,000 for the three months ended March 31, 2004 and 2003, respectively.

The decrease in equity in earnings of real estate entities for the three months ended March 31, 2004 as compared to 2003 is primarily due to a reduction in our pro-rata share of PSB's earnings. Our share of PSB's depreciation expense increased \$1,852,000 primarily due to PSB's significant acquisitions of real estate facilities in December 2003. In addition, our equity in earnings for the first quarter of 2004 was reduced \$943,000 by our share of PSB's application of the SEC's clarification of EITF Topic D-42 with respect to redemptions of preferred securities in the first quarter of 2004. Our equity in earnings for the first quarter of 2003 was reduced an aggregate of \$2,130,000, comprised of our share of impairment charges recorded by PSB with respect to impending real estate sales, offset partially by gains from PSB on the sale of real estate assets.

Equity in earnings of PSB represents our pro-rata share (an average of approximately 44% for the three months ended March 31, 2004 and 2003) of the earnings of PSB. As of March 31, 2004, we owned 5,418,273 common shares and 7,305,355 operating partnership units (units which are convertible into common shares on a one-for-one basis) in PSB. At March 31, 2004, PSB owned and operated 18.3 million net rentable square feet of commercial space located in eight states. PSB also manages approximately 960,000 net rentable square feet of commercial space owned by the Company and affiliated entities at March 31, 2004 pursuant to property management agreements.

Accordingly, our future equity income from PSB will be dependent entirely upon PSB's operating results. PSB's filings and selected financial information can be accessed through the Securities and Exchange Commission, and on its website, www.psbusinessparks.com.

The "Other Investments" is comprised primarily of our equity in earnings from seven limited partnerships, for which we held an approximately consistent level of equity interest during each of the three months ended March

31, 2004 and 2003. These limited partnerships were formed by the Company during the 1980's. The Company is the general partner in each limited partnership, and manages each of these facilities for a management fee that is included in "Interest and Other Income." The limited partners consist of numerous individual investors, including the Company, which throughout the 1990's acquired units of limited partnership interests in these limited partnerships in various transactions.

Our future earnings with respect to the "Other investments" will be dependent upon the operating results of the 36 self-storage facilities that these entities own. The operating characteristics of these facilities are similar to those of the Company's self-storage facilities, and are subject to the same operational issues as the Consistent Group of self-storage facilities as discussed above. See Note 5 to the consolidated financial statements for the operating results of these entities for the three months ended March 31, 2004 and 2003.

Other Income and Expense Items

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

Interest and other income decreased to \$1,357,000 for the three months ended March 31, 2004 from \$1,699,000 for the same period in 2003. This decrease primarily reflects reduced interest income from notes receivable. This was offset partially by an increase in bank interest income, which was due primarily to higher average cash balances.

As discussed more fully in "Liquidity and Capital Resources" below, at March 31, 2004, we had cash balances totaling approximately \$319,635,000, which includes significant uninvested proceeds from recent equity issuances. These balances are typically invested in short-term low-risk securities that, during the quarter ended March 31, 2004, earned a nominal yield. Our future interest and other income will be partially dependent upon the timing of our investment of these unused offering proceeds and the level of interest earned on these short-term investments.

Depreciation and Amortization: Depreciation and amortization expense was \$46,770,000 for the three months ended March 31, 2004 compared to \$45,367,000 for the same period in 2003. Included in depreciation expense with respect to our real estate facilities was \$43,060,000 and \$42,013,000 for the three months ended March 31, 2004 and 2003, respectively. The increase is due primarily to the development of additional real estate facilities in 2003 and 2004. Depreciation expense with respect to other assets, primarily depreciation of equipment and containers associated with the containerized storage operations, was \$2,059,000 and \$1,703,000 for the three months ended March 31, 2004 and 2003, respectively. Depreciation expense also includes \$1,651,000 for each of the three months ended March 31, 2004 and 2003, relating to the amortization of property management contracts.

Depreciation and amortization for the three months ended March 31, 2004 with respect to real estate facilities developed the first quarter of 2004 amounted to approximately \$59,000. We expect the quarterly depreciation and amortization expense with respect to these facilities for quarters beginning with second quarter of 2004 will approximate \$179,000.

General and Administrative: General and administrative expense for the three months ended March 31, 2004 increased 38.4% to \$5,884,000 as compared to \$4,250,000 for the same period in 2003. General and administrative expense principally consists of state income taxes, investor relation expenses and corporate and executive salaries. In addition, general and administrative expense includes expenses that vary depending on the Company's activity levels in certain areas, such as overhead associated with the acquisition and development of real estate facilities, employee severance, stock-based compensation and product research and development expenditures.

The increase in general and administrative expense for the three months ended March 31, 2004 as compared to the same period in 2003 is primarily due to increased stock-based compensation expense from

\$167,000 to \$967,000, combined with \$610,000 in employee termination costs during the three months ended March 31, 2004 (none in the same period in 2003).

Stock-based compensation expense for the three months ended March 31, 2004 included \$119,000 in stock option expense, \$534,000 in restricted stock expense, and \$314,000 in payroll taxes and other costs associated with employees' exercise of approximately 811,000 stock options in the three months ended March 31, 2004. Stock-based compensation expense totaled \$167,000 in the three months ended March 31, 2003, which is comprised of \$99,000 in stock option expense and \$68,000 in payroll taxes and other costs associated with employees' exercise of 143,000 stock options during the three months ended March 31, 2003.

Restricted stock expense, based upon restricted stock units outstanding at March 31, 2004, should approximate \$2,136,000 for the year ended December 31, 2004, while stock option expense should approximate \$510,000 in 2004, exclusive of payroll taxes on exercise of options. Future grants of restricted stock units and stock options could further increase our future stock-based compensation expense. The future level of payroll taxes and other costs associated with the employees' exercise of stock options will depend upon the timing of the employees' exercise of approximately 2.3 million remaining stock options outstanding at March 31, 2004, the Company's stock price at the time of exercise, and the level of future grants of stock options.

Interest Expense: Interest expense was \$100,000 and \$453,000 for the three months ended March 31, 2004 and 2003, respectively. Interest capitalized during the three months ended March 31, 2004 and 2003 was \$1,125,000 and \$1,525,000, respectively. The decrease in interest expense in 2004 compared to 2003 is principally the result of lower interest expense on notes payable due to scheduled principal repayments. The reduction in capitalized interest is a result of a lower average balance of in-process development projects. Interest expense (prior to capitalized interest) should continue to decrease as we make scheduled principal payments.

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. The following table summarizes minority interest in income for the three months ended March 31, 2004 and 2003:

Description	Three Months Ended March 31,		
	2004	2003	Change
	(Amounts in thousands)		
Preferred partnership interests:			
Special Distribution and Topic D-42 (a) ..	\$ 10,063	\$ -	\$ 10,063
Ongoing distributions (b)	6,554	6,726	(172)
Consolidated Development Joint Venture (c)	957	743	214
Convertible Partnership Units (d)	40	65	(25)
Acquired minority interests (e)	-	359	(359)
Other minority interests (f)	3,006	2,775	231
Total minority interests in income	<u>\$ 20,620</u>	<u>\$ 10,668</u>	<u>\$ 9,952</u>

- (a) As described more fully below, holders of \$200,000,000 of our Series N preferred partnership units agreed to a restructuring which included reducing their distribution rate from 9.5% to 6.4% in exchange for a special distribution of \$8,000,000. This special distribution, combined with \$2,063,000 in costs incurred at the time the units were originally issued that were charged against income in accordance with the Securities and Exchange Commissions clarification of EITF Topic D-42, are included in minority interest in income.
- (b) The decrease in ongoing distributions is due to the reduction in rate on \$200,000,000 of the preferred partnership units from 9.5% to 6.4%, effective March 22, 2004. Ongoing distributions, beginning in the second quarter of 2004, should amount to approximately \$5,176,000 per quarter.
- (c) These amounts reflect income allocated to the minority interests in the Consolidated Development Joint Venture. Included in minority interest in income is \$963,000 and \$851,000 in depreciation expense for the three months ended March 31, 2004 and 2003, respectively.
- (d) These amounts reflect the minority interests represented by the Convertible Partnership Units (see Note 8 to the consolidated financial statements). Included in minority interest in income is \$85,000 and \$97,000 in depreciation expense for the three months ended March 31, 2004 and 2003, respectively.

- (e) These amounts reflect income allocated to minority interests that the Company acquired in April, 2003 and are no longer outstanding at March 31, 2004. Included in minority interest in income is \$143,000 in depreciation expense for the three months ended March 31, 2003 (none for the three months ended March 31, 2004).
- (f) These amounts reflect income allocated to minority interests that were outstanding consistently throughout the three months ended March 31, 2004 and 2003. Included in minority interest in income is \$527,000 and \$555,000 in depreciation expense for the three months ended March 31, 2004 and 2003, respectively.

On March 22, 2004, certain investors who hold \$200 million of our 9.5% Series N Cumulative Redeemable Perpetual Preferred Units agreed, in exchange for a special distribution of \$8,000,000, to a reduction in the distribution rate on their preferred units from 9.50% per year to 6.40% per year, and an extension of the call date for these securities to March 17, 2010. The investors also received their distribution that accrued from January 1, 2004 through the effective date of the exchange.

As a result of this agreement, income allocable to minority interests increased, and the Company's net income decreased \$10,063,000 due to (1) the \$8,000,000 cash payment to the holders of the preferred units and (2) the application of the SEC Observer's recent clarification of EITF Topic D-42, "The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock" totaling \$2,063,000, which represents the excess of the \$200 million stated amount of the preferred units over their carrying amount. Beginning with the second quarter of 2004, this restructuring will result in a decrease in income allocable to minority interests causing an increase in our net income by \$1.55 million per quarter.

The increase in minority interest in income with respect to the Consolidated Development Joint Venture is due to an increase in income with respect to the properties owned by this entity. We expect that minority interest in income with respect to the Consolidated Development Joint Venture will continue to increase as the properties owned by this entity, substantially all of which are newly developed facilities in the fill-up stage, continue to stabilize their operations and increase the earnings of this entity.

The acquired minority interests reflect earnings allocated to interests the Company didn't own in PS Partners IV, Ltd, which the Company acquired on April 28, 2003 for an aggregate cost of approximately \$23,377,000. Following the Company's acquisition of these interests, there will be no further income allocated to these interests.

Other minority interests reflect income allocated to minority interests that have maintained a consistent level of interest throughout the three months ended March 31, 2004 and 2003, comprised of investments in the Consolidated Entities described in Note 8 to the Company's financial statements. The level of income allocated to these interests in the future is dependent upon the operating results of the storage facilities that these entities own, as well as any minority interests that the Company acquires in the future.

Discontinued Operations: During the first quarter of 2003, we entered into a business plan to exit the Knoxville, Tennessee market, and listed our four self-storage facilities (the "Knoxville Facilities") in this market for sale. In addition, in October 2003, we sold a self-storage facility located in Perrysburg, Ohio (collectively, the "Sold Self-Storage Facilities").

As described more fully in Note 3 to the consolidated financial statements, during 2002 and 2003 we implemented a business plan which included the closure of 31 of 55 containerized storage facilities that were open at December 31, 2001. We also closed an additional facility during the three months ended March 31, 2004. The 32 facilities are hereinafter referred to as the "Closed Facilities."

The current and prior period operations for the Sold Self-Storage Facilities and Closed Facilities have been reclassified into the line-item "Discontinued Operations" on our consolidated income statement.

The following table summarizes the historical operations of the Sold Self-Storage Facilities and the Closed Facilities:

Discontinued Operations:

	Three Months Ended March 31,		
	2004	2003	Change
	(Amounts in thousands)		
Rental income (a):			
Sold Self-Storage Facilities	\$ -	\$ 463	\$ (463)
Closed Facilities	802	3,572	(2,770)
Total rental income.....	<u>802</u>	<u>4,035</u>	<u>(3,233)</u>
Cost of operations (a):			
Sold Self-Storage Facilities	-	(186)	186
Closed Facilities	(985)	(3,369)	2,384
Total cost of operations	<u>(985)</u>	<u>(3,555)</u>	<u>2,570</u>
Depreciation expense (a):			
Sold Self-Storage Facilities	-	(159)	159
Closed Facilities	(78)	(514)	436
Total depreciation	<u>(78)</u>	<u>(673)</u>	<u>595</u>
Asset impairment and lease termination charges (b):			
Closed Facilities	(169)	-	(169)
Net discontinued operations.....	<u>\$ (430)</u>	<u>\$ (193)</u>	<u>\$ (237)</u>

(a) These amounts represent the historical operations of the Sold Self-Storage Facilities and the Closed Facilities, and include amounts previously classified as rental income, cost of operations, and depreciation expense in the financial statements in prior periods.

(b) An asset impairment charge in the amount of \$169,000 was recorded in the three months ended March 31, 2004 related to the closure of a non-strategic containerized storage facility during the period. There was no impairment charge related to discontinued operations recorded during the three months ended March 31, 2003.

As of March 31, 2004, three of the Closed Facilities remained open. We expect that the remaining facilities will be closed by the end of the third quarter 2004 and will continue to generate operating losses until final closure. These losses will include the remaining lease obligations on the closed facilities, which, at March 31, 2004, amount to approximately \$711,000.

Gain (loss) on Disposition of Real Estate: During the first quarter of 2003, we disposed of two self-storage facilities and a parcel of land for an aggregate of \$7,713,000 in cash, and recognized a gain on disposition of \$14,000. There were no such gains or losses recorded in the same period in 2004.

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 distributed to our shareholders (see “Requirement to Pay Distributions” 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 fund distributions to the minority interest, capital improvements to maintain our facilities, and distributions to our shareholders through the use of cash provided by operating activities. The remaining cash flow generated is available to make both principal payments on debt and for reinvestment.

	Three Months Ended March 31,	
	2004	2003
	(Amounts in thousands)	
Net cash provided by operating activities.....	\$ 146,927	\$ 146,915
Allocable to minority interest (Preferred Units) – ongoing distributions..	(6,554)	(6,726)
Allocable to minority interest (Preferred Units) – special distribution (a)	(8,000)	-
Allocable to minority interest (common equity).....	(5,578)	(5,588)
Cash from operations allocable to our shareholders	126,795	134,601
Capital improvements to maintain our facilities	(2,705)	(2,333)
Add back: minority interest share of capital improvements to maintain facilities	44	57
Remaining operating cash flow available for distributions to our shareholders	124,134	132,325
Distributions paid:		
Preferred stock dividends	(38,042)	(37,022)
Equity Stock, Series A dividends	(5,375)	(5,375)
Distributions to Common and Class B shareholders	(57,348)	(55,995)
Cash available for principal payments on debt and reinvestment	\$ 23,369	\$ 33,933

- (a) The \$8 million special distribution was paid to a unitholder of our 9.5% Series N Cumulative Redeemable Perpetual Preferred Units in conjunction with a March 22, 2004 agreement that, among other things, lowered the distribution rate from 9.5% to 6.4%.

Our financial profile is characterized by a low level of debt to total capitalization and a conservative dividend payout ratio with respect to the common stock. We expect to fund our growth strategies with cash on hand at March 31, 2004, internally generated retained cash flows and proceeds from issuing equity securities. In general, our current strategy is to continue to finance our growth with permanent capital; either common or preferred equity. We have in the past used our \$200 million line of credit as temporary “bridge” financing and repaid those amounts with internally generated cash flows and proceeds from the placement of permanent capital. At March 31, 2004, we had no outstanding borrowings under our \$200 million bank line of credit.

Over the past three years, we have funded substantially all of our acquisitions with permanent capital (both common and preferred securities). We have elected to use preferred securities as a form of leverage despite the fact that the dividend rates of our preferred securities exceed the prevailing market interest rates on conventional debt. We have chosen this method of financing for the following reasons: (i) under the REIT structure, a significant amount of operating cash flow needs to be distributed to our shareholders, making it difficult to repay debt with operating cash flow alone, (ii) 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, (iii) after the end of a non-call period, we have the option to redeem the preferred stock at any time, which in 2002 and 2001 enabled us to

effectively refinance higher coupon preferred stock with new preferred stock at lower rates, (iv) preferred stock does not contain onerous covenants, thus allowing us to maintain significant financial flexibility, and (v) dividends on the preferred stock can be applied to our REIT distribution requirements.

Our credit ratings on each of our series of Cumulative Preferred Stock are “Baa2” by Moody’s and “BBB+” by Standard & Poor’s.

Our portfolio of real estate facilities remains substantially unencumbered. At March 31, 2004, we had mortgage debt outstanding of \$15.7 million (which encumbers 21 facilities with a book value of \$55 million) and unsecured long-term debt in the amount of \$33.6 million.

We believe that our size and financial flexibility enables us to access capital when appropriate.

Recent Issuance of Preferred Stock and Projected Redemption of Preferred Securities: One of our financing objectives over the past several years has been to reduce our average cost of capital with respect to our preferred securities. Accordingly, we have redeemed higher rate preferred securities outstanding and have financed the redemption with cash on-hand or from the proceeds from the issuance of lower rate preferred securities.

During 2004 and 2005, we had approximately \$714 million of preferred securities that became redeemable at our option. The weighted average annual dividend rate with respect to these securities is approximately 9.1%; a rate significantly higher than current market conditions. However, during the fourth quarter of 2003 and into 2004, we became increasingly concerned that conditions soon change and that dividend rates with respect to new offerings of preferred securities would begin to rise. It was our desire to limit our “refinancing risk” with respect to anticipated rising rates.

In that regard, over the past two quarters, we have issued approximately \$520 million of our preferred stock raising net proceeds of approximately \$504 million. The weighted average annual dividend rate with respect to these securities is approximately 6.4% (6.6% based on the net proceeds received).

During the first quarter of 2004, we utilized \$230 million of the capital raised to redeem our 8.25% Series K preferred stock (which was called for redemption in December 2003) and our 8.25% Series L preferred stock. In addition, during the first quarter of 2004, we restructured \$200 million of our 9.5% Series N preferred units reducing the annual dividend rate to 6.4%. These securities were not become callable until 2005. We have approximately \$283,625,000 in preferred securities that, at our option, become redeemable in the remainder of 2004 and 2005, with an average coupon of 9.4%, as follows:

Security	Earliest Redemption Date	Dividend Rate	Liquidation Value (000's)
Series M Preferred Stock	8/17/04	8.750%	\$ 56,250
Series D Preferred Stock	9/30/04	9.500%	30,000
Series E Preferred Stock	1/31/05	10.000%	54,875
Series N Preferred Units	3/17/05	9.500%	40,000
Series O Preferred Units	3/29/05	9.125%	45,000
Series F Preferred Stock	4/30/05	9.750%	57,500
Total securities available for redemption		9.4%	\$ 283,625

Our \$319,635,000 cash on hand at March 31, 2004 is sufficient to fund these redemptions. If, however, our cash on hand is utilized for alternative investments such as the acquisition or development of real estate assets, we intend to issue additional lower-rate preferred securities to redeem these securities if. There can be no assurance that we would be able to issue additional preferred securities at a lower rate.

Requirement to Pay Distributions: 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 90% of our taxable income is so distributed to our shareholders prior to filing of the Company's tax return. We have satisfied the REIT distribution requirement since 1980.

During the three months ended March 31, 2004 and 2003, we paid cash dividends totaling \$38,042,000 and \$37,022,000, respectively, to the holders of our Cumulative Preferred Stock. We estimate that the distribution requirements with respect to our Preferred Stock outstanding at March 31, 2004 to be approximately \$155.2 million per year.

During the three months ended March 31, 2004 and 2003, we paid cash dividends totaling \$6,554,000 and \$6,726,000, respectively, to the holders of our preferred partnership units. On March 22, 2004, certain investors who hold \$200 million of our 9.5% Series N Cumulative Redeemable Preferred Units agreed, in exchange for a special distribution of \$8,000,000, to a reduction in the distribution rate on their preferred units from 9.5% per year to 6.4% per year. We estimate that the remaining distribution requirement with respect to the preferred partnership units outstanding at March 31, 2004 to be approximately \$20.7 million per year.

During each of the three months ended March 31, 2004 and 2003, we paid cash dividends totaling \$5,375,000 to the holders of our Equity Stock, Series A. 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 annual distributions equal to the lesser of (i) five times the per share dividend on the common stock or (ii) \$2.45. The depositary shares are non-cumulative, and have no preference over our common stock either as to dividends or in liquidation. With respect to the Equity Stock, Series A outstanding at March 31, 2004, we estimate the total regular distribution for the remainder of 2004 to be approximately \$16.1 million assuming that dividends of at least \$0.49 per share per year are paid to the common shareholders.

During the three months ended March 31, 2004, we paid dividends totaling \$57,348,000 (\$0.45 per common share) to the holders of our common stock. Based upon shares outstanding at March 31, 2004 and a quarterly distribution of \$0.45 per share, which was declared by the Board of Directors on May 6, 2004 and payable on June 30, 2004, we estimate dividend payments with respect to our common stock of approximately \$57.5 million for the second quarter of 2004.

Capital Improvement Requirements: For 2004, we have budgeted approximately \$53.0 million for capital improvements. During the three months ended March 31, 2004, we incurred capital improvements of approximately \$2.7 million. Capital improvements include major repairs or replacements to the facilities that maintain the facilities' existing operating condition and visual appeal. Capital improvements do not include costs relating to the development or expansion of facilities, or expenditures associated with improving the visual and structural appeal of our existing self-storage facilities.

Debt Service Requirements: We do not believe we have any significant refinancing risks with respect to our notes payable, all of which are fixed rate. At March 31, 2004, we had total outstanding notes payable of approximately \$49.3 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 schedule principal payments. It is our current intention to fully amortize our debt as opposed to refinance debt maturities with additional debt.

Acquisition and Development of Real Estate Facilities: No facilities were acquired from third parties during the first three months of 2004 or during the year ended December 31, 2003. Our low level of third party acquisitions is not indicative of either the supply of facilities offered for sale or our ability to finance the acquisitions, but primarily due to prices sought by sellers and our lack of desire to pay such prices. During the remainder of 2004 we will seek to acquire additional self-storage facilities from third parties; however, it is difficult to estimate the amount of third party acquisitions we will undertake.

On January 1, 2004, we entered into a joint venture with an institutional investor for the purpose of acquiring up to \$125.0 million of existing self-storage properties in the United States from third parties. The venture will be funded entirely with equity consisting of 30% from the Company and 70% from the institutional investor. The venture has a nine month investment period (through September 30, 2004) to identify and acquire facilities. To date no facilities have been acquired by the venture, and accordingly there have been no capital contributions to this partnership from the Company or from the institutional investor.

In June 2004, we anticipate that we will acquire a limited partnership interest in one of our Consolidated Entities, at an estimated acquisition cost of approximately \$24 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 the joint venture partner with a maximum return of 10.75% or less in certain circumstances. Our estimate of the purchase price of this interest is approximately \$105 million.

We currently have a development "pipeline" of 42 self-storage facilities, combination facilities, and expansions to existing self-storage facilities with an aggregate estimated cost of approximately \$148.7 million. Approximately \$51.2 million of development cost has been incurred as of March 31, 2004. We have acquired the land for 38 of these projects, which have an aggregate estimated cost of approximately \$126.8 million, and costs incurred as of March 31, 2004 of approximately \$50.8 million. The remaining four facilities represent identified sites where we have an agreement in place to acquire the land, generally within one year. We anticipate that the development of these projects will be funded solely by the Company.

The development and fill-up of these storage facilities is subject to significant contingencies such as obtaining appropriate governmental approvals. We estimate that the amount remaining to be spent of approximately \$97.5 million will be incurred over the next 24 months. The following table sets forth certain information with respect to our development pipeline.

DEVELOPMENT PIPELINE SUMMARY

	Number of projects	Net rentable sq. ft.	Total estimated development costs	Costs incurred through 3/31/04	Costs to complete
	(Amounts in thousands)				
Facilities currently under construction:					
Self-storage facilities	4	251	\$ 29,588	\$ 22,918	\$ 6,670
Expansions and other enhancements to existing self-storage facilities	12	545	30,511	17,242	13,269
	<u>16</u>	<u>796</u>	<u>60,099</u>	<u>40,160</u>	<u>19,939</u>
Facilities awaiting construction, where land is acquired:					
Self-storage facilities	3	224	23,785	9,684	14,101
Expansions and other enhancements to existing self-storage facilities	19	1,033	42,904	912	41,992
	<u>22</u>	<u>1,257</u>	<u>66,689</u>	<u>10,596</u>	<u>56,093</u>
Self-storage facilities awaiting construction, where land has not yet been acquired					
	<u>4</u>	<u>243</u>	<u>21,936</u>	<u>443</u>	<u>21,493</u>
Total Development Pipeline	<u>42</u>	<u>2,296</u>	<u>\$ 148,724</u>	<u>\$ 51,199</u>	<u>\$ 97,525</u>

Included in the 31 "expansions and other enhancements of existing self-storage facilities" are 16 projects associated with the conversion of industrial space, previously used by the discontinued containerized facility operations, into self-storage space. The total amount of self-storage space to come on line from these 16 conversions

is approximately 1,048,000 net rentable square feet of traditional self-storage space at a cost of \$34,294,000. Also included are enhancements which, while they do not add significant incremental square footage, improve the visual and structural appeal of our existing self-storage facilities.

In addition to the above projects, we have five parcels of land held for development with total costs of approximately \$12,236,000 at March 31, 2004. These parcels will either be developed or sold.

Repurchases of the Company's Common Stock: The Company's Board of Directors authorized the repurchase from time to time of up to 25,000,000 shares of our common stock on the open market or in privately negotiated transactions. For the three months ended March 31, 2004, we repurchased 85,000 shares of our common stock for approximately \$3,967,000. In addition, during April 2004, we repurchased an additional 324,700 shares of our common stock, for approximately \$14,267,000.

From the initial authorization through May 6, 2004, we have repurchased a total of 22,081,720 shares of common stock at an aggregate cost of approximately \$560.1 million.

Item 2A. Risk Factors

In addition to the other information in our Form 10-Q and our Form 10-K for the year ended December 31, 2003, you should consider the following factors in evaluating the Company:

The Hughes family could control us and take actions adverse to other shareholders.

At March 31, 2004, the Hughes family owned approximately 36% of our outstanding shares of common stock. Consequently, the Hughes family could control matters submitted to a vote of our shareholders, including electing directors, amending our organizational documents, dissolving and approving other extraordinary transactions, such as a takeover attempt, even though such actions may be favorable to the other common shareholders.

Provisions in our organizational documents may prevent changes in control.

Restrictions in our organizational documents may further limit changes in control. Unless our board of directors waives these limitations, no shareholder may own more than (1) 2.0% of our outstanding shares of our common stock or (2) 9.9% of the outstanding shares of each class or series of our preferred or equity stock. Our organizational documents in effect provide, however, that the Hughes family may continue to own the shares of our common stock held by them at the time of the 1995 reorganization. These limitations are designed, to the extent possible, to avoid a concentration of ownership that might jeopardize our ability to qualify as a real estate investment trust or REIT. These limitations, however, also may make a change of control significantly more difficult (if not impossible) even if it would be favorable to the interests of our public shareholders. These provisions will prevent future takeover attempts not approved by our board of directors even if a majority of our public shareholders deem it to be in their best interests because they would receive a premium for their shares over the shares' then market value or for other reasons.

We would incur adverse tax consequences if we fail to qualify as a REIT.

You will be subject to the risk that we may not qualify as a REIT. REITs are subject to a range of complex organizational and operational requirements. As a REIT, we must distribute at least 90% of our REIT taxable income to our shareholders, including not only holders of our common stock and equity stock but also holders of our preferred stock. Failure to pay full dividends on the preferred stock would prevent us from paying dividends on our common stock and could jeopardize our qualification as a REIT. Other restrictions apply to our income and assets. Our REIT status also depends upon the ongoing qualification of PS Business Parks, Inc. as a REIT, as a result of our substantial ownership interest in that company.

For any taxable year that we fail to qualify as a REIT and the relief provisions do not apply, we would be taxed at the regular corporate rates on all of our taxable income, whether or not we make any distributions to our shareholders. Those taxes would reduce the amount of cash available for distribution to our shareholders or for reinvestment. As a result, our failure to qualify as a REIT during any taxable year could have a material adverse effect upon us and our shareholders. Furthermore, unless certain relief provisions apply, we would not be eligible to elect REIT status again until the fifth taxable year that begins after the first year for which we fail to qualify.

We may pay some taxes, reducing cash available for shareholders.

Even if we qualify as a REIT for Federal income tax purposes, we are required to pay some federal, state and local taxes on our income and property. Several corporate subsidiaries of the Company have elected to be treated as “taxable REIT subsidiaries” of the Company for federal income tax purposes since January 1, 2001. A taxable REIT subsidiary is a fully taxable corporation and is limited in its ability to deduct interest payments made to us. In addition, we will be subject to a 100% penalty tax on some payments that we receive if the economic arrangements among our tenants, our taxable REIT subsidiaries and us are not comparable to similar arrangements among unrelated parties. To the extent that the Company or any taxable REIT subsidiary is required to pay federal, state or local taxes, we will have less cash available for distribution to shareholders.

We would incur a corporate level tax if we sell certain assets.

We will generally be subject to a corporate level tax on any net built-in gain if, before November 2005, we sell any of the assets we acquired in the November 1995 reorganization.

We and our shareholders are subject to financing risks.

Debt increases the risk of loss. In making real estate investments, we may borrow money, which increases the risk of loss. At March 31, 2004, our debt of \$49.3 million was less than 1.0% of our total assets.

Certain securities have a liquidation preference over our common stock and Equity Stock, Series A. If we liquidated, holders of our preferred securities would be entitled to receive liquidating distributions, plus any accrued and unpaid distributions, before any distribution of assets to the holders of our common stock and Equity Stock, Series A. Holders of preferred securities are entitled to receive, when declared by our board of directors, cash distributions in preference to holders of our common stock and Equity Stock, Series A.

Since our business consists primarily of acquiring and operating real estate, we are subject to real estate operating risks.

The value of our investments may be reduced by general risks of real estate ownership. Since we derive substantially all of our income from real estate operations, we are subject to the general risks of owning real estate-related assets, including:

- lack of demand for rental spaces or units in a locale;
- changes in general economic or local conditions;
- potential terrorist attacks;
- changes in supply of or demand for similar or competing facilities in an area;
- the impact of environmental protection laws;
- changes in interest rates and availability of permanent mortgage funds which may render the sale or financing of a property difficult or unattractive; and

- changes in tax, real estate and zoning laws.

There is significant competition among self-storage facilities and from other storage alternatives. Most of our properties are self-storage facilities, which generated 93% of our revenue for the three months ended March 31, 2004. Local market conditions will play a significant part in how competition will affect us. Competition in the market areas in which many of our properties are located from other self-storage facilities and other storage alternatives is significant and has affected the occupancy levels, rental rates and operating expenses of some of our properties. Any increase in availability of funds for investment in real estate may accelerate competition. Further development of self-storage facilities may intensify competition among operators of self-storage facilities in the market areas in which we operate. As discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations – Self-Storage Operations, the gross margin before depreciation of the Consistent Group of facilities declined 3.6% in the three months ended March 31, 2004 as compared to the same period in 2003. Such competition could have been a factor in this decline.

We may incur significant environmental costs and liabilities. As an owner and operator of real properties, under various federal, state and local environmental laws, we are required to clean up spills or other releases of hazardous or toxic substances on or from our properties. Certain environmental laws impose liability whether or not the owner knew of, or was responsible for, the presence of the hazardous or toxic substances. In some cases, liability may not be limited to the value of the property. The presence of these substances, or the failure to properly remediate any resulting contamination, whether from environmental or microbial issues, also may adversely affect the owner's or operator's ability to sell, lease or operate its property or to borrow using its property as collateral.

We have conducted preliminary environmental assessments of most of our properties (and intend to conduct these assessments in connection with property acquisitions) to evaluate the environmental condition of, and potential environmental liabilities associated with, our properties. These assessments generally consist of an investigation of environmental conditions at the property (not including soil or groundwater sampling or analysis), as well as a review of available information regarding the site and publicly available data regarding conditions at other sites in the vicinity. In connection with these property assessments, our operations and recent property acquisitions, we have become aware that prior operations or activities at some facilities or from nearby locations have or may have resulted in contamination to the soil or groundwater at these facilities. In this regard, some of our facilities are or may be the subject of federal or state environment investigations or remedial actions. We have obtained, with respect to recent acquisitions, and intend to obtain with respect to pending or future acquisitions, appropriate purchase price adjustments or indemnifications that we believe are sufficient to cover any related potential liability. Although we cannot provide any assurance, based on the preliminary environmental assessments, we believe we have funds available to cover any liability from environmental contamination or potential contamination and we are not aware of any environmental contamination of our facilities material to our overall business, financial condition or results of operation.

There has been an increasing number of claims and litigation against owners and managers of rental properties relating to moisture infiltration, which can result in mold or other property damage. When we receive a complaint concerning moisture infiltration, condensation or mold problems and/or become aware that an air quality concern exists, we implement corrective measures in accordance with guidelines and protocols we have developed with the assistance of outside experts. We seek to work proactively with our tenants to resolve moisture infiltration and mold-related issues, subject to our contractual limitations on liability for such claims. However, we can make no assurance that material legal claims relating to moisture infiltration and the presence of, or exposure to, mold will not arise in the future.

Delays in development and fill-up of our properties would reduce our profitability: Since January 1, 2000, we have opened 61 newly developed self storage facilities and 17 facilities that combine self-storage and containerized storage space at the same location, with aggregate development costs of \$540.4 million. In addition, at March 31, 2004 the Company had 42 projects in development that are expected to begin construction generally by December 31, 2004. These 42 projects have total estimated costs of \$148.7 million. Construction delays due to weather, unforeseen site conditions, personnel problems, and other factors, as well as cost overruns, would adversely affect the Company's profitability. Delays in the rent-up of newly developed facilities as a result of competition or other factors would also adversely impact the Company's profitability.

Property taxes can increase and cause a decline in yields on investments. Each of our properties is subject to real property taxes. These real property taxes may increase in the future as property tax rates change and as our properties are assessed or reassessed by tax authorities. Such increases could adversely impact the Company's profitability.

We must comply with the Americans with Disabilities Act and fire and safety regulations, which can require significant expenditures: All our properties must comply with the Americans with Disabilities Act and with related regulations (the "ADA"). The ADA has separate compliance requirements for "public accommodations" and "commercial facilities," but generally requires that buildings be made accessible to persons with disabilities. Various state laws impose similar requirements. A failure to comply with the ADA or similar state laws could result in government imposed fines on us and the award of damages to individuals affected by the failure. In addition, we must operate our properties in compliance with numerous local fire and safety regulations, building codes, and other land use regulations. Compliance with these requirements can require us to spend substantial amounts of money, which would reduce cash otherwise available for distribution to shareholders. Failure to comply with these requirements could also affect the marketability of our real estate facilities.

We have no interest in Canadian self-storage facilities owned by the Hughes family.

B. Wayne Hughes, Chairman of the Board, and his family (the "Hughes Family") have ownership interests in, and operate, approximately 38 self-storage facilities in Canada under the name "Public Storage." We currently do not own any interests in these facilities nor do we own any facilities in Canada. The Hughes Family owns approximately 36% of our common stock outstanding at March 31, 2004. We have a right of first refusal to acquire the stock or assets of the corporation engaged in the operation of the 38 self-storage facilities in Canada if the Hughes family or the corporation agrees to sell them. However, we have no interest in the operations of this corporation, have no right to acquire this stock or assets unless the Hughes family decides to sell, and receive no benefit from the profits and increases in value of the Canadian self-storage facilities.

Company personnel have been engaged in the supervision and the operation of these 38 properties and have provided certain administrative services for the Canadian owners, and certain other services, primarily tax services, with respect to certain other Hughes Family interests. The Hughes Family and the Canadian owners have reimbursed us at cost for these services in the amount of US\$ 542,499 with respect to the Canadian operations and US\$151,063 for other services during 2003. There have been conflicts of interest in allocating time of our personnel between Company properties, the Canadian properties, and certain other Hughes Family interests. The sharing of Company personnel with the Canadian entities was substantially eliminated by December 31, 2003.

Our containerized storage business has incurred operating losses.

Public Storage Pickup & Delivery ("PSPUD") was organized in 1996 to operate a containerized storage business. We own all of the economic interest of PSPUD. Since PSPUD will operate profitably only if it can succeed in the relatively new field of containerized storage, we cannot provide any assurance as to its profitability. PSPUD incurred operating losses of \$10,058,000 in 2002, generated an operating profit of \$2,543,000 in 2003 and \$724,000 for the three months ended March 31, 2004. PSPUD closed 32 of 55 facilities that were deemed not strategic to the Company's business plan since 2002.

Terrorist attacks and the possibility of wider armed conflict may have an adverse impact on our business and operating results and could decrease the value of our assets.

Terrorist attacks and other acts of violence or war, such as those that took place on September 11, 2001, could have a material adverse impact on our business and operating results. There can be no assurance that there will not be further terrorist attacks against the United States or its businesses or interests. Attacks or armed conflicts that directly impact one or more of our properties could significantly affect our ability to operate those properties and thereby impair our operating results. Further, we may not have insurance coverage for losses caused by a terrorist attack. Such insurance may not be available, or if it is available and we decide to obtain such terrorist coverage, the cost for the insurance may be significant in relationship to the risk overall. In addition, the adverse effects that such violent acts and threats of future attacks could have on the U.S. economy could similarly have a

material adverse effect on our business and results of operations. Finally, further terrorist acts could cause the United States to enter into a wider armed conflict which could further impact our business and operating results.

Recently enacted tax legislation could adversely affect the price of our stock.

Recently enacted tax legislation generally reduces the maximum tax rate for dividends payable to individuals to 15% through 2008. Dividends payable by REITs, however, generally continue to be taxed at the normal rate applicable to the individual recipient, rather than the preferential rates applicable to other dividends. Although this legislation does not adversely affect the taxation of REITs or dividends paid by REITs, the more favorable rates applicable to regular corporate dividends could cause investors who are individuals to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common stock.

Developments in California may have an adverse impact on our business.

We are headquartered in, and approximately one-quarter of our properties are located in, California. California is facing serious budgetary problems. Action that may be taken in response to these problems, such as an increase in property taxes on commercial properties, could adversely impact our business and results of operations. In addition, we could be adversely impacted by the recently enacted legislation mandating medical insurance for employees of California businesses and members of their families beginning in 2006.

Item 3. Qualitative and Quantitative Disclosures about Market Risk

To limit our exposure to market risk, we principally finance our operations and growth with permanent equity capital, consisting of either common or preferred stock. At March 31, 2004, our debt as a percentage of total shareholders' equity (based on book values) was 1.1%.

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 Preferred Stock is not redeemable by the Company prior to the following dates: Series D – September 30, 2004, Series E – January 31, 2005, Series F – April 30, 2005, Series M – August 17, 2004, Series Q – January 19, 2006, Series R – September 28, 2006, Series S – October 31, 2006, Series T – January 18, 2007, Series U – February 19, 2007, Series V – September 30, 2007, Series W – October 6, 2008, Series X – November 13, 2008, Series Y – January 2, 2009, Series Z – March 5, 2009, and Series A – March 31, 2009. On or after the respective dates, each of the series of 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 M through Series X, Series Z and Series A), plus accrued and unpaid dividends through the redemption date.

Our market risk sensitive instruments include notes payable, which totaled \$49.3 million at March 31, 2004. Substantially all of the Company's notes payable bear interest at fixed rates. See Note 7 to the consolidated financial statements at March 31, 2004 for approximate principal maturities of the notes payable at March 31, 2004.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports the Company files and submits under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in accordance with SEC guidelines and that such information is communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure based on the definition of "disclosure controls and procedures" in Rules 13a-15(e) of the Exchange Act. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures in reaching that level of reasonable assurance. Also, the Company has investments in certain unconsolidated entities. As the Company does not control or manage these entities, its disclosure controls and

procedures with respect to such entities are substantially more limited than those it maintains with respect to its consolidated subsidiaries.

As of the end of the fiscal quarter covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a – 15(e) and 15d – 15(e) under the Securities Act of 1934 as amended as of the end of the period covered by this report). Based upon this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective.

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that has materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is a party to the actions described under “Item 3. Legal Proceedings” in the Company’s 2003 annual report on Form 10-K. There have been no material developments in the actions described in the Company’s 2003 annual report on Form 10-K (see Note 14 to the Company’s consolidated financial statements).

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

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

On June 12, 1998, we announced that the Board of Directors (the “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 subsequent dates the Directors increased the repurchase authorization, the last being April 13, 2001, when the Board of Directors increased the repurchase authorization to 25,000,000 shares.

The following table contains information regarding the company's repurchase of its common stock during the quarter.

Issuer Purchases of Equity Securities

Period Covered	Total Number of Shares Purchased (1)	Average Price Paid per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 through January 31, 2004	25,000	\$ 44.05	21,697,020	3,302,980
February 1 through February 29, 2004	-	-	21,697,020	3,302,980
March 1 through March 31, 2004	60,000	47.75	21,757,020	3,242,980
Total	85,000	\$ 46.66		

- (1) All shares were open market purchases and purchased under the company's publicly announced stock repurchase program.
- (2) Average price per share is inclusive of commissions totaling \$3,400, or 4% per share.

In addition to the repurchases listed in the table above, we redeemed two of our preferred series during the quarter. On January 20, 2004, we redeemed all 4,600,000 depositary shares of our 8.25% Cumulative Preferred Stock, Series K (\$115.0 million) at a redemption price of \$25.00 per share, plus a sum equal to all accrued and unpaid dividends from January 1, 2004 through the redemption date. On March 10, 2004, we redeemed all 4,600,000 depositary shares of our 8.25% Cumulative Preferred Stock, Series L (\$115.0 million) at a redemption price of \$25.00 per share, plus a sum equal to all accrued and unpaid dividends from January 1, 2004 through the redemption date.

On March 22, 2004, certain investors who hold \$200 million of our 9.5% Series N Cumulative Redeemable Perpetual Preferred Units agreed, in exchange for a special distribution of \$8,000,000, to a reduction in the distribution rate on their preferred units from 9.50% per year to 6.40% per year. The investors also received their distribution that accrued from January 1, 2004 through the effective date of the exchange. As a result of this agreement, the holders of these units exchanged \$200,000,000 9.5% Series N units for \$200,000,000 6.4% Series NN units.

See Notes 8, 9 and 15 for additional information on repurchases and redemptions of equity securities.

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits:
- 3.1 Restated Articles of Incorporation. Filed with Registrant's Registration Statement No. 33-54557 and incorporated herein by reference.
 - 3.2 Certificate of Determination for the 10% Cumulative Preferred Stock, Series A. Filed with Registrant's Registration Statement No. 33-54557 and incorporated herein by reference.
 - 3.3 Amendment to Certificate of Determination for the 10% Cumulative Preferred Stock, Series A. Filed herewith.
 - 3.4 Certificate of Determination for the 9.20% Cumulative Preferred Stock, Series B. Filed with Registrant's Registration Statement No. 33-54557 and incorporated herein by reference.
 - 3.5 Amendment to Certificate of Determination for the 9.20% Cumulative Preferred Stock, Series B. Filed with Registrant's Registration Statement No. 33-56925 and incorporated herein by reference.
 - 3.6 Certificate of Determination for the 8.25% Convertible Preferred Stock. Filed with Registrant's Registration Statement No. 33-54557 and incorporated herein by reference.
 - 3.7 Certificate of Determination for the Adjustable Rate Cumulative Preferred Stock, Series C. Filed with Registrant's Registration Statement No. 33-54557 and incorporated herein by reference.
 - 3.8 Certificate of Determination for the 9.50% Cumulative Preferred Stock, Series D. Filed with Registrant's Form 8-A/A Registration Statement relating to the 9.50% Cumulative Preferred Stock, Series D and incorporated herein by reference.
 - 3.9 Certificate of Determination for the 10% Cumulative Preferred Stock, Series E. Filed with Registrant's Form 8-A/A Registration Statement relating to the 10% Cumulative Preferred Stock, Series E and incorporated herein by reference.
 - 3.10 Certificate of Determination for the 9.75% Cumulative Preferred Stock, Series F. Filed with Registrant's Form 8-A/A Registration Statement relating to the 9.75% Cumulative Preferred Stock, Series F and incorporated herein by reference.
 - 3.11 Certificate of Determination for the Convertible Participating Preferred Stock. Filed with Registrant's Registration Statement No. 33-63947 and incorporated herein by reference.
 - 3.12 Certificate of Amendment of Articles of Incorporation. Filed with Registrant's Registration Statement No. 33-63947 and incorporated herein by reference.
 - 3.13 Certificate of Determination for the 8-7/8% Cumulative Preferred Stock, Series G. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8-7/8% Cumulative Preferred Stock, Series G and incorporated herein by reference.
 - 3.14 Certificate of Determination for the 8.45% Cumulative Preferred Stock, Series H. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8.45% Cumulative Preferred Stock, Series H and incorporated herein by reference.
 - 3.15 Certificate of Determination for the Convertible Preferred Stock, Series CC. Filed with Registrant's Registration Statement No. 333-03749 and incorporated herein by reference.

- 3.16 Certificate of Correction of Certificate of Determination for the Convertible Participating Preferred Stock. Filed with Registrant's Registration Statement No. 333-08791 and incorporated herein by reference.
- 3.17 Certificate of Determination for 8-5/8% Cumulative Preferred Stock, Series I. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8-5/8% Cumulative Preferred Stock, Series I and incorporated herein by reference.
- 3.18 Certificate of Amendment of Articles of Incorporation. Filed with Registrant's Registration Statement No. 333-18395 and incorporated herein by reference.
- 3.19 Certificate of Determination for Equity Stock, Series A. Filed with Registrant's Form 10-Q for the quarterly period ended June 30, 1997 and incorporated herein by reference.
- 3.20 Certificate of Determination for Equity Stock, Series AA. Filed with Registrant's Form 10-Q for the quarterly period ended September 30, 1999 and incorporated herein by reference.
- 3.21 Certificate Decreasing Shares Constituting Equity Stock, Series A. Filed with Registrant's Form 10-Q for the quarterly period ended September 30, 1999 and incorporated herein by reference.
- 3.22 Certificate of Determination for Equity Stock, Series A. Filed with Registrant's Form 10-Q for the quarterly period ended September 30, 1999 and incorporated herein by reference.
- 3.23 Certificate of Determination for 8% Cumulative Preferred Stock, Series J. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8% Cumulative Preferred Stock, Series J and incorporated herein by reference.
- 3.24 Certificate of Correction of Certificate of Determination for the 8.25% Convertible Preferred Stock. Filed with Registrant's Registration Statement No. 333-61045 and incorporated herein by reference.
- 3.25 Certificate of Determination for 8-1/4% Cumulative Preferred Stock, Series K. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8-1/4% Cumulative Preferred Stock, Series K and incorporated herein by reference.
- 3.26 Certificate of Determination for 8-1/4% Cumulative Preferred Stock, Series L. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8-1/4% Cumulative Preferred Stock, Series L and incorporated herein by reference.
- 3.27 Certificate of Determination for 8.75% Cumulative Preferred Stock, Series M. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8.75% Cumulative Preferred Stock, Series M and incorporated herein by reference.
- 3.28 Certificate of Determination for Equity Stock, Series AAA. Filed with Registrant's Current Report on Form 8-K dated November 15, 1999 and incorporated herein by reference.
- 3.29 Certificate of Determination for 9.5% Cumulative Preferred Stock, Series N. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference.
- 3.30 Certificate of Determination for 9.125% Cumulative Preferred Stock, Series O. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2000 and incorporated herein by reference.
- 3.31 Certificate of Determination for 8.75% Cumulative Preferred Stock, Series P. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2000 and incorporated herein by reference.

- 3.32 Certificate of Determination for 8.600% Cumulative Preferred Stock, Series, Q. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8.600% Cumulative Preferred Stock, Series Q and incorporated herein by reference.
- 3.33 Amendment to Certificate of Determination for Equity Stock, Series A. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001 and incorporated herein by reference.
- 3.34 Certificate of Determination for 8.000% Cumulative Preferred Stock, Series R. Filed with Registrant's Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8.000% Cumulative Preferred Stock, Series R and incorporated herein by reference.
- 3.35 Certificate of Determination for 7.875% Cumulative Preferred Stock, Series S. Filed with Registrant's Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 7.875% Cumulative Preferred Stock, Series S and incorporated herein by reference.
- 3.36 Certificate of Determination for 7.625% Cumulative Preferred Stock, Series T. Filed with Registrant's Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 7.625% Cumulative Preferred Stock, Series T and incorporated herein by reference.
- 3.37 Certificate of Determination for 7.625% Cumulative Preferred Stock, Series U. Filed with Registrant's Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 7.625% Cumulative Preferred Stock, Series U and incorporated herein by reference.
- 3.38 Amendment to Certificate of Determination for 7.625% Cumulative Preferred Stock, Series T. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002 and incorporated herein by reference.
- 3.39 Certificate of Determination for 7.500% Cumulative Preferred Stock, Series V. Filed with Registrant's Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 7.500% Cumulative Preferred Stock, Series V and incorporated herein by reference.
- 3.40 Certificate of Determination for 6.500% Cumulative Preferred Stock, Series W. Filed with Registrant's Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 6.500% Cumulative Preferred Stock, Series W and incorporated herein by reference.
- 3.41 Certificate of Determination for 6.450% Cumulative Preferred Stock, Series X. Filed with Registrant's Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 6.450% Cumulative Preferred Stock, Series X and incorporated herein by reference.
- 3.42 Certificate of Determination for the 6.85% Cumulative Preferred Stock, Series Y. Filed herewith.
- 3.43 Certificate of Determination for 6.250% Cumulative Preferred Stock, Series Z. Filed with Registrant's Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 6.250% Cumulative Preferred Stock, Series Z and incorporated herein by reference.
- 3.44 Certificate of Determination for 6.125% Cumulative Preferred Stock, Series A. Filed with Registrant's Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 6.125% Cumulative Preferred Stock, Series A and incorporated herein by reference.
- 3.45 Certificate of Determination for 6.40% Cumulative Preferred Stock, Series NN. Filed herewith.
- 3.46 Bylaws, as amended. Filed with Registrant's Registration Statement No. 33-64971 and incorporated herein by reference.

- 3.47 Amendment to Bylaws adopted on May 9, 1996. Filed with Registrant's Registration Statement No. 333-03749 and incorporated herein by reference.
- 3.48 Amendment to Bylaws adopted on June 26, 1997. Filed with Registrant's Registration Statement No. 333-41123 and incorporated herein by reference.
- 3.49 Amendment to Bylaws adopted on January 6, 1998. Filed with Registrant's Registration Statement No. 333-41123 and incorporated herein by reference.
- 3.50 Amendment to Bylaws adopted on February 10, 1998. Filed with Registrant's Current Report on Form 8-K dated February 10, 1998 and incorporated herein by reference.
- 3.51 Amendment to Bylaws adopted on March 4, 1999. Filed with Registrant's Current Report on Form 8-K dated March 4, 1999 and incorporated herein by reference.
- 3.52 Amendment to Bylaws adopted on May 6, 1999. Filed with Registrants' Form 10-Q for the quarterly period ended June 30, 1999 and incorporated herein by reference.
- 3.53 Amendment to Bylaws adopted on November 7, 2002. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002 and incorporated herein by reference.
- 3.54 Amendment to Bylaws adopted on May 8, 2003. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003 and incorporated herein by reference.
- 3.55 Amendment to Bylaws adopted on August 5, 2003. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003 and incorporated herein by reference.
- 3.56 Amendment to Bylaws adopted on March 11, 2004. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference.
- 10.1 Second Amended and Restated Management Agreement by and among Registrant and the entities listed therein dated as of November 16, 1995. Filed with PS Partners, Ltd.'s Annual Report on Form 10-K for the year ended December 31, 1996 and incorporated herein by reference.
- 10.2 Amended Management Agreement between Registrant and Public Storage Commercial Properties Group, Inc. dated as of February 21, 1995. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 1994 and incorporated herein by reference.
- 10.3 Loan Agreement between Registrant and Aetna Life Insurance Company dated as of July 11, 1988. Filed with Registrant's Current Report on Form 8-K dated July 14, 1988 and incorporated herein by reference.
- 10.4 Amendment to Loan Agreement between Registrant and Aetna Life Insurance Company dated as of September 1, 1993. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 1993 and incorporated herein by reference.
- 10.5 Second Amended and Restated Credit Agreement by and among Registrant, Wells Fargo Bank, National Association, as agent, and the financial institutions party thereto dated as of February 25, 1997. Filed with Registrant's Registration Statement No. 333-22665 and incorporated herein by reference.
- 10.6 Note Assumption and Exchange Agreement by and among Public Storage Management, Inc., Public Storage, Inc., Registrant and the holders of the notes dated as of November 13, 1995. Filed with Registrant's Registration Statement No. 33-64971 and incorporated herein by reference.

- 10.7 Registrant's 1990 Stock Option Plan. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 1994 and incorporated herein by reference.
- 10.8* Registrant's 1994 Stock Option Plan. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference.
- 10.9* Registrant's 1996 Stock Option and Incentive Plan. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2000 and incorporated herein by reference.
- 10.10 Deposit Agreement dated as of December 13, 1995, among Registrant, The First National Bank of Boston, and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 8-7/8% Cumulative Preferred Stock, Series G. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8-7/8% Cumulative Preferred Stock, Series G and incorporated herein by reference.
- 10.11 Deposit Agreement dated as of January 25, 1996, among Registrant, The First national Bank of Boston, and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 8.45% Cumulative Preferred Stock, Series H. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8.45% Cumulative Preferred Stock, Series H and incorporated herein by reference.
- 10.12** Employment Agreement between Registrant and B. Wayne Hughes dated as of November 16, 1995. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 1995 and incorporated herein by reference.
- 10.13 Deposit Agreement dated as of November 1, 1996, among Registrant, The First National Bank of Boston, and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 8-5/8% Cumulative Preferred Stock, Series I. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8-5/8% Cumulative Preferred Stock, Series I and incorporated herein by reference.
- 10.14 Limited Partnership Agreement of PSAF Development Partners, L.P. between PSAF Development, Inc. and the Limited Partner dated as of April 10, 1997. Filed with Registrant's Form 10-Q for the quarterly period ended June 30, 1997 and incorporated herein by reference.
- 10.15 Deposit Agreement dated as of August 28, 1997 among Registrant, The First National Bank of Boston, and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 8% Cumulative Preferred Stock, Series J. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8% Cumulative Preferred Stock, Series J and incorporated herein by reference.
- 10.16 Agreement of Limited Partnership of PS Business Parks, L.P. dated as of March 17, 1998. Filed with PS Business Parks, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998 and incorporated herein by reference.
- 10.17 Deposit Agreement dated as of January 19, 1999 among Registrant, BankBoston, N.A. and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 8-1/4% Cumulative Preferred Stock, Series K. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8-1/4% Cumulative Preferred Stock, Series K and incorporated herein by reference.
- 10.18 Agreement and Plan of Merger among Storage Trust Realty, Registrant and Newco Merger Subsidiary, Inc. dated as of November 12, 1998. Filed with Registrant's Registration Statement No. 333-68543 and incorporated herein by reference.

- 10.19 Amendment No. 1 to Agreement and Plan of Merger among Storage Trust Realty, Registrant, Newco Merger Subsidiary, Inc. and STR Merger Subsidiary, Inc. dated as of January 19, 1999. Filed with registrant's Registration Statement No. 333-68543 and incorporated herein by reference.
- 10.20 Amended and Restated Agreement of Limited Partnership of Storage Trust Properties, L.P., dated as of March 12, 1999. Filed with Registrant's Form 10-Q for the quarterly period ended June 30, 1999 and incorporated herein by reference.
- 10.21* Storage Trust Realty 1994 Share Incentive Plan. Filed with Storage Trust Realty's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference.
- 10.22 Amended and Restated Storage Trust Realty Retention Bonus Plan effective as of November 12, 1998. Filed with Registrant's Registration Statement No. 333-68543 and incorporated herein by reference.
- 10.23 Deposit Agreement dated as of March 10, 1999 among Registrant, BankBoston, N.A. and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 8-1/4% Cumulative Preferred Stock, Series L. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8-1/4% Cumulative Preferred Stock, Series L and incorporated herein by reference.
- 10.24 Note Purchase Agreement and Guaranty Agreement with respect to \$100,000,000 of Senior Notes of Storage Trust Properties, L.P. Filed with Storage Trust Realty's Annual Report on Form 10-K for the year ended December 31, 1996 and incorporated herein by reference.
- 10.25 Deposit Agreement dated as of August 17, 1999 among Registrant, BankBoston, N.A. and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 8.75% Cumulative Preferred Stock, Series M. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8.75% Cumulative Preferred Stock, Series M and incorporated herein by reference.
- 10.26 Limited Partnership Agreement of PSAC Development Partners, L.P. among PS Texas Holdings, Ltd., PS Pennsylvania Trust and PSAC Storage Investors, L.L.C. dated as November 15, 1999. Filed with Registrant's Current Report on Form 8-K dated November 15, 1999 and incorporated herein by reference.
- 10.27 Agreement of Limited Liability Company of PSAC Storage Investors, L.L.C. dated as of November 15, 1999. Filed with Registrant's Current Report on Form 8-K dated November 15, 1999 and incorporated herein by reference.
- 10.28 Deposit Agreement dated as of January 14, 2000 among Registrant, BankBoston, N.A. and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of Equity Stock, Series A. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of Equity Stock, Series A and incorporated herein by reference.
- 10.29 Amended and Restated Agreement of Limited Partnership of PSA Institutional Partners, L.P. among PS Texas Holdings, Ltd. and the Limited Partners dated as of March 29, 2000. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference.
- 10.30 Amended and Restated Agreement of Limited Partnership of PSA Institutional Partners, L.P. among PS Texas Holdings, Ltd. and the Limited Partners dated as of August 11, 2000. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2000 and incorporated herein by reference.

- 10.31* Registrant's 2000 Non-Executive/Non-Director Stock Option and Incentive Plan. Filed with Registrant's Registration Statement No, 333-52400 and incorporated herein by reference.
- 10.32 Deposit Agreement dated as of January 19, 2001 among Registrant, Fleet National Bank and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 8.600% Cumulative Preferred Stock, Series Q. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8.600% Cumulative Preferred Stock, Series Q and incorporated herein by reference.
- 10.33* Registrant's 2001 Non-Executive/Non-Director Stock Option and Incentive Plan. Filed with Registrant's Registration Statement No. 333-59218 and incorporated herein by reference.
- 10.34* Registrant's 2001 Stock Option and Incentive Plan. Filed with Registrant's Registration Statement No. 333-59218 and incorporated herein by reference.
- 10.35 Deposit Agreement dated as of September 28, 2001 among Registrant, Fleet National Bank and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 8.000% Cumulative Preferred Stock, Series R. Filed with Registrant's Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8.000% Cumulative Preferred Stock, Series R and incorporated herein by reference.
- 10.36 Deposit Agreement dated as of October 31, 2001 among Registrant, Fleet National Bank and the holder of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 7.875% Cumulative Preferred Stock, Series S. Filed with Registrant's Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 7.875% Cumulative Preferred Stock, Series S and incorporated herein by reference.
- 10.37 Credit Agreement by and among Registrant, Wells Fargo Bank, National Association, as agent, and the financial institutions party thereto dated as of November 1, 2001. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2001 and incorporated herein by reference.
- 10.38 Deposit Agreement dated as of January 18, 2002 among Registrant, Fleet National Bank and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 7.625% Cumulative Preferred Stock, Series T. Filed with Registrant's Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 7.625% Cumulative Preferred Stock, Series T and incorporated herein by reference.
- 10.39 Deposit Agreement dated as of February 19, 2002 among Registrant, Fleet National Bank and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 7.625% Cumulative Preferred Stock, Series U. Filed with Registrant's Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 7.625% Cumulative Preferred Stock, Series U and incorporated herein by reference.
- 10.40 Deposit Agreement dated as of September 30, 2002 among Registrant, Fleet National Bank and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 7.500% Cumulative Preferred Stock, Series V. Filed with Registrant's Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 7.500% Cumulative Preferred Stock, Series V and incorporated herein by reference.
- 10.41** Employment Agreement between Registrant and Harvey Lenkin dated as of August 5, 2003. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003 and incorporated herein by reference.

- 10.42 Deposit Agreement dated as of October 6, 2003 among Registrant, Fleet National Bank and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 6.500% Cumulative Preferred Stock, Series W. Filed with Registrant's Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 6.500% Cumulative Preferred Stock, Series W and incorporated herein by reference.
- 10.43 Deposit Agreement dated as of November 13, 2003 among Registrant, Fleet National Bank and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 6.450% Cumulative Preferred Stock, Series X. Filed with Registrant's Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 6.450% Cumulative Preferred Stock, Series X and incorporated herein by reference.
- 10.44 Deposit Agreement dated as of March 5, 2004 among Registrant, Fleet National Bank and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 6.250% Cumulative Preferred Stock, Series Z. Filed with Registrant's Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 6.250% Cumulative Preferred Stock, Series Z and incorporated herein by reference.
- 10.45 Limited Partnership Agreement of PSAF Acquisition Partners, L.P. between PS Texas Holdings, Ltd. and the Limited Partner dated as of December 18, 2003. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference.
- 10.46 Second Amendment to Amended and Restated Agreement of Limited Partnership of PSA Institutional Partners, L.P. among PS Texas Holdings, Ltd. and the Limited Partners dated as of March 22, 2004. Filed herewith.
- 10.47 Second Amendment to Credit Agreement by and among Registrant, Wells Fargo Bank, National Association, as agent, and the financial institutions party thereto dated as of March 25, 2004. Filed herewith.
- 10.48 Deposit Agreement dated as of March 31, 2004 among Registrant, Fleet National Bank and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 6.125% Cumulative Preferred Stock, Series A. Filed with Registrant's Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 6.125% Cumulative Preferred Stock, Series A and incorporated herein by reference.
- 11 Statement Re: Computation of Ratio of Earnings Per Share. Filed herewith.
- 12 Statement Re: Computation of Ratio of Earnings to Fixed Charges. Filed herewith.
- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
- 31.3 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
- 32 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.

* Compensatory benefit plan.

** Management contract.

(b) Reports on Form 8-K

The Company filed a Current Report on Form 8-K, dated February 25, 2004 (filed February 27, 2004), pursuant to Item 5, in connection with the Company's public offering in March 2004 of depositary shares, each representing 1/1,000 of a share of the Company's 6.250% Cumulative Preferred Stock, Series Z.

The Company furnished a Current Report on Form 8-K dated February 26, 2004 (filed February 27, 2004), pursuant to Item 7 with its press release announcing its results for the quarter ended December 31, 2003.

The Company furnished a Current Report on Form 8-K dated February 27, 2004 (filed March 4, 2004), pursuant to Item 5 announcing the resignation of Marvin M. Lotz.

The Company filed a Current Report on Form 8-K, dated March 19, 2004 (filed March 22, 2004), pursuant to Item 5, in connection with the Company's public offering in March 2004 of depositary shares, each representing 1/1,000 of a share of the Company's 6.1250% Cumulative Preferred Stock, Series A.

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATED: May 7, 2004

PUBLIC STORAGE, INC.

By: /s/ John Reyes
John Reyes
Senior Vice President and Chief Financial Officer
(Principal financial officer and duly authorized officer)

**AMENDMENT TO
CERTIFICATE OF DETERMINATION OF PREFERENCES
OF
10% CUMULATIVE PREFERRED STOCK, SERIES A
OF
PUBLIC STORAGE, INC.**

The undersigned, John Reyes and David Goldberg, Senior Vice President and Secretary, respectively, of PUBLIC STORAGE, INC., a California corporation (the "Corporation"), do hereby certify:

FIRST: Pursuant to and in accordance with the provisions of Section 401(c) of the California Corporations Code and the Articles of Incorporation of the Corporation, the Board of Directors of the Corporation has duly adopted the recitals and resolutions attached hereto as Exhibit A and incorporated herein by reference reducing the authorized number of shares of the Corporation's 10% Cumulative Preferred Stock Series A, from 2,098,750 to 0.

SECOND: There are no currently outstanding shares of the Corporation's 10% Cumulative Preferred Stock, Series A.

We further declare under penalty of perjury under the laws of the State of California that the matters set forth in the foregoing certificate are true and correct of our own knowledge.

IN WITNESS WHEREOF, the undersigned has executed this certificate on March 22, 2004.

/s/ John Reyes

John Reyes
Senior Vice President

/s/ David Goldberg

David Goldberg
Secretary

EXHIBIT A

**RESOLUTION OF THE BOARD OF DIRECTORS
OF
PUBLIC STORAGE, INC.**

**DECREASING TO 0 THE AUTHORIZED NUMBER OF SHARES OF
10% CUMULATIVE PREFERRED STOCK, SERIES A**

RESOLVED: That, pursuant to the authority conferred in the Board of Directors by Article III of the Restated Articles of Incorporation of this corporation and the resolutions creating the corporation's 10% Cumulative Preferred Stock, Series A, the number of shares constituting the corporation's 10% Cumulative Preferred Stock, Series A, is decreased from 2,098,750 shares to 0.

**6.850% CUMULATIVE PREFERRED STOCK, SERIES Y
OF
PUBLIC STORAGE, INC.**

The undersigned, Harvey Lenkin and David Goldberg, President and Secretary, respectively, of PUBLIC STORAGE, INC., a California corporation, do hereby certify:

FIRST: The Restated Articles of Incorporation of the Corporation authorize the issuance of 50,000,000 shares of stock designated "preferred shares," issuable from time to time in one or more series, and authorize the Board of Directors to fix the number of shares constituting any such series, and to determine or alter the dividend rights, dividend rate, conversion rights, voting rights, right and terms of redemption (including sinking fund provisions), the redemption price or prices and the liquidation preference of any wholly unissued series of such preferred shares, and the number of shares constituting any such series.

SECOND: The Board of Directors of the Corporation did duly adopt the resolutions attached hereto as Exhibit A and incorporated herein by reference authorizing and providing for the creation of a series of preferred shares to be known as "6.850% Cumulative Preferred Stock, Series Y" consisting of 1,600,000 shares, none of the shares of such series having been issued.

We further declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of our own knowledge.

IN WITNESS WHEREOF, the undersigned have executed this certificate this 8th day of December, 2003.

/s/ Harvey Lenkin

Harvey Lenkin
President

/s/ David Goldberg

David Goldberg
Secretary

EXHIBIT A**RESOLUTION OF THE BOARD OF DIRECTORS
OF
PUBLIC STORAGE, INC.****ESTABLISHING A SERIES OF 6.85% CUMULATIVE
PREFERRED STOCK, SERIES Y**

RESOLVED that pursuant to the authority conferred upon the Board of Directors by Article III of the Restated Articles of Incorporation of this Corporation, there is hereby established a series of the authorized preferred shares of this Corporation having a par value of \$.01 per share, which series shall be designated

“6.85% Cumulative Preferred Stock, Series Y,” shall consist of 1,600,000 shares and shall have the following rights, preferences and privileges:

(a) Dividend Rights.

(1) Dividends shall be payable in cash on the shares of this Series when, as and if declared by the Board of Directors, out of funds legally available therefor: (i) for the period (the “Initial Dividend Period”) from the Deemed Original Issue Date (as defined below) to but excluding April 1, 2004, and (ii) for each quarterly dividend period thereafter (the Initial Dividend Period and each quarterly dividend period being hereinafter individually referred to as a “Dividend Period” and collectively referred to as “Dividend Periods”), which quarterly Dividend Periods shall be in four equal amounts and shall commence on January 1, April 1, July 1 and October 1 in each year (each, a “Dividend Period Commencement Date”), commencing on April 1, 2004, and shall end on and include the day next preceding the next Dividend Period Commencement Date, at a rate per annum equal to 6.85% of the \$25 per share stated value thereof (the “Dividend Rate”). Dividends on each share of this Series shall be cumulative from the Deemed Original Issue Date of such share and shall be payable, without interest thereon, when, as and if declared by the Board of Directors, on or before March 31, June 30, September 30 and December 31 of each year, commencing on December 31, 2003 or, in the case of shares of this Series with a Deemed Original Issue Date after December 31, 2003, the first such dividend payment date following such Deemed Original Issue Date; provided, that if any such day shall be a Saturday, Sunday, or a day on which banking institutions in the State of New York or the State of California are authorized or obligated by law to close, or a day which is or is declared a national or a New York or California state holiday (any of the foregoing a “Non-Business Day”), then the payment date shall be the next succeeding day which is not a Non-Business Day. Each such dividend shall be paid to the holders of record of shares of this Series as they appear on the stock register of the Corporation on such record date, not more than 45 days nor less than 15 days preceding the payment date thereof, as shall be fixed by the Board of Directors. Dividends on account of arrears for any past Dividend Periods may be declared and paid at any time, without reference to any regular dividend payment date, to holders of record on such date, not more than 45 days nor less than 15 days preceding the payment date thereof, as may be fixed by the Board of Directors. After full cumulative dividends on this Series have been paid or declared and funds therefor set aside for payment, including for the then current Dividend Period, the holders of shares of this Series will not be entitled to any further dividends with respect to that Dividend Period.

“Deemed Original Issue Date” means January 7, 2004.

(2) Dividends payable on shares of this Series for any period greater or less than a full Dividend Period, including the Initial Dividend Period, shall be computed on the basis of a 360-day year consisting of twelve 30-day months.

(3) The Corporation shall not declare or pay or set apart for payment any dividends on any series of preferred shares ranking, as to dividends, on a parity with or junior to the shares of this Series unless full cumulative dividends have been or contemporaneously are declared and paid, or declared and a sum sufficient for payment thereof is set apart for payment, for all Dividend Periods terminating on or prior to the date of payment of any such dividends on such other series of preferred shares. When dividends are not paid in full upon the shares of this Series and any other series of preferred shares ranking on a parity therewith as to dividends (including, without limitation, the shares of the Corporation's 9.50% Cumulative Preferred Stock, Series D (the "Series D Preferred Stock"), 10% Cumulative Preferred Stock, Series E (the "Series E Preferred Stock"), 9.75% Cumulative Preferred Stock, Series F (the "Series F Preferred Stock"), 8 1/4% Cumulative Preferred Stock, Series K (the "Series K Preferred Stock"), 8 1/4% Cumulative Preferred Stock, Series L (the "Series L Preferred Stock"), 8.75% Cumulative Preferred Stock, Series M (the "Series M Preferred Stock"), 9.5% Cumulative Preferred Stock, Series N (the "Series N Preferred Stock"), 9.125% Cumulative Preferred Stock, Series O (the "Series O Preferred Stock"), 8.75% Cumulative Preferred Stock, Series P (the "Series P Preferred Stock"), 8.600% Cumulative Preferred Stock, Series Q (the "Series Q Preferred Stock"), 8.000% Cumulative Preferred Stock, Series R (the "Series R Preferred Stock"), 7.875% Cumulative Preferred Stock, Series S (the "Series S Preferred Stock"), 7.625% Cumulative Preferred Stock, Series T (the "Series T Preferred Stock"), 7.625% Cumulative Preferred Stock, Series U (the "Series U Preferred Stock"), 7.500% Cumulative Preferred Stock, Series V (the "Series V Preferred Stock"), 6.500% Cumulative Preferred Stock, Series W (the "Series W Preferred Stock") and 6.450% Cumulative Preferred Stock, Series X (the "Series X Preferred Stock"), all dividends declared upon shares of this Series and any other series of preferred shares ranking on a parity therewith as to dividends shall be declared pro rata so that the amount of dividends declared per share on the shares of this Series and such other series of preferred shares shall in all cases bear to each other that same ratio that the accumulated dividends per share on the shares of this Series and such other series of preferred shares bear to each other. Except as provided in the preceding sentence, unless full cumulative dividends on the shares of this Series have been paid for all past Dividend Periods, no dividends (other than in shares of the Corporation's common stock, par value \$.10 per share (together with any other shares of capital stock of the Corporation into which such shares shall be reclassified or changed ("Common Shares"), or another stock ranking junior to the shares of this Series as to dividends and upon liquidation) shall be declared or paid or set aside for payment nor shall any other distribution be made upon the Common Shares or on any other stock of the Corporation ranking junior to or on a parity with the shares of this Series as to dividends or upon liquidation. Unless full cumulative dividends on the shares of this Series have been paid for all past Dividend Periods, no Common Shares or any other stock of the Corporation ranking junior to or on a parity with the shares of this Series as to dividends or upon liquidation shall be redeemed, purchased, or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any shares of any such stock) by the Corporation or any subsidiary, except by conversion into or exchange for stock of the Corporation ranking junior to the shares of this Series as to dividends and upon liquidation.

(b) Liquidation.

In the event of any voluntary or involuntary liquidation, dissolution, or winding up of the Corporation, the holders of shares of this Series are entitled to receive out of the assets of the Corporation available for distribution to shareholders, before any distribution of assets is made to holders of Common Shares or any other class or series of shares ranking junior to the shares of this Series upon liquidation, liquidating distributions in the amount of \$25 per share plus all accumulated and unpaid dividends

(whether or not earned or declared) for the then current and all past Dividend Periods. If, upon any voluntary or involuntary liquidation, dissolution, or winding up of the Corporation the amounts payable with respect to the shares of this Series and any other shares of the Corporation ranking as to any such distribution on a parity with the shares of this Series are not paid in full, the holders of shares of this Series and of such other shares (including the shares of Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock, Series K Preferred Stock, Series L Preferred Stock, Series M Preferred Stock, Series N Preferred Stock, Series O Preferred Stock, Series P Preferred Stock, Series Q Preferred Stock, Series R Preferred Stock, Series S Preferred Stock, Series T Preferred Stock, Series U Preferred Stock, Series V Preferred Stock, Series W Preferred Stock and Series X Preferred Stock) will share ratably in any such distribution of assets of the Corporation in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of shares of this Series will not be entitled to any further participation in any distribution of assets by the Corporation.

(1) Written notice of any such liquidation, dissolution or winding up of the Corporation, stating the payment date or dates when, and the place or places where the amounts distributable in such circumstances shall be payable, shall be given by first class mail, postage pre-paid, not less than 30 nor more than 60 days prior to the payment date stated therein, to each record holder of the shares of this Series at the respective addresses of such holders as the same shall appear on the stock transfer records of the Corporation.

(2) For purposes of liquidation rights, a reorganization (as defined in Section 181 of the California Corporations Code) or consolidation or merger of the Corporation with or into any other corporation or corporations or a sale of all or substantially all of the assets of the Corporation shall be deemed not to be a liquidation, dissolution or winding up of the Corporation.

(c) Redemption.

(1) Except as provided in clause (9) below, the shares of this Series are not redeemable prior to January 7, 2009. On and after such date, the shares of this Series are redeemable at the option of the Corporation, by resolution of the Board of Directors, in whole or in part, from time to time upon not less than 30 nor more than 60 days' notice, at a cash redemption price of \$25 per share plus all accumulated and unpaid dividends (whether or not earned or declared) to the date of redemption.

(2) If fewer than all the outstanding shares of this Series are to be redeemed, the number of shares to be redeemed will be determined by the Board of Directors, and such shares shall be redeemed pro rata from the holders of record of such shares in proportion to the number of such shares held by such holders (with adjustments to avoid redemption of fractional shares) or by lot in a manner determined by the Board of Directors.

(3) Notwithstanding the foregoing, if any dividends, including any accumulation, on the shares of this Series are in arrears, no shares of this Series shall be redeemed unless all outstanding shares of this Series are simultaneously redeemed, and the Corporation shall not purchase or otherwise acquire, directly or indirectly, any shares of this Series; provided, however, that the foregoing shall not prevent the purchase or acquisition of shares of this Series pursuant to a purchase or exchange offer provided such offer is made on the same terms to all holders of shares of this Series.

(4) Immediately prior to any redemption of shares of this Series, the Corporation shall pay, in cash, any accumulated and unpaid dividends through the redemption date, unless a redemption date falls after a dividend payment record date and prior to the corresponding dividend payment date, in which case each holder of shares of this Series at the close of business on such

dividend payment record date shall be entitled to the dividend payable on such shares on the corresponding dividend payment date notwithstanding the redemption of such shares before such dividend payment date. Except as expressly provided herein above, the Corporation shall make no payment or allowance for unpaid dividends, whether or not in arrears, on shares of this Series called for redemption.

(5) Notice of redemption shall be given by publication in a newspaper of general circulation in the County of Los Angeles and the City of New York, such publication to be made once a week for two successive weeks, commencing not less than 30 nor more than 60 days prior to the date fixed for redemption thereof. A similar notice will be mailed by the Company by first class mail, postage pre-paid, to each record holder of the shares of this Series to be redeemed, not less than 30 nor more than 60 days prior to such redemption date, to the respective addresses of such holders as the same shall appear on the stock transfer records of the Corporation. Each notice shall state: (i) the redemption date; (ii) the number of shares of this Series to be redeemed; (iii) the redemption price; (iv) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; and (v) that dividends on the shares to be redeemed will cease to accumulate on such redemption date. If fewer than all the shares of this Series held by any holder are to be redeemed, the notice mailed to such holder shall also specify the number of shares of this Series to be redeemed from such holder.

(6) In order to facilitate the redemption of shares of this Series, the Board of Directors may fix a record date for the determination of the shares to be redeemed, such record date to be not less than 30 nor more than 60 days prior to the date fixed for such redemption.

(7) Notice having been given as provided above, from and after the date fixed for the redemption of shares of this Series by the Corporation (unless the Corporation shall fail to make available the money necessary to effect such redemption), the holders of shares selected for redemption shall cease to be shareholders with respect to such shares and shall have no interest in or claim against the Corporation by virtue thereof and shall have no voting or other rights with respect to such shares, except the right to receive the moneys payable upon such redemption from the Corporation, less any required tax withholding amount, without interest thereon, upon surrender (and endorsement or assignment of transfer, if required by the Corporation and so stated in the notice) of their certificates, and the shares represented thereby shall no longer be deemed to be outstanding. If fewer than all the shares represented by a certificate are redeemed, a new certificate shall be issued, without cost to the holder thereof, representing the unredeemed shares. The Corporation may, at its option, at any time after a notice of redemption has been given, deposit the redemption price for the shares of this Series designated for redemption and not yet redeemed, plus any accumulated and unpaid dividends thereon to the date fixed for redemption, with the transfer agent or agents for this Series, as a trust fund for the benefit of the holders of the shares of this Series designated for redemption, together with irrevocable instructions and authority to such transfer agent or agents that such funds be delivered upon redemption of such shares and to pay, on and after the date fixed for redemption or prior thereto, the redemption price of the shares to their respective holders upon the surrender of their share certificates. From and after the making of such deposit, the holders of the shares designated for redemption shall cease to be shareholders with respect to such shares and shall have no interest in or claim against the Corporation by virtue thereof and shall have no voting or other rights with respect to such shares, except the right to receive from such trust fund the moneys payable upon such redemption, without interest thereon, upon surrender (and endorsement, if required by the Corporation) of their certificates, and the shares represented thereby shall no longer be deemed to be outstanding. Any balance of such moneys remaining unclaimed at the end of the five-year period commencing on the date fixed for redemption shall be repaid to the Corporation upon its request expressed in a resolution of its Board of Directors.

(8) Any shares of this Series that shall at any time have been redeemed shall, after such redemption, have the status of authorized but unissued preferred shares, without designation as to series until such shares are once more designated as part of a particular series by the Board of Directors.

(9) If the Board of Directors of the Corporation shall, at any time and in good faith, be of the opinion that ownership of securities of the Corporation has or may become concentrated to an extent that may prevent the Corporation from qualifying as a real estate investment trust under the REIT Provisions of the Internal Revenue Code, then the Board of Directors shall have the power, by lot or other means deemed equitable by them to prevent the transfer of and/or to call for redemption a number of shares of this Series sufficient, in the opinion of the Board of Directors, to maintain or bring the direct or indirect ownership thereof into conformity with the requirements of such a real estate investment trust under the REIT Provisions of the Internal Revenue Code. The redemption price to be paid for shares of this Series so called for redemption, on the date fixed for redemption, shall be (i) the closing sale price on any national securities exchange or trading market on which the shares of this Series are listed, or (ii) the last quoted price as reported by the National Association of Securities Dealers, Inc. Automated Quotation System or any other United States automated inter-dealer quotation system, on the last business day prior to the redemption date, or if the shares of this Series so called for redemption are not listed on any such exchange, trading market or quotation system, at \$25 per share of this Series (subject to adjustment in the case of stock splits, combinations, stock dividends and similar transactions); provided that if interests in shares of this Series are represented by depositary shares, then the redemption price shall be determined in accordance with the foregoing, but with respect to one depositary share, multiplied by the number of depositary shares that together represent an interest in one share of this Series. From and after the date fixed for redemption by the Board of Directors, the holder of any shares of this Series so called for redemption shall cease to be entitled to any distributions, voting rights and other benefits with respect to such shares of this Series, other than the right to payment of the redemption price determined as aforesaid. "REIT Provisions of the Internal Revenue Code" shall mean Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. In order to exercise the redemption option set forth in this clause (9), with respect to the shares of this Series, the Corporation shall give notice of redemption by publication in a newspaper of general circulation in the County of Los Angeles and the City of New York, such publication to be made once a week for two successive weeks, commencing not less than 30 nor more than 60 days prior to the date fixed for redemption. A similar notice will be mailed by the Corporation by first class mail, postage pre-paid, to each record holder of the shares of this Series to be redeemed, not less than 30 nor more than 60 days prior to such redemption date, to the respective addresses of such holders as the same shall appear on the stock transfer records of the Corporation. Each notice shall state: (i) the redemption date; (ii) the number of shares of this Series to be redeemed; (iii) the redemption price; (iv) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; and (v) that dividends on the shares to be redeemed will cease to accumulate on such redemption date. If fewer than all the shares of this Series held by any holder are to be redeemed, the notice mailed to such holder shall also specify the number of shares of this Series to be redeemed from such holder.

(d) Voting Rights. The shares of this Series shall not have any voting powers either general or special, except as required by law, except that:

(1) If the Corporation shall fail to pay full cumulative dividends on the shares of this Series or any other of its preferred shares for six quarterly dividend payment periods, whether or not consecutive (a "Dividend Default"), the holders of all outstanding preferred shares, voting as a single class without regard to series, will be entitled to elect two Directors until full cumulative dividends for all past dividend payment periods on all preferred shares have been paid or declared and funds therefor set apart for payment. Such right to vote separately as a class to elect Directors shall, when vested, be subject, always, to the same provisions for the vesting of such right to elect Directors

separately as a class in the case of future Dividend Defaults. At any time when such right to elect Directors separately as a class shall have so vested, the Corporation may, and upon the written request of the holders of record of not less than 20% of the total number of preferred shares of the Corporation then outstanding shall, call a special meeting of stockholders for the election of Directors. In the case of such a written request, such special meeting shall be held within 90 days after the delivery of such request and, in either case, at the place and upon the notice provided by law and in the Bylaws of the Corporation, provided that the Corporation shall not be required to call such a special meeting if such request is received less than 120 days before the date fixed for the next ensuing Annual Meeting of Shareholders of the Corporation and the holders of all classes of outstanding preferred shares are afforded the opportunity to elect such Directors (or fill any vacancy) at such Annual Meeting of Shareholders. Directors elected as aforesaid shall serve until the next Annual Meeting of Shareholders of the Corporation or until their respective successors shall be elected and qualified. If, prior to the end of the term of any Director elected as aforesaid, a vacancy in the office of such Director shall occur during the continuance of a Dividend Default by reason of death, resignation, or disability, such vacancy shall be filled for the unexpired term by the appointment of a new Director for the unexpired term of such former Director, such appointment to be made by the remaining Director elected as aforesaid.

(2) The affirmative vote or consent of the holders of at least $66\frac{2}{3}\%$ of the outstanding shares of this Series, voting separately as a class, will be required for any amendment to the Articles of Incorporation or to subsection (1) of Section 7 of the Bylaws of the Corporation that will adversely alter or change the powers, preferences, privileges or rights of the shares of this Series, except as set forth below. The affirmative vote or consent of the holders of at least $66\frac{2}{3}\%$ of the outstanding shares of this Series and any other series of preferred shares ranking on a parity with this Series as to dividends and upon liquidation (including the shares of Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock, Series K Preferred Stock, Series L Preferred Stock, Series M Preferred Stock, Series N Preferred Stock, Series O Preferred Stock, Series P Preferred Stock, Series Q Preferred Stock, Series R Preferred Stock, Series S Preferred Stock, Series T Preferred Stock, Series U Preferred Stock, Series V Preferred Stock, Series W Preferred Stock and Series X Preferred Stock), voting as a single class without regard to series, will be required to issue, authorize or increase the authorized amount of any class or series of shares ranking prior to this Series as to dividends or upon liquidation or to issue or authorize any obligation or security convertible into or evidencing a right to purchase any such security, but the Articles of Incorporation may be amended to increase the number of authorized preferred shares ranking on a parity with or junior to this Series or to create another class of preferred shares ranking on a parity with or junior to this Series without the vote of the holders of outstanding shares of this Series.

(e) Conversion. The shares of this Series are not convertible into shares of any other class or series of the capital stock of the Corporation.

**CERTIFICATE OF DETERMINATION OF PREFERENCES
OF
6.40% CUMULATIVE PREFERRED STOCK, SERIES NN
OF
PUBLIC STORAGE, INC.**

The undersigned, John Reyes and David Goldberg, President and Secretary, respectively, of PUBLIC STORAGE, INC., a California corporation, do hereby certify:

FIRST: The Restated Articles of Incorporation of the Corporation authorize the issuance of 50,000,000 shares of stock designated "preferred shares," issuable from time to time in one or more series, and authorize the Board of Directors to fix the number of shares constituting any such series, and to determine or alter the dividend rights, dividend rate, conversion rights, voting rights, right and terms of redemption (including sinking fund provisions), the redemption price or prices and the liquidation preference of any wholly unissued series of such preferred shares, and the number of shares constituting any such series.

SECOND: The Board of Directors of the Corporation did duly adopt the resolutions attached hereto as Exhibit A and incorporated herein by reference authorizing and providing for the creation of a series of preferred shares to be known as "6.40% Cumulative Preferred Shares, Series NN" consisting of 9,600 shares, none of the shares of such series having been issued.

We further declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of our own knowledge.

IN WITNESS WHEREOF, the undersigned have executed this certificate this 22nd day of March, 2004.

/s/ John Reyes_____

John Reyes
Senior Vice President

/s/ David Goldberg_____

David Goldberg
Secretary

EXHIBIT A

**RESOLUTION OF THE BOARD OF DIRECTORS
OF
PUBLIC STORAGE, INC.**

**ESTABLISHING A SERIES OF 6.40% CUMULATIVE REDEEMABLE
PREFERRED STOCK, SERIES NN**

RESOLVED that pursuant to the authority conferred upon the Board of Directors by Article III of the Restated Articles of Incorporation of this Corporation, there is hereby established a series of the authorized preferred shares of this Corporation having a par value of \$.01 per share, which series shall be designated "6.40% Cumulative Preferred Stock, Series NN," shall consist of 9,600 shares and shall have the following rights, preferences and privileges:

(a) Dividend Rights.

(1) Dividends shall be payable in cash on the shares of this Series when, as and if declared by the Board of Directors, out of funds legally available therefor: (i) for the period (the "Initial Dividend Period") from the date of issuance of such share (the "Issue Date") to but excluding the first day of the first calendar quarter occurring after the Issue Date and (ii) for each quarterly dividend period thereafter (the Initial Dividend Period and each quarterly dividend period being hereinafter individually referred to as a "Dividend Period" and collectively referred to as "Dividend Periods"), which quarterly Dividend Periods shall be in four equal amounts and shall commence on January 1, April 1, July 1 and October 1 in each year (each, a "Dividend Period Commencement Date"), commencing on the first day of the first calendar quarter occurring after the Issue Date, and shall end on and include the day next preceding the next Dividend Period Commencement Date, at a rate per annum equal to 6.40% of the \$25,000 per share stated value thereof (the "Dividend Rate"). Dividends on each share of this Series shall be cumulative from the Issue Date of such share and shall be payable (i) quarterly, in arrears, on or before the last day of each Dividend Period and (ii) in the event of redemption, on the applicable redemption date; provided, that if any such day shall be a Saturday, Sunday, or a day on which banking institutions in the State of New York or the State of California are authorized or obligated by law to close, or a day which is or is declared a national or a New York or California state holiday (any of the foregoing a "Non-Business Day"), then the payment date shall be the next succeeding day which is not a Non-Business Day. Each such dividend shall be paid to the holders of record of shares of this Series as they appear on the stock register of the Corporation on such record date, not more than 45 days nor less than 15 days preceding the payment date thereof, as shall be fixed by the Board of Directors. Dividends on account of arrears for any past Dividend Periods may be declared and paid at any time, without reference to any regular dividend payment date, to holders of record on such date, not more than 45 days nor less than 15 days preceding the payment date thereof, as may be fixed by the Board of Directors. After full cumulative dividends on this Series have been paid or declared and funds therefor set aside for payment, including for the then current Dividend Period, the holders of shares of this Series will not be entitled to any further dividends with respect to that Dividend Period.

(2) Dividends payable on shares of this Series for any period greater or less than a full Dividend Period, including the Initial Dividend Period, shall be computed on the basis of a 360-day year consisting of twelve 30-day months.

(3) The Corporation shall not declare or pay or set apart for payment any dividends on any series of preferred shares ranking, as to dividends, on a parity with or junior to the shares of this Series unless full cumulative dividends have been or contemporaneously are declared and paid, or declared and a sum sufficient for payment thereof is set apart for payment, for all Dividend Periods terminating on or prior to the date of payment of any such dividends on such other series of preferred shares. When dividends are not paid in full upon the shares of this Series and any other series of preferred shares ranking on a parity therewith as to dividends (including, without limitation, the shares of the Corporation's 9.50% Cumulative Preferred Stock, Series D (the "Series D Preferred Stock"), 10% Cumulative Preferred Stock, Series E (the "Series E Preferred Stock"), 9.75% Cumulative Preferred Stock, Series F (the "Series F Preferred Stock"), 8.75% Cumulative Preferred Stock, Series M (the "Series M Preferred Stock"), 9.5% Cumulative Preferred Stock, Series N (the "Series N Preferred Stock"), 9.125% Cumulative Preferred Stock, Series O (the "Series O Preferred Stock"), 8.75% Cumulative Preferred Stock, Series P (the "Series P Preferred Stock"), 8.600% Cumulative Preferred Stock, Series Q (the "Series Q Preferred Stock"), 8.000% Cumulative Preferred Stock, Series R (the "Series R Preferred Stock"), 7.875% Cumulative Preferred Stock, Series S (the "Series S Preferred Stock"), 7.625% Cumulative Preferred Stock, Series T (the "Series T Preferred Stock"), 7.625% Cumulative Preferred Stock, Series U (the "Series U Preferred Stock"), 7.500% Cumulative Preferred Stock, Series V (the "Series V Preferred Stock"), 6.500% Cumulative Preferred Stock, Series W (the "Series W Preferred Stock"), 6.450% Cumulative Preferred Stock, Series X (the "Series X Preferred Stock"), 6.850% Cumulative Preferred Stock, Series Y (the "Series Y Preferred Stock"), and 6.250% Cumulative Preferred Stock, Series Z (the "Series Z Preferred Stock") all dividends declared upon shares of this Series and any other series of preferred shares ranking on a parity therewith as to dividends shall be declared pro rata so that the amount of dividends declared per share on the shares of this Series and such other series of preferred shares shall in all cases bear to each other that same ratio that the accumulated dividends per share on the shares of this Series and such other series of preferred shares bear to each other. Except as provided in the preceding sentence, unless full cumulative dividends on the shares of this Series have been paid for all past Dividend Periods, no dividends (other than in shares of the Corporation's common stock, par value \$.10 per share (together with any other shares of capital stock of the Corporation into which such shares shall be reclassified or changed ("Common Shares"), or another stock ranking junior to the shares of this Series as to dividends and upon liquidation) shall be declared or paid or set aside for payment nor shall any other distribution be made upon the Common Shares or on any other stock of the Corporation ranking junior to or on a parity with the shares of this Series as to dividends or upon liquidation. Unless full cumulative dividends on the shares of this Series have been paid for all past Dividend Periods, no Common Shares or any other stock of the Corporation ranking junior to or on a parity with the shares of this Series as to dividends or upon liquidation shall be redeemed, purchased, or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any shares of any such stock) by the Corporation or any subsidiary, except by conversion into or exchange for stock of the Corporation ranking junior to the shares of this Series as to dividends and upon liquidation.

(b) Liquidation.

In the event of any voluntary or involuntary liquidation, dissolution, or winding up of the Corporation, the holders of shares of this Series are entitled to receive out of the assets of the Corporation available for distribution to shareholders, before any distribution of assets is made to holders of Common Shares or any other class or series of shares ranking junior to the shares of this Series upon liquidation, liquidating distributions in the amount of \$25,000 per share plus all accumulated and unpaid dividends (whether or not earned or declared) for the then current and all past Dividend Periods. If, upon any voluntary or involuntary liquidation, dissolution, or winding up of the Corporation the amounts payable with respect to the shares of this Series and any other shares of the

Corporation ranking as to any such distribution on a parity with the shares of this Series are not paid in full, the holders of shares of this Series and of such other shares (including the shares of Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock, Series M Preferred Stock, Series N Preferred Stock, Series O Preferred Stock, Series P Preferred Stock, Series Q Preferred Stock, Series R Preferred Stock, Series S Preferred Stock, Series T Preferred Stock, Series U Preferred Stock, Series V Preferred Stock, Series W Preferred Stock, Series X Preferred Stock, Series Y Preferred Stock and Series Z Preferred Stock) will share ratably in any such distribution of assets of the Corporation in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of shares of this Series will not be entitled to any further participation in any distribution of assets by the Corporation.

(1) Written notice of any such liquidation, dissolution or winding up of the Corporation, stating the payment date or dates when, and the place or places where the amounts distributable in such circumstances shall be payable, shall be given by first class mail, postage pre-paid, not less than 30 nor more than 60 days prior to the payment date stated therein, to each record holder of the shares of this Series at the respective addresses of such holders as the same shall appear on the stock transfer records of the Corporation.

(2) For purposes of liquidation rights, a reorganization (as defined in Section 181 of the California Corporations Code) or consolidation or merger of the Corporation with or into any other corporation or corporations or a sale of all or substantially all of the assets of the Corporation shall be deemed not to be a liquidation, dissolution or winding up of the Corporation.

(c) Redemption.

(1) Except as provided in clause (9) below, the shares of this Series are not redeemable prior to March 17, 2010. On and after such date, the shares of this Series are redeemable at the option of the Corporation, by resolution of the Board of Directors, in whole or in part, from time to time upon not less than 30 nor more than 60 days' notice, at a cash redemption price of \$25,000 per share plus all accumulated and unpaid dividends (whether or not earned or declared) to the date of redemption.

(2) If fewer than all the outstanding shares of this Series are to be redeemed, the number of shares to be redeemed will be determined by the Board of Directors, and such shares shall be redeemed pro rata from the holders of record of such shares in proportion to the number of such shares held by such holders (with adjustments to avoid redemption of fractional shares) or by lot in a manner determined by the Board of Directors.

(3) Notwithstanding the foregoing, if any dividends, including any accumulation, on the shares of this Series are in arrears, no shares of this Series shall be redeemed unless all outstanding shares of this Series are simultaneously redeemed, and the Corporation shall not purchase or otherwise acquire, directly or indirectly, any shares of this Series; provided, however, that the foregoing shall not prevent the purchase or acquisition of shares of this Series pursuant to a purchase or exchange offer provided such offer is made on the same terms to all holders of shares of this Series.

(4) Immediately prior to any redemption of shares of this Series, the Corporation shall pay, in cash, any accumulated and unpaid dividends through the redemption date, unless a redemption date falls after a dividend payment record date and prior to the corresponding dividend payment date, in which case each holder of shares of this Series at the close of business on such dividend payment record date shall be entitled to the dividend payable on such shares on the corresponding dividend payment date notwithstanding the redemption of such shares before such dividend payment date.

Except as expressly provided herein above, the Corporation shall make no payment or allowance for unpaid dividends, whether or not in arrears, on shares of this Series called for redemption.

(5) Notice of redemption shall be given by publication in a newspaper of general circulation in the County of Los Angeles and the City of New York, such publication to be made once a week for two successive weeks, commencing not less than 30 nor more than 60 days prior to the date fixed for redemption thereof. A similar notice will be mailed by the Company by first class mail, postage pre-paid, to each record holder of the shares of this Series to be redeemed, not less than 30 nor more than 60 days prior to such redemption date, to the respective addresses of such holders as the same shall appear on the stock transfer records of the Corporation. Each notice shall state: (i) the redemption date; (ii) the number of shares of this Series to be redeemed; (iii) the redemption price; (iv) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; and (v) that dividends on the shares to be redeemed will cease to accumulate on such redemption date. If fewer than all the shares of this Series held by any holder are to be redeemed, the notice mailed to such holder shall also specify the number of shares of this Series to be redeemed from such holder.

(6) In order to facilitate the redemption of shares of this Series, the Board of Directors may fix a record date for the determination of the shares to be redeemed, such record date to be not less than 30 nor more than 60 days prior to the date fixed for such redemption.

(7) Notice having been given as provided above, from and after the date fixed for the redemption of shares of this Series by the Corporation (unless the Corporation shall fail to make available the money necessary to effect such redemption), the holders of shares selected for redemption shall cease to be shareholders with respect to such shares and shall have no interest in or claim against the Corporation by virtue thereof and shall have no voting or other rights with respect to such shares, except the right to receive the moneys payable upon such redemption from the Corporation, less any required tax withholding amount, without interest thereon, upon surrender (and endorsement or assignment of transfer, if required by the Corporation and so stated in the notice) of their certificates, and the shares represented thereby shall no longer be deemed to be outstanding. If fewer than all the shares represented by a certificate are redeemed, a new certificate shall be issued, without cost to the holder thereof, representing the unredeemed shares. The Corporation may, at its option, at any time after a notice of redemption has been given, deposit the redemption price for the shares of this Series designated for redemption and not yet redeemed, plus any accumulated and unpaid dividends thereon to the date fixed for redemption, with the transfer agent or agents for this Series, as a trust fund for the benefit of the holders of the shares of this Series designated for redemption, together with irrevocable instructions and authority to such transfer agent or agents that such funds be delivered upon redemption of such shares and to pay, on and after the date fixed for redemption or prior thereto, the redemption price of the shares to their respective holders upon the surrender of their share certificates. From and after the making of such deposit, the holders of the shares designated for redemption shall cease to be shareholders with respect to such shares and shall have no interest in or claim against the Corporation by virtue thereof and shall have no voting or other rights with respect to such shares, except the right to receive from such trust fund the moneys payable upon such redemption, without interest thereon, upon surrender (and endorsement, if required by the Corporation) of their certificates, and the shares represented thereby shall no longer be deemed to be outstanding. Any balance of such moneys remaining unclaimed at the end of the five-year period commencing on the date fixed for redemption shall be repaid to the Corporation upon its request expressed in a resolution of its Board of Directors.

(8) Any shares of this Series that shall at any time have been redeemed shall, after such redemption, have the status of authorized but unissued preferred shares, without designation as to

series until such shares are once more designated as part of a particular series by the Board of Directors.

(9) If the Board of Directors of the Corporation shall, at any time and in good faith, be of the opinion that ownership of securities of the Corporation has or may become concentrated to an extent that may prevent the Corporation from qualifying as a real estate investment trust under the REIT Provisions of the Internal Revenue Code, then the Board of Directors shall have the power, by lot or other means deemed equitable by them to prevent the transfer of and/or to call for redemption a number of shares of this Series sufficient, in the opinion of the Board of Directors, to maintain or bring the direct or indirect ownership thereof into conformity with the requirements of such a real estate investment trust under the REIT Provisions of the Internal Revenue Code. The redemption price to be paid for shares of this Series so called for redemption, on the date fixed for redemption, shall be (i) the closing sale price on any national securities exchange or trading market on which the shares of this Series are listed, or (ii) the last quoted price as reported by the National Association of Securities Dealers, Inc. Automated Quotation System or any other United States automated inter-dealer quotation system, on the last business day prior to the redemption date, or if the shares of this Series so called for redemption are not listed on any such exchange, trading market or quotation system, at \$25,000 per share of this Series (subject to adjustment in the case of stock splits, combinations, stock dividends and similar transactions); provided that if interests in shares of this Series are represented by depositary shares, then the redemption price shall be determined in accordance with the foregoing, but with respect to one depositary share, multiplied by the number of depositary shares that together represent an interest in one share of this Series. From and after the date fixed for redemption by the Board of Directors, the holder of any shares of this Series so called for redemption shall cease to be entitled to any distributions, voting rights and other benefits with respect to such shares of this Series, other than the right to payment of the redemption price determined as aforesaid. "REIT Provisions of the Internal Revenue Code" shall mean Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. In order to exercise the redemption option set forth in this clause (9), with respect to the shares of this Series, the Corporation shall give notice of redemption by publication in a newspaper of general circulation in the County of Los Angeles and the City of New York, such publication to be made once a week for two successive weeks, commencing not less than 30 nor more than 60 days prior to the date fixed for redemption. A similar notice will be mailed by the Corporation by first class mail, postage pre-paid, to each record holder of the shares of this Series to be redeemed, not less than 30 nor more than 60 days prior to such redemption date, to the respective addresses of such holders as the same shall appear on the stock transfer records of the Corporation. Each notice shall state: (i) the redemption date; (ii) the number of shares of this Series to be redeemed; (iii) the redemption price; (iv) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; and (v) that dividends on the shares to be redeemed will cease to accumulate on such redemption date. If fewer than all the shares of this Series held by any holder are to be redeemed, the notice mailed to such holder shall also specify the number of shares of this Series to be redeemed from such holder.

(d) Voting Rights. The shares of this Series shall not have any voting powers either general or special, except as required by law, except that:

(1) If the Corporation shall fail to pay full cumulative dividends on the shares of this Series or any other of its preferred shares for six quarterly dividend payment periods, whether or not consecutive (a "Dividend Default"), the holders of all outstanding preferred shares, voting as a single class without regard to series, will be entitled to elect two Directors until full cumulative dividends for all past dividend payment periods on all preferred shares have been paid or declared and funds therefor set apart for payment. Such right to vote separately as a class to elect Directors shall, when vested, be subject, always, to the same provisions for the vesting of such right to elect Directors separately as a class in the case of future Dividend Defaults. At any time when such right to elect Directors separately

as a class shall have so vested, the Corporation may, and upon the written request of the holders of record of not less than 20% of the total number of preferred shares of the Corporation then outstanding shall, call a special meeting of stockholders for the election of Directors. In the case of such a written request, such special meeting shall be held within 90 days after the delivery of such request and, in either case, at the place and upon the notice provided by law and in the Bylaws of the Corporation, provided that the Corporation shall not be required to call such a special meeting if such request is received less than 120 days before the date fixed for the next ensuing Annual Meeting of Shareholders of the Corporation and the holders of all classes of outstanding preferred shares are afforded the opportunity to elect such Directors (or fill any vacancy) at such Annual Meeting of Shareholders. Directors elected as aforesaid shall serve until the next Annual Meeting of Shareholders of the Corporation or until their respective successors shall be elected and qualified. If, prior to the end of the term of any Director elected as aforesaid, a vacancy in the office of such Director shall occur during the continuance of a Dividend Default by reason of death, resignation, or disability, such vacancy shall be filled for the unexpired term by the appointment of a new Director for the unexpired term of such former Director, such appointment to be made by the remaining Director elected as aforesaid.

(2) The affirmative vote or consent of the holders of at least 66 $\frac{2}{3}$ % of the outstanding shares of this Series, voting separately as a class, will be required for any amendment to the Articles of Incorporation or to subsection (1) of Section 7 of the Bylaws of the Corporation that will adversely alter or change the powers, preferences, privileges or rights of the shares of this Series, except as set forth below. The affirmative vote or consent of the holders of at least 66 $\frac{2}{3}$ % of the outstanding shares of this Series and any other series of preferred shares ranking on a parity with this Series as to dividends and upon liquidation (including the shares of Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock, Series M Preferred Stock, Series N Preferred Stock, Series O Preferred Stock, Series P Preferred Stock, Series Q Preferred Stock, Series R Preferred Stock, Series S Preferred Stock, Series T Preferred Stock, Series U Preferred Stock, Series V Preferred Stock, Series W Preferred Stock, Series X Preferred Stock, Series Y Preferred Stock and Series Z Preferred Stock), voting as a single class without regard to series, will be required to issue, authorize or increase the authorized amount of any class or series of shares ranking prior to this Series as to dividends or upon liquidation or to issue or authorize any obligation or security convertible into or evidencing a right to purchase any such security, but the Articles of Incorporation may be amended to increase the number of authorized preferred shares ranking on a parity with or junior to this Series or to create another class of preferred shares ranking on a parity with or junior to this Series without the vote of the holders of outstanding shares of this Series.

(e) Conversion. The shares of this Series are not convertible into shares of any other class or series of the capital stock of the Corporation.

**SECOND AMENDMENT TO AMENDED AND RESTATED
AGREEMENT OF LIMITED PARTNERSHIP OF
PSA INSTITUTIONAL PARTNERS, L.P.,
A CALIFORNIA LIMITED PARTNERSHIP**

This Second Amendment (the “**Amendment**”) to the Amended and Restated Agreement of Limited Partnership of PSA Institutional Partners, L.P., a California Limited Partnership dated March 29, 2000 as amended by the Amendment to Amended and Restated Agreement of Limited Partnership of PSA Institutional Partners, L.P., dated as of August 11, 2000 (the “**Partnership Agreement**”) is made and entered into as of March 22, 2004 (the “**Effective Date**”) with reference to the following facts:

A. Pursuant to Section 3.3 of the Partnership Agreement, the General Partner is authorized to cause the Partnership to issue certain additional units of limited partnership interest without the consent of the Limited Partners.

B. The General Partner has determined that it is in the best interests of the Partnership to create a new class of units, with the designations, preferences and other rights, powers and duties set forth in this Amendment, to be known as Series NN Preferred Units, and to issue those units as set forth below.

C. Unless otherwise defined in this Amendment, capitalized terms shall have the meanings given to them in the Partnership Agreement.

The parties agree as follows:

1. The following definition shall be inserted into Section 1 of the Partnership Agreement in the appropriate alphabetical order:

“**Series NN Preferred Units**” means the series of partnership interests designated as the “6.40% Series NN Cumulative Redeemable Perpetual Preferred Units” entitled to the rights described in this Agreement. The Series NN Preferred Units are Exchangeable Preferred Units, and the Corresponding Preferred Stock with respect to those units is the 6.40% Cumulative Preferred Stock, Series NN, of the Company.”

2. The definition of “**Priority Return**” in the Partnership Agreement is by inserting the following at the end of clause (i):

“and for the Series NN Preferred Units an amount equal to six and four tenths percent (6.40%) per annum of the stated value of \$25 per unit,”

In addition, notwithstanding anything to the contrary in the Partnership Agreement, to reflect the exchange of the Series NN Units created by this amendment as of March 22, 2004, the Priority Return relating to the first quarter of 2004: (a) for the Series NN Units that are issued as of that date shall be 10/90^{ths} of the Priority Return that would accrue for a full calendar quarter, and (b) for the Series N Units that are being exchanged as of that date for the newly issued Series NN Units shall be 80/90^{ths} of the Priority Return that would accrue for a full calendar quarter.

3. The definition of “**Parity Preferred Units**” in the Partnership Agreement shall be amended by inserting the phrase “Series NN Preferred Units,” into the second sentence thereof after the phrase “Series N2 Preferred Units”.

4. On the Effective Date: (a) each of Belcrest, Belair, Belport, Belmar and Belrose Realty Corporation (“**Belrose**”) shall surrender its Series N Preferred Units in exchange for like amounts of newly issued Series NN Preferred Units pursuant to the Exchange Agreement dated of even date herewith and (b) the Partnership shall issue or shall have issued to each of Belcrest, Belair, Belport, Belmar and Belrose Series NN Preferred Units in amounts equal to the Series N Preferred Units surrendered by each such entity. In order to reflect the surrender of the Series N Preferred Units by each of Belcrest, Belair, Belport, Belmar and Belrose and the issuance of the Series NN Preferred Units to each of Belcrest, Belair, Belport, Belmar and Belrose, Exhibit A to the Partnership Agreement is replaced with Exhibit A in the form attached to this Amendment.

5. Section 5.1.2 of the Partnership Agreement is amended to insert the following language at the end of that Subsection:

“, and to the holders of the Series NN Units until they have also received a one time allocation of additional Net Profit equal to the special distribution made to them pursuant to the proviso at the end of the first paragraph of Section 6.2.”

6. Section 6.2 of the Partnership Agreement is amended to insert the following proviso at the end of the first paragraph of that Section:

“; provided, however, that effective upon the issuance of the Series NN Units to be issued as of March 22, 2004, the holders of those Series NN Units shall receive a one time special distribution of Available Cash equal to \$1 for each then outstanding Series NN Unit.”

7. Section 6.6.1 of the Partnership Agreement is amended to read in its entirety as follows:

“6.6.1. **Right of Optional Redemption.** The Series N, Series O and Series P Preferred Units may not be redeemed prior to the fifth (5th) anniversary of the issuance date of the particular series to be redeemed. The Series NN Preferred Units may not be redeemed prior to March 17, 2010. On or after the fifth anniversary of the issuance date of each of the Series N, Series O and Series P Preferred Units, and on or after March 17, 2010 with respect to the Series NN Preferred Units, the Partnership shall have the right to redeem the Series N, Series O, Series P or Series NN Preferred Units, respectively, in whole or in part, at any time or from time to time, upon not less than thirty (30) nor more than sixty (60) days’ written notice, at a redemption price, payable in cash, equal to the Liquidation Preference per Series N, Series O, Series P or Series NN Preferred Unit to be redeemed (the “**Redemption Price**”). The rights of redemption of any subsequently issued Parity Preferred Units shall be as designated in an amended Exhibit A to this Agreement. If fewer than all of the outstanding Parity Preferred Units of a particular series are to be redeemed, the units to be redeemed from that series shall be selected *pro rata* (as nearly as practicable without creating fractional units).”

8. Section 6.7 of the Partnership Agreement is amended to read in its entirety as follows:

“6.7 **No Sinking Fund.** No sinking fund shall be established for the retirement or redemption of Series N, Series NN, Series O or Series P Preferred Units.”

9. Section 10.3 of the Partnership Agreement is amended to add at the end of that section the following Section 10.3.3:

“10.3.3 **Series NN Preferred Units.** Holders of the Series NN Preferred Units will not have any voting rights or right to consent to any matter requiring the consent or approval of the Limited Partners, except as set forth below. So long as any Series NN Preferred Units remain outstanding, the Partnership shall not, without the affirmative vote of the holders of at least a majority of the Series NN Preferred Units outstanding at the time, take any of the actions described above in Sections 10.2.1, 10.2.2 and 10.2.3, treating each reference in those provisions to “Series N Preferred Units” as a reference instead to “Series NN Preferred Units.”

10. Section 11.2 of the Partnership Agreement is hereby amended by deleting the phrase “Series N Preferred Units” from clause (iii) of the fourth sentence thereof and inserting the phrase “Series NN Preferred Units” in lieu thereof.

11. Section 12.2 of the Partnership Agreement is amended by adding immediately after Section 12.2.2 the following Section 12.2.3:

“12.2.3 **Series NN Preferred Units.** The Series NN Preferred Units also shall be exchangeable in the same fashion as are the Series N Preferred Units: the provisions of Section 12.1 shall be read as if restated in this Section 12.2.3, but as if each reference in those provisions to “Series N Preferred Units” instead were a reference to “Series NN Preferred Units,” and by treating each reference to the “Series N Preferred Stock” as a reference to the 6.40% Cumulative Preferred Stock, Series NN, of the Company.

In addition, notwithstanding any provision herein to the contrary, so long as any Series NN Preferred Units remain outstanding, in the event of the occurrence of a Covered Transaction (defined below), on the date such Covered Transaction is completed or occurs, the holders of record of the Series NN Preferred Units (acting as a whole), shall have the option to cause the exchange of all of the Series NN Preferred Units outstanding for depositary shares representing interests in Series NN Preferred Stock based on the Exchange Ratio (as defined in Section 12.1.1) if the holders of a majority of the then outstanding Series NN Preferred Units elect to so exchange in accordance with the following paragraph.

The Partnership shall give written notice of a Covered Transaction to each of the respective holders of record of the Series NN Preferred Units, at their respective addresses as they appear on the transfer records of the Partnership, not less than thirty (30) days prior to the completion or occurrence of a Covered Transaction. Such notice shall not set forth any non-public information concerning such Covered Transaction. Each of the holders of record of the Series NN Preferred Units shall have until 5:00 p.m. (PST) on the fifteenth (15th) day following receipt of such notice from the Partnership, to give the Partnership notice of whether such holder votes in favor of having the Series NN Preferred Units be exchanged for Series NN Preferred Stock. Notwithstanding any provision herein to the contrary, with respect to a Covered Transaction that arises under clause (c) of the definition of Covered Transaction set forth below, in the event that the Company so fails to qualify as a real estate investment trust for any reason other than an affirmative election by the Company not to qualify, (a) the Partnership shall give notice of the occurrence of a Covered Transaction to each of the holders of record of the Series NN Preferred Units within 15 days after discovery of such failure to qualify, (b) each of the holders of record of the Series NN Preferred Units

shall have until 5:00 p.m. (PST) on the fifteenth (15th) day following receipt of such notice from the Partnership, to give the Partnership notice of such holder's vote as to whether the Series NN Preferred Units will be exchanged for Series NN Preferred Stock and (c) if the holders of not less than a majority of the then outstanding Series NN Preferred Units have elected to have the Series NN Preferred Units exchanged for Series NN Preferred Stock, all of the Series NN Preferred Units shall be so exchanged on a date not later than 45 days following the date of discovery of the Company's failure to qualify.

For purposes of this Section 12.2.3, the term "**Covered Transaction**" shall mean (a) the Company's completion of a "Rule 13e-3 transaction" (as defined in Rule 13e-3 under the Securities Exchange Act of 1934, as amended (the "**Exchange Act**")) in which, as a result of such transaction, the Company's common stock is no longer registered under Section 12 of the Exchange Act, except that this clause (a) shall not apply to any involuntary delisting of the Company's common stock from the New York Stock Exchange or any national securities exchange (as defined in the Exchange Act), (b) the completion of any transaction or series of transactions that would result in a Reorganization Event (defined below) of the Company or the Partnership or (c) the Company's failure (or election not) to qualify as a real estate investment trust as defined in Section 856 (or any successor section) of the Internal Revenue Code of 1986, as amended.

For purposes of this Section 12.2.3, the term "**Reorganization Event**" shall mean (x) any sale or other disposition of all or substantially all of the assets of the Partnership or the Company, as the case may be, to an entity that is not an affiliate of the Company; or (y) any consolidation, amalgamation, merger, business combination, share exchange, reorganization or similar transaction involving the Partnership or the Company, as the case may be, pursuant to which the Partners of the Partnership or the stockholders of the Company, as the case may be, immediately prior to the consummation of such transaction will own less than a majority of the equity interests in the entity surviving such transaction; provided, however, a Reorganization Event shall not include any transaction contemplated by clauses (x) or (y) of this definition if the surviving entity has unsecured debt outstanding which is rated at least the lowest credit rating level established as investment grade by at least two of Standard & Poor's, Moody's Investor Service and Fitch Ratings (it being understood that as of the date of this Agreement the lowest investment grade rating of Standard & Poor's is BBB-, the lowest investment grade rating of Moody's is Baa3 and the lowest investment grade rating of Fitch Ratings is BBB-) and such rating has been reaffirmed in light of the contemplated transaction."

12. Except as expressly provided in this Amendment, all of the provisions of the Partnership Agreement are ratified and confirmed, and continue in full force and effect.

[THE REMAINDER OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK.]

The undersigned have signed this Amendment as of the date indicated above.

“GENERAL PARTNER:”

PS TEXAS HOLDINGS, LTD.,
a Texas limited partnership

By: PS GPT Properties, Inc., a California corporation,
its general partner

By: /s/ John Reyes
John Reyes
Senior Vice President

By: /s/ David Goldberg
David Goldberg
Secretary

“LIMITED PARTNERS:”

PS LPT PROPERTIES INVESTORS,
a Maryland business trust

By: /s/ John Reyes
John Reyes
Senior Vice President

By: /s/ David Goldberg
David Goldberg
Secretary

BELCREST REALTY CORPORATION,
a Delaware corporation

By: /s/ William R. Cross
William R. Cross
Vice President

BELAIR REAL ESTATE CORPORATION,
a Delaware corporation

By: /s/ William R. Cross
William R. Cross
Vice President

BELPORT REALTY CORPORATION,
a Delaware corporation

By: /s/ William R. Cross
William R. Cross
Vice President

BELMAR REALTY CORPORATION,
a Delaware corporation

By: /s/ William R. Cross
William R. Cross
Vice President

BELROSE REALTY CORPORATION,
a Delaware corporation

By: /s/ William R. Cross
William R. Cross
Vice President

ALL OTHER LIMITED PARTNERS

By: PS Texas Holdings, Ltd.,
a Texas limited partnership,
as their attorney-in-fact

By: PS GPT Properties, Inc.,
a California corporation,
its general partner

By: /s/ John Reyes
John Reyes
Senior Vice President

By: /s/ David Goldberg
David Goldberg
Secretary

[signatures continue]

**Acknowledged and agreed, as to the
issuance of Company stock pursuant
to Section 12 of the Partnership Agreement:**

“COMPANY”

PUBLIC STORAGE, INC.,
a California corporation

By: /s/ John Reyes
John Reyes
Senior Vice President

By: /s/ David Goldberg
David Goldberg
Secretary

EXHIBIT A
to
Amended and Restated Limited Partnership Agreement
of PSA Institutional Partners, L.P.

<u>Name of Partner</u>	<u>Property Contributed</u>	<u>Agreed Value</u>	<u>Type of Units</u>	<u>Series</u>	<u>No. Units</u>	<u>% of Series</u>
General Partner:						
PS Texas Holdings, Ltd.	partnership interests	\$ 3,725,590	common	common	149,024	1.1%
Limited Partners:						
PS LPT Properties Investors	partnership interests and property	\$349,058,410	common	common	13,962,336	98.9%
PS LPT Properties Investors	partnership interests	\$139,250,000	Parity Preferred	Ser. N2	5,507,000	100%
PS LPT Properties Investors	partnership interests	\$ 75,000,000	Parity Preferred	Ser. O2	3,000,000	100%
PS LPT Properties Investors	partnership interests	\$ 50,000,000	Parity Preferred	Ser. P2	2,000,000	100%
PS LPT Properties Investors	\$ 30,000,000	\$ 30,000,000	Exchangeable Preferred	Ser. O (9.125%)	1,200,000	40.0%
PS LPT Properties Investors	\$ 50,000,000	\$ 50,000,000	Exchangeable Preferred	Ser. P (8.75%)	2,000,000	100%
Belcrest Realty Corporation	\$ 55,375,000	\$ 55,375,000	Exchangeable Preferred	Ser. NN (6.4%)	2,215,000	27.7%
Belair Real Estate Corporation	\$ 48,250,000	\$ 48,250,000	Exchangeable Preferred	Ser. NN (6.4%)	1,930,000	24.1%
Belpport Realty Corporation	\$ 32,500,000	\$ 32,500,000	Exchangeable Preferred	Ser. NN (6.4%)	1,300,000	16.3%
Belmar Realty Corporation	\$ 38,875,000	\$ 38,875,000	Exchangeable Preferred	Ser. NN (6.4%)	1,555,000	19.4%
Belrose Realty Corporation	\$ 25,000,000	\$ 25,000,000	Exchangeable Preferred	Ser. NN (6.4%)	1,000,000	12.5%
Montebello Realty Corp.	\$ 40,000,000	\$ 40,000,000	Exchangeable Preferred	Ser. N (9.5%)	1,600,000	100%
Edgewater Equity, Inc.	\$ 45,000,000	\$ 45,000,000	Exchangeable Preferred	Ser. O (9.125%)	1,800,000	60.0%

SECOND AMENDMENT TO CREDIT AGREEMENT

THIS SECOND AMENDMENT TO CREDIT AGREEMENT (this “Amendment”) dated as of March 25, 2004, by and among PUBLIC STORAGE, INC., a corporation organized under the laws of the State of California (the “Borrower”), each of the Guarantors signatory hereto, each of the Lenders signatory hereto, and WELLS FARGO BANK, NATIONAL ASSOCIATION, as Agent.

WHEREAS, the Borrower, the Lenders and the Agent are parties to that certain Credit Agreement dated as of November 1, 2001 (as amended and in effect immediately prior to the date hereof, the “Credit Agreement”);

WHEREAS, the parties hereto desire to amend certain provisions of the Credit Agreement to, among other things, (1) extend the Revolving Credit Termination Date thereof, (2) increase the amount of Letters of Credit available thereunder, (3) remove the competitive bid subfacility, (4) remove the Maximum Availability limitation and (5) revise certain of the financial and other negative covenants, all on the terms and conditions contained herein; and

WHEREAS, upon the effectiveness of this Amendment, (1) Wachovia Capital Markets, LLC shall become a “Co-Lead Arranger” under the Credit Agreement and (2) Citicorp North America, Inc. shall become a “Documentation Agent” under the Credit Agreement;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the parties hereto hereby agree as follows:

Section 1. Specific Amendments to Credit Agreement. The parties hereto agree that the Credit Agreement is amended as follows:

(a) Section 1.1. of the Credit Agreement is hereby amended by deleting the definitions of “Applicable Facility Fee”, “Applicable Margin”, “Capitalized EBITDA”, “Development Property”, “EBITDA”, “Eligible Property”, “Fixed Charges”, “Gross Asset Value”, “Investment”, “L/C Commitment Amount”, “Net Operating Income”, “Preferred Stock”, “Reserve for Replacements”, “Revolving Credit Termination Date”, “Unencumbered Pool Properties” and “Unencumbered Pool Value” in their entirety and substituting in their place the following definitions:

“**Applicable Facility Fee**” means the percentage set forth in the table below corresponding to the Level at which the “Applicable Margin” is determined in accordance with the definition thereof:

Level	Facility Fee
1	0.15%
2	0.15%
3	0.20%
4	0.25%
5	0.30%

“**Applicable Margin**” means the percentage rate set forth in the table below corresponding to the range into which the Borrower’s Credit Rating then falls. Any change in the Borrower’s Credit Rating which would cause it to move to a different range in the table shall be effective as of the first day of the calendar month immediately following the date on which such change occurs. If only one Rating Agency has issued a Credit Rating, then the Applicable Margin will be determined based on the Level corresponding to such Credit Rating. If both S&P and Moody’s have issued Credit Ratings and such Credit Ratings are equivalent then the Applicable Margin will be determined based on the Level corresponding to such equivalent Credit Ratings, but if such Credit Ratings correspond to different Levels in the table

resulting in different Applicable Margin determinations, the Applicable Margin will be determined based on the Level corresponding to the higher of the two Credit Ratings issued by either S&P or Moody's. If the Applicable Margin cannot be determined in accordance with the immediately preceding sentences, then the Applicable Margin shall be determined based on Level 5.

Level	Borrower's Credit Rating (S&P/Moody's or equivalent)	Applicable Margin for LIBOR Loans	Applicable Margin for Base Rate Loans
1	A-/A3 or higher	0.50%	0%
2	BBB+/Baa1	0.60%	0%
3	BBB/Baa2	0.70%	0%
4	BBB-/Baa3	0.90%	0%
5	Lower than BBB-/Baa3	1.20%	0.25%

“Capitalized EBITDA” means, with respect to a Person and as of a given date, (a) such Person's EBITDA for the two fiscal quarters most recently ended times (b) 2 and divided by (c) 9.0%. In determining Capitalized EBITDA, EBITDA attributable to real estate properties either acquired or disposed of by such Person during such two fiscal quarters shall be disregarded; provided, however, EBITDA attributable to real estate properties acquired by the Borrower or any of its Subsidiaries during the two immediately preceding fiscal quarters may, at the Borrower's option, be included in determinations of the Capitalized EBITDA of the Borrower.

“Development Property” means a Property currently under development on which the improvements have not been completed, or a Property where development has been completed as evidenced by a certificate of occupancy for the entire Property for the 30 month period following the issuance of such certificate of occupancy (provided that Borrower may at its option elect to remove a Property from the category of Development Properties prior to the completion of the 30 month period, but any such Property may not be reclassified as a Development Property). The term “Development Property” shall include real property of the type described in the immediately preceding sentence to be (but not yet) acquired by the Borrower, any Subsidiary or any Unconsolidated Affiliate upon completion of construction pursuant to a contract in which the seller of such real property is required to develop or renovate prior to, and as a condition precedent to, such acquisition.

“EBITDA” means, with respect to any Person for any period and without duplication: (a) net earnings (loss) of such Person for such period (including equity in net earnings or net loss of Unconsolidated Affiliates) excluding the impact of the following amounts with respect to any Person and the Unconsolidated Affiliates (but only to the extent included in determining net earnings (loss) for such period): (i) depreciation and amortization expense and other non-cash charges of such Person for such period; (ii) interest expense of such Person for such period; (iii) income tax expense of such Person in respect of such period; (iv) extraordinary and nonrecurring gains and losses of such Person for such period, including without limitation, gains and losses from the sale of assets, write-offs and forgiveness of debt; and (v) minority interests and distributions to holders of Preferred Stock; minus (b) the Reserve for Replacements.

“Eligible Property” means a Property which satisfies all of the following requirements: (a) such Property is owned in fee simple by the Borrower or a Wholly Owned Subsidiary and is located in a State of the United States of America or in the District of Columbia; provided, that if a Subsidiary does not meet the definition of “Wholly Owned Subsidiary” solely because such Subsidiary has issued partnership interests that are or will be convertible at the option of the holder of such partnership interest into the Equity Interests or Preferred Stock of the Borrower, such Subsidiary shall be considered a “Wholly Owned Subsidiary” for purposes of this clause (a); (b) regardless of whether such Property is owned by the Borrower or a Subsidiary, the Borrower has the right directly, or indirectly through a Subsidiary, to take the following actions without the need to obtain the consent of any Person: (i) to create Lien on such Property as security for Indebtedness of the Borrower or such Subsidiary, as applicable and (ii) to sell, transfer or

otherwise dispose of such Property; (c) neither such Property, nor if such Property is owned by a Subsidiary, any of the Borrower's direct or indirect ownership interest in such Subsidiary, is subject to (i) any Lien other than Permitted Liens or (ii) any Negative Pledge; (d) the average Occupancy Rate of such Property for the period of two fiscal quarters most recently ended equals or exceeds 65.0%; (e) such Property is free of all structural defects, title defects, environmental conditions or other adverse matters except for defects, conditions or matters individually or collectively which are not material to the profitable operation of such Property; and (f) the Borrower has obtained a "Phase I" environmental assessment or other appropriate environmental assessment with respect to such Property, and such assessment does not indicate the existence of any condition that has, or could reasonably be expected to have, a materially adverse effect on the condition, fair market value or net operating income of such Property.

"Fixed Charges" means, with respect to a Person and for a given period, the sum of (a) the Interest Expense of such Person for such period, plus (b) the aggregate of all scheduled principal payments on Indebtedness made by such Person during such period (excluding balloon, bullet or similar payments of principal due upon the stated maturity of Indebtedness), plus (c) the aggregate of all dividends or distributions paid or accrued by such Person on any Preferred Stock during such period.

"Gross Asset Value" means, at a given time, the sum (without duplication) of (a) Capitalized EBITDA of the Borrower and its Subsidiaries determined on a consolidated basis, excluding Capitalized EBITDA attributable to Development Properties, plus (b) all cash and cash equivalents (excluding tenant deposits and other cash and cash equivalents the disposition of which is restricted) of the Borrower and its Subsidiaries at such time, plus (c) the current book value of Development Properties and all land held for development; provided, however, any land which is not appropriately entitled or zoned to permit the use of such Property as a self-storage facility shall only be included at 50% of book value, plus (d) with respect to each Unconsolidated Affiliate of the Borrower, the Borrower's respective Ownership Share of (i) the Capitalized EBITDA of each such Unconsolidated Affiliate and (ii) the current book values of all real property of each such Unconsolidated Affiliate upon which construction is in progress, plus (e) at the Borrower's option, the purchase price paid by the Borrower or any Subsidiary (less any amounts paid to the Borrower or such Subsidiary as a purchase price adjustment, held in escrow, retained as a contingency reserve, or in connection with other similar arrangements) for any Property acquired by the Borrower or such Subsidiary during the immediately preceding four consecutive fiscal quarters of the Borrower, plus (f) the contractual purchase price of Properties of the Borrower and its Subsidiaries subject to purchase obligations, repurchase obligations, forward commitments and unfunded obligations to the extent such obligations and commitments are included in determinations of Total Liabilities of the Borrower, plus (g) the value (determined in accordance with GAAP) of all promissory notes payable solely to the Borrower or any of its Subsidiaries (excluding any such note where (i) the obligor is more than 30 days past due with respect to any payment obligation or is the subject of a bankruptcy proceeding or other proceeding, event or condition of the types referred to in Section 11.1.(e) or (f) or (ii) the obligor is an Affiliate of the Borrower (other than PS Business Parks, Inc. or PS Business Parks, L.P., so long as any such note issued by either PS Business Parks, Inc. or PS Business Parks, L.P. matures within six months of issuance), plus (h) the value (determined in accordance with GAAP) of all marketable securities owned by the Borrower and its Subsidiaries, and all other assets of the Borrower and its Subsidiaries (excluding assets classified as intangible under GAAP). No more than 10.0% of the Gross Asset Value may be attributable to the aggregate of the following (x) the current book value of land held for development and (y) the value attributable to the assets referenced in clauses (g) and (h) above.

"Investment" means, with respect to any Person, any acquisition or investment (whether or not of a controlling interest) by such Person, whether by means of (a) the purchase or other acquisition of any Equity Interest in another Person, (b) a loan, advance or extension of credit to, capital contribution to, Guaranty of Indebtedness of, or purchase or other acquisition of any Indebtedness of, another Person, including any partnership or joint venture interest in such other Person, or (c) the purchase or other acquisition (in one transaction or a series of transactions) of assets of another Person that constitute the business or a division or operating unit of another Person. Any commitment or option to make an Investment in any other Person shall constitute an Investment. Except as expressly provided otherwise, for purposes of determining compliance with any covenant contained in a Loan Document, the amount or

value of any Investment shall be the amount actually invested, without adjustment for subsequent increases or decreases in the value of such Investment.

“**L/C Commitment Amount**” means an amount equal to \$30,000,000 as such amount may be reduced from time to time in accordance with the terms hereof.

“**Net Operating Income**” means, for any Property and for a given period, the sum (without duplication) of (a) rents and other revenues earned in the ordinary course from such Property (excluding pre-paid rents and revenues and security deposits except to the extent applied in satisfaction of tenants’ obligations for rent) minus (b) all expenses paid or accrued related to the ownership, operation or maintenance of such Property, including but not limited to, taxes, assessments and the like, insurance, utilities, payroll costs, maintenance, repair and landscaping expenses, marketing expenses, and general and administrative expenses (including an appropriate allocation for legal, accounting, advertising, marketing and other expenses incurred in connection with such Property, but specifically excluding general overhead expenses of the Borrower and its Subsidiaries and any property management fees) minus (c) the Reserve for Replacements for such Property for such period minus (d) the actual property management fee, if any, paid during such period with respect to such Property.

“**Preferred Stock**” means, with respect to any Person, shares of capital stock of, or other equity interests in, such Person which are entitled to preference or priority over any other capital stock of, or other equity interest in, such Person in respect of the payment of dividends or distributions, or distribution of assets upon liquidation or both. For the avoidance of doubt, the Borrower’s publicly traded Equity Interest commonly referred to as “Equity Stock” shall not be deemed to be Preferred Stock for the purposes of this Agreement.

“**Reserve for Replacements**” means, for any period and with respect to any Property, an amount equal to (a) the aggregate net rentable square footage of all completed space of such Property times (b) \$0.35 times (c) the number of days such Property was operated in such period divided by (d) 365. If the term Reserve for Replacements is used without reference to any specific Property, then it shall be determined on an aggregate basis with respect to all Properties and a proportionate share of all real property of all Unconsolidated Affiliates.

“**Revolving Credit Termination Date**” means April 1, 2007, or such later date to which such date may be extended in accordance with Section 2.14.

“**Unencumbered Pool Properties**” means those Eligible Properties that, pursuant to the terms of this Agreement, are to be included when calculating the Unencumbered Pool Value. A Property shall cease to be a Unencumbered Pool Property if such Property shall cease to be an Eligible Property.

“**Unencumbered Pool Value**” means (without duplication) an amount equal to the sum of (a) (i) the Net Operating Income of each Unencumbered Pool Property for the two fiscal quarters most recently ended times (ii) 2 and divided by (iii) 9.0%, plus (b) the purchase price paid by the Borrower or any Subsidiary (less any amounts paid to the Borrower or such Subsidiary as a purchase price adjustment, held in escrow, retained as a contingency reserve, or in connection with other similar arrangements) for any Unencumbered Pool Property acquired by the Borrower or such Subsidiary during the two fiscal quarters most recently ended. To the extent that Properties located in any one State of the United States of America (in the case of California, each of northern and southern California (as so categorized by the Borrower) shall be considered separate states for purposes of this definition) or in the District of Columbia would, in the aggregate, account for more than 40.0% of Unencumbered Pool Value, such excess shall be excluded.

(b) Section 1.1. of the Credit Agreement is hereby amended by deleting the definition of “Maximum Availability” in its entirety.

(c) Section 1.1. of the Credit Agreement is hereby amended by adding the following definition of “Total Indebtedness” in its appropriate alphabetical order:

“**Total Indebtedness**” means, without duplication, (a) Total Liabilities of the Borrower and its Subsidiaries on a consolidated basis minus (b) (i) all accounts payable and accrued expenses of the Borrower and its Subsidiaries and (ii) obligations in respect of preferred partnership units or other preferred Equity Interest issued by any Subsidiary (excluding obligations in respect of any such preferred Equity Interests beneficially owned by the Borrower or any Subsidiary).

(d) Section 2.1.(a) of the Credit Agreement is hereby amended by deleting such section in its entirety and substituting in its place the following:

(a) Generally. Subject to the terms and conditions hereof, including without limitation, Section 2.18., during the period from the Effective Date to but excluding the Revolving Credit Termination Date, each Lender severally and not jointly agrees to make Revolving Loans to the Borrower in an aggregate principal amount at any one time outstanding up to, but not to exceed, the amount of such Lender’s Commitment. Subject to the terms and conditions of this Agreement, during the period from the Effective Date to but excluding the Revolving Credit Termination Date, the Borrower may borrow, repay and reborrow Revolving Loans hereunder.

(e) Section 2.2. of the Credit Agreement is hereby amended by deleting such section in its entirety and substituting in its place the following:

Section 2.2. Bid Rate Loans.

[Intentionally omitted]

(f) Section 2.8.(b)(ii) of the Credit Agreement is hereby amended by deleting such section in its entirety and substituting in its place the following:

(ii) [Intentionally omitted]

(g) Section 2.14.(b) of the Credit Agreement is hereby amended by deleting the percentage “70%” therein and substituting in its place the percentage “66-2/3%”.

(h) Section 2.14.(c) of the Credit Agreement is hereby amended by deleting the percentage “70%” therein and substituting in its place the percentage “66-2/3%”.

(i) Section 2.18. of the Credit Agreement is hereby amended by deleting such section in its entirety and substituting in its place the following:

Notwithstanding any other term of this Agreement, no Lender shall be required to make any Loan, and the Agent shall not be required to issue any Letter of Credit if, immediately after the making of such Loan or issuance of such Letter of Credit the aggregate principal amount of all outstanding Loans, together with the aggregate amount of all Letter of Credit Liabilities, would exceed the aggregate amount of the Commitments.

(j) Section 3.6.(b) of the Credit Agreement is hereby amended by deleting the amount “\$1,000” in the proviso to clause (y) thereof and substituting in its place the amount “\$500”.

(k) Section 7.1.(i) of the Credit Agreement is hereby amended by deleting such section in its entirety and substituting in its place the following:

(i) Litigation. Except as set forth on Schedule 7.1.(i), there are no actions, suits or proceedings pending (nor, to the knowledge of the Borrower, are there any actions, suits or proceedings threatened, nor is there any basis therefor) against or in any other way relating adversely to or affecting the Borrower, any other Loan Party, any other Subsidiary or any of their respective property in any court or before any arbitrator of any kind or before or by any other Governmental Authority which, if adversely determined, could reasonably be expected to have a

materially adverse effect on (1) the business, assets, liabilities, financial condition or business prospects of the Borrower and its Subsidiaries taken as a whole, (2) the ability of the Borrower or any other Loan Party to perform its obligations under any Loan Document to which it is a party, (3) the validity or enforceability of any of the Loan Documents, (4) the rights and remedies of the Lenders and the Agent under any of the Loan Documents or (5) the timely payment of the principal of or interest on the Loans or other amounts payable in connection therewith. There are no strikes, slow downs, work stoppages or walkouts or other labor disputes in progress or threatened relating to the Borrower, any other Loan Party or any other Subsidiary.

(l) Sections 10.1.(a), (c), (d), (f), (g), (h), (i), (j) and (l) are hereby amended by deleting such sections in their entirety and substituting in their place the following:

(a) Ratio of Total Indebtedness to Gross Asset Value. The Borrower shall not permit the ratio of (i) Total Indebtedness of the Borrower and its Subsidiaries determined on a consolidated basis to (ii) Gross Asset Value, at the end of any fiscal quarter to exceed 0.55 to 1.00 at any time.

(c) Ratio of EBITDA to Interest Expense. The Borrower shall not permit the ratio of (i) EBITDA of the Borrower and its Subsidiaries determined on a consolidated basis for the fiscal quarter most recently ended to (ii) Interest Expense of the Borrower and its Subsidiaries determined on a consolidated basis for such fiscal quarter, to be less than 2.25 to 1.0 at the end of such fiscal quarter.

(d) Ratio of EBITDA to Fixed Charges. The Borrower shall not permit the ratio of (i) EBITDA of the Borrower and its Subsidiaries determined on a consolidated basis for the four fiscal-quarter period most recently ended to (ii) Fixed Charges of the Borrower and its Subsidiaries determined on a consolidated basis for such four-quarter period, to be less than 1.50 to 1.0 at the end of each fiscal quarter.

(f) Ratio of Unencumbered Pool Value to Unsecured Liabilities. The Borrower shall not permit the ratio of (i) the Unencumbered Pool Value to (ii) Unsecured Liabilities, to be less than 1.5 to 1.0 at any time.

(g) Minimum Tangible Net Worth. The Borrower shall not at any time permit the Tangible Net Worth of the Borrower and its Subsidiaries determined on a consolidated basis to be less than an amount equal to the greater of (a)(i) \$4,139,960,000 plus (ii) 75% of the Net Proceeds of all Equity Issuances effected at any time after December 31, 2003 by the Borrower to any Person other than the Borrower or any of its Subsidiaries minus (iii) the aggregate amount paid by the Borrower to purchase or otherwise acquire outstanding shares of the common stock or Preferred Stock of the Borrower (so long as such payments are permitted by the immediately following subsection (h)), or (b) \$3,000,000,000. To the extent a purchase or other acquisition of outstanding shares of the common stock of the Borrower is purchased or acquired in exchange for, or out of the net cash proceeds of, a substantially concurrent issue and sale of Equity Interests of the Borrower (other than Equity Interests that are subject to mandatory redemption) to any Person (other than to a Subsidiary), such purchase or acquisition shall be excluded from the immediately preceding clause (iii).

(h) Distributions. The Borrower shall not, and shall not permit any Subsidiary to, declare or make any Restricted Payment; provided, however, that: (i) the Borrower may declare or make cash distributions to its shareholders during any fiscal year in an aggregate amount not to exceed the greater of (x) 95.0% of Funds From Operations for such fiscal year or (y) the minimum amount required for the Borrower to remain in compliance with Section 8.12. and to avoid payment for any federal income taxes or federal excise taxes imposed under Sections 857(b)(1), 857(b)(3), and 4981 of the Internal Revenue Code; (ii) the Borrower may make cash distributions to its shareholders of capital gains resulting from gains from certain asset sales to the extent necessary to avoid payment of taxes on such asset sales imposed under Sections 857(b)(3) and 4981 of the Internal Revenue Code; (iii) the Borrower and its Subsidiaries may make cash payments to repurchase outstanding shares of any of its respective Preferred Stock, common stock or other similar common Equity Interests; and (iv) Subsidiaries may pay Restricted Payments to the Borrower, any other Subsidiary or, so long as no Default or Event of Default exists or would result

therefrom, to any other Person holding an Equity Interest in such Subsidiary so long as such Restricted Payment is in accordance with each such Subsidiary's governing documents. Notwithstanding the foregoing, but subject to the following sentence, if a Default or Event of Default shall have occurred and be continuing, the Borrower may only declare or make cash distributions to its shareholders during any fiscal year in an aggregate amount not to exceed the minimum amount necessary for the Borrower to remain in compliance with Section 8.12. and to avoid payment for any federal income taxes or federal excise taxes imposed under Sections 857(b)(1), 857(b)(3), and 4981 of the Internal Revenue Code. If a Default or Event of Default specified in Section 11.1.(a), Section 11.1.(e) or Section 11.1.(f) shall have occurred and be continuing, or if as a result of the occurrence of any other Event of Default the Obligations have been accelerated, the Borrower shall not, and shall not permit any Subsidiary to, make any Restricted Payments to any Person whatsoever other than to the Borrower or any Subsidiary.

(i) Investments Generally. The Borrower shall not, and shall not permit any Subsidiary to, directly or indirectly, acquire, make or purchase any Investment, or permit any Investment of such Person to be outstanding on and after the Agreement Date, other than the following:

(i) Investments in cash, Cash Equivalents or institutional money market funds organized under the laws of the United States of America or any state thereof that invest solely in Cash Equivalents;

(ii) (x) trade credit extended on usual and customary terms in the ordinary course of business, and (y) advances to employees for moving, relocation and travel expenses, drawing accounts and similar expenditures in the ordinary course of business;

(iii) Investments in Subsidiaries in existence on March 25, 2004 and disclosed on Part I of Schedule 7.1.(b), whether such Investment was made on such date or thereafter;

(iv) Investments to acquire Equity Interests of a Subsidiary or any other Person who after giving effect to such acquisition would be a Subsidiary, so long as in each case (x) immediately prior to such Investment, and after giving effect thereto, no Default or Event of Default is or would be in existence and (y) if such Subsidiary is (or immediately after giving effect to such Investment would be) required to be a party to the Guaranty, the terms and conditions set forth in Section 8.14. are satisfied; and

(v) other Investments subject to the immediately following subsection (j).

(j) Limitations on Certain Investments. The Borrower shall not, and shall not permit any Subsidiary to, make an Investment in or otherwise own the following items which would cause the aggregate value of such holdings of such Persons to exceed the following percentages of Gross Asset Value:

(i) unimproved real estate such that the aggregate value of all such unimproved real estate calculated on the basis of the lower of cost or market value, exceeds 10.0% of Gross Asset Value (a Property that is a Development Property shall not be considered to be unimproved real estate for purposes of this clause);

(ii) Equity Interests in Persons (other than Subsidiaries, Unconsolidated Affiliates and Persons that are REITs), such that the aggregate value of such interests calculated on the basis of the lower of cost or market, exceeds 10.0% of Gross Asset Value;

(iii) Mortgages in favor of the Borrower or any Subsidiary, such that the aggregate book value of Indebtedness determined on a consolidated basis secured by such Mortgages exceeds 10.0% of Gross Asset Value; and

(iv) Investments in Unconsolidated Affiliates, such that the aggregate value of such Investments, exceeds 20.0% of Gross Asset Value. For purposes of this clause (iv), the "value" of

any such Investment in an Unconsolidated Affiliate shall be determined with respect to the Borrower's Ownership Share of such Unconsolidated Affiliate.

In addition to the foregoing limitations, the aggregate value of the Investments and other items subject to the limitations in the preceding clauses (i) through (iv) shall not exceed 35.0% of Gross Asset Value.

(l) Aggregate Occupancy Rates. The Borrower shall not permit the weighted average aggregate Occupancy Rate (weighted on the basis of aggregate square footage) of all Unencumbered Pool Properties to be less than 65.0% at any time.

(m) Section 13.6.(j) of the Credit Agreement is hereby amended by deleting the reference to "Maximum Availability" therein.

(n) The following definitions are hereby deleted from Section 1.1. of the Credit Agreement and shall have no further meaning in the Credit Agreement or any other Loan Document: "Absolute Rate", "Absolute Rate Auction", "Absolute Rate Loan", "Bid Rate Borrowing", "Bid Rate Loan", "Bid Rate Loan Limit", "Bid Rate Note", "Bid Rate Quote", "Bid Rate Quote Request", "Designated Lender Note", "LIBOR Auction" and "LIBOR Margin Loan". Exhibits B, K, L and M to the Credit Agreement are hereby deleted from the Credit Agreement.

Section 2. Acknowledgment of Lenders' Commitments; Adjustment of Outstandings. The parties hereto hereby agree that upon the effectiveness of this Amendment, the amount of each Lender's respective Commitment is as set forth on Annex I attached hereto. To effect the increase of a Lender's Commitment, as applicable, (each such Lender, an "Increasing Lender"), in terms of each Lender's Commitment Percentage of Revolving Loans, upon the effectiveness of this Amendment, each Increasing Lender shall purchase from those Lenders that will no longer be Lenders after the effectiveness of this Amendment, on a non-recourse, "as-is" basis, an appropriate principal amount of Revolving Loans such that after giving effect to all such purchases the principal balance of Revolving Loans owing to each Lender that is not an exiting Lender shall equal (a) the aggregate principal balance of all Revolving Loans then outstanding times (b) such Lender's Commitment Percentage (determined using the amount of the Commitments set forth on Annex I attached hereto). All payments to be made or received under this paragraph shall be made on a net basis. If under this paragraph any Lender is obligated to pay any amount to any other party, such Lender shall make payment to Agent for the account of such other party.

Section 3. Effectiveness of Amendment. The effectiveness of each of Sections 1 and 2 is subject to receipt by the Agent of each of the following in form and substance reasonably satisfactory to the Agent:

- (a) Counterparts of this Amendment executed by each of the parties hereto;
- (b) An opinion of David Goldberg, Vice President and Senior Counsel of the Borrower and the other Loan Parties addressed to the Agent and the Lenders in form and substance reasonably satisfactory to the Agent and its counsel;
- (c) Revolving Notes evidencing the increase in each Increasing Lender's Commitment, as applicable, executed by the Borrower, payable to each such Lender and complying with the terms of Section 2.12. of the Credit Agreement;
- (d) Evidence that the fees payable on or before the date hereof referenced in Fee Letter dated as of February 17, 2004 between the Borrower and the Agent have been paid;
- (e) Evidence that all reasonable fees, costs and expenses of the Agent, including the fees of Agent's counsel (such counsel's fees shall be limited to \$25,000, unless otherwise agreed in advance in writing by the Borrower and the Agent), incurred in connection with the negotiation, documentation and closing of this Amendment and related documents and agreements have been paid; and
- (f) Such other documents and instruments as the Agent may reasonably request.

Section 4. New Co-Lead Arranger/Documentation Agent. Upon the effectiveness of this Amendment, (a) Wachovia Capital Markets, LLC shall become a “Co-Lead Arranger” under the Credit Agreement and (b) Citicorp North America, Inc. shall become a “Documentation Agent” under the Credit Agreement.

Section 5. Representations of the Borrower. The Borrower represents and warrants to the Agent and the Lenders that:

(a) Authorization. The Borrower and each Guarantor has the right and power, and has taken all necessary action to authorize it, to execute and deliver this Amendment and to perform its obligations hereunder in accordance with its terms. The Borrower has the right and power, and has taken all necessary action to authorize it, to perform its obligations under the Credit Agreement, as amended by this Amendment, in accordance with its terms. This Amendment has been duly executed and delivered by a duly authorized officer of the Borrower and each Guarantor, and each of this Amendment and the Credit Agreement, as amended by this Amendment, is a legal, valid and binding obligation of the Borrower and each Guarantor a party thereto enforceable against the Borrower and such Guarantor in accordance with its respective terms except as the same may be limited by bankruptcy, insolvency, and other similar laws affecting the rights of creditors generally and the availability of equitable remedies for the enforcement of certain obligations contained herein or therein may be limited by equitable principles generally.

(b) Compliance with Laws, etc. The execution and delivery of this Amendment by the Borrower and each Guarantor and the performance of this Amendment and the Credit Agreement, as amended by this Amendment, by the Borrower and each Guarantor a party thereto in accordance with their respective terms, do not and will not, by the passage of time, the giving of notice or both: (i) require any Government Approval or violate any Applicable Law (including Environmental Laws) relating to the Borrower or any Guarantor the failure to possess or to comply with which would have a Materially Adverse Effect; (ii) conflict with, result in a breach of or constitute a default under the Borrower’s articles of incorporation or bylaws, or any resolution adopted by the Borrower’s Board of Directors in connection with the designation of any series of Preferred Stock of the Borrower, or the organizational documents of any Guarantor, or any indenture, agreement or other instrument to which the Borrower or any Guarantor is a party or by which it or any of its respective properties may be bound; or (iii) result in or require the creation or imposition of any Lien upon or with respect to any property now owned or hereafter acquired by the Borrower or any Guarantor other than in favor of the Agent for the benefit of the Lenders.

(c) No Default. No Default or Event of Default has occurred and is continuing as of the date hereof nor will exist immediately after giving effect to this Amendment.

Section 6. Reaffirmation of Representations. The Borrower and each Guarantor repeats and reaffirms all representations and warranties made by such Person to the Agent and the Lenders in the Credit Agreement and the other Loan Documents to which it is a party on and as of the date hereof (and after giving effect to this Amendment) with the same force and effect as if such representations and warranties were set forth in this Amendment in full.

Section 7. Guarantors. The Borrower represents that all Subsidiaries and Unconsolidated Affiliates required under Section 8.14. of the Credit Agreement to become Guarantors have become Guarantors and have executed and delivered all items required under such Section.

Section 8. Reaffirmation of Guaranty by Each Guarantor. Each Guarantor hereby reaffirms its continuing obligations to the Agent and the Lenders under the Guaranty, and agrees that the transactions contemplated by this Amendment shall not in any way affect the validity and enforceability of such Guaranty, or reduce, impair or discharge the obligations of such Guarantor thereunder.

Section 9. References to the Credit Agreement. Each reference to the Credit Agreement in any of the Loan Documents (including the Credit Agreement) shall be deemed to be a reference to the Credit Agreement, as amended by this Amendment.

Section 10. Expenses. The Borrower shall reimburse the Agent upon demand for all reasonable costs and expenses (including attorneys’ fees of up to \$25,000, unless otherwise agreed in advance in writing by the Borrower

and the Agent) incurred by the Agent in connection with the preparation, negotiation and execution of this Amendment and the other agreements and documents executed and delivered in connection herewith.

Section 11. Benefits. This Amendment shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

Section 12. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF CALIFORNIA APPLICABLE TO CONTRACTS EXECUTED, AND TO BE FULLY PERFORMED, IN SUCH STATE.

Section 13. Effect. Except as expressly herein amended, the terms and conditions of the Credit Agreement and the other Loan Documents shall remain in full force and effect. The amendments contained herein shall be deemed to have prospective application only, unless otherwise specifically stated herein

Section 14. Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be deemed to be an original and shall be binding upon all parties, their successors and assigns.

Section 15. Definitions. All capitalized terms not otherwise defined herein are used herein with the respective definitions given them in the Credit Agreement.

[Signatures on Next Page]

IN WITNESS WHEREOF, the parties hereto have caused this Second Amendment to Credit Agreement to be executed as of the date first above written.

BORROWER:

PUBLIC STORAGE, INC.

By: /s/ John Reyes

John Reyes
Senior Vice President

[Signatures Continued on Next Page]

[Signature Page to Second Amendment to Credit Agreement with Public Storage, Inc.]

GUARANTORS:

PS GPT PROPERTIES, INC.
PS ILLINOIS TRUST
PS LPT PROPERTIES INVESTORS
PS PENNSYLVANIA TRUST
PSI INSTITUTIONAL ADVISORS, INC.
SEI - FIRESTONE ACQUISITION CORPORATION
SEI - NORTH BERGEN ACQUISITION CORPORATION
SEI ARLINGTON ACQUISITION CORPORATION
SEI HYPOLUXO ACQUISITION CORPORATION
STR MANAGEMENT CORPORATION OF FLORIDA
STR MANAGEMENT CORPORATION OF ILLINOIS
BALTIMORE-RUSSELL, LLC
BOSTON-SOUTHAMPTON PROPERTY ACQUISITION, LLC
LOCH RAVEN-JOPPA, LLC
WESTLAWN ACQUISITION, LLC
NORTH HOLLYWOOD ACQUISITION, LLC
PSA FLORIDA, LLC
U-STOR-IT #2 LLC
U-STOR-IT #4 LLC
U-STOR-IT #6 LLC
U-STOR-IT #7 LLC
U-STOR-IT #9 LLC
U-STOR-IT #10 LLC
U-STOR-IT #12 LLC
U-STOR-IT #13 LLC
U-STOR-IT #19 LLC
PS TEXAS PROPERTIES, LTD.
BY: PS GPT PROPERTIES, INC.
GENERAL PARTNER

By: /s/ John Reyes

John Reyes
Senior Vice President

[Guarantors Signatures Continued on Next Page]

[Signature Page to Second Amendment to Credit Agreement with Public Storage, Inc.]

PS TENNESSEE L.P.

BY: PS GPT PROPERTIES, INC.
GENERAL PARTNER

PS TEXAS HOLDINGS, LTD.

BY: PS GPT PROPERTIES, INC.
GENERAL PARTNER

PS PARTNERS II, LTD.

BY: PS TEXAS HOLDINGS, LTD.
GENERAL PARTNER

BY: PS GPT PROPERTIES, INC.
ITS GENERAL PARTNER

PS PARTNERS III, LTD.

BY: PS TEXAS HOLDINGS, LTD.
GENERAL PARTNER

BY: PS GPT PROPERTIES, INC.
ITS GENERAL PARTNER

PUBLIC STORAGE GERMAN FUND II, LTD.

BY: PS TEXAS HOLDINGS, LTD.
GENERAL PARTNER

BY: PS GPT PROPERTIES, INC.
ITS GENERAL PARTNER

PUBLIC STORAGE EURO FUND III, LTD.

BY: PUBLIC STORAGE, INC.
GENERAL PARTNER

PUBLIC STORAGE EURO PARTNERSHIP IV, LTD.

BY: PS TEXAS HOLDINGS, LTD.
GENERAL PARTNER

BY: PS GPT PROPERTIES, INC.
ITS GENERAL PARTNER

PUBLIC STORAGE EURO PARTNERSHIP V, LTD.

BY: PS TEXAS HOLDINGS, LTD.
GENERAL PARTNER

BY: PS GPT PROPERTIES, INC.
ITS GENERAL PARTNER

PUBLIC STORAGE EURO PARTNERSHIP VI, LTD.

BY: PUBLIC STORAGE, INC.
GENERAL PARTNER

By: /s/ John Reyes _____

John Reyes
Senior Vice President

[Guarantors Signatures Continued on Next Page]

[Signature Page to Second Amendment to Credit Agreement with Public Storage, Inc.]

PUBLIC STORAGE EURO PARTNERSHIP VII, LTD.
BY: PUBLIC STORAGE, INC.
GENERAL PARTNER

PUBLIC STORAGE EURO PARTNERSHIP VIII, LTD.
BY: PS TEXAS HOLDINGS, LTD.
GENERAL PARTNER
BY: PS GPT PROPERTIES, INC.
ITS GENERAL PARTNER

PUBLIC STORAGE EURO PARTNERSHIP IX, LTD.
BY: PUBLIC STORAGE, INC.
GENERAL PARTNER

PUBLIC STORAGE EURO PARTNERSHIP X, LTD.
BY: PUBLIC STORAGE, INC.
GENERAL PARTNER

PUBLIC STORAGE EURO PARTNERSHIP XI, LTD.
BY: PUBLIC STORAGE, INC.
GENERAL PARTNER

PUBLIC STORAGE EURO PARTNERSHIP XII, LTD.
BY: PUBLIC STORAGE, INC.
GENERAL PARTNER

PUBLIC STORAGE EURO PARTNERSHIP XIII, LTD.
BY: PUBLIC STORAGE, INC.
GENERAL PARTNER

PUBLIC STORAGE EUROLUX PARTNERS I
BY: PUBLIC STORAGE, INC.
GENERAL PARTNER

PUBLIC STORAGE EUROLUX PARTNERS II
BY: PUBLIC STORAGE, INC.
GENERAL PARTNER

PUBLIC STORAGE EUROLUX PARTNERS III
BY: PUBLIC STORAGE, INC.
GENERAL PARTNER

By: /s/ John Reyes _____

John Reyes
Senior Vice President

[Guarantors Signatures Continued on Next Page]

[Signature Page to Second Amendment to Credit Agreement with Public Storage, Inc.]

PUBLIC STORAGE EUROLUX PARTNERS IV
BY: PUBLIC STORAGE, INC.
GENERAL PARTNER

PUBLIC STORAGE EUROLUX TUJUNGA PARTNERS
BY: PUBLIC STORAGE EUROLUX PARTNERS IV
GENERAL PARTNER

BY: PUBLIC STORAGE, INC.
ITS GENERAL PARTNER

DIVERSIFIED STORAGE FUND
BY: PSI INSTITUTIONAL ADVISORS, INC.
GENERAL PARTNER

PS ORANGECO, INC.
PUBLIC STORAGE PICKUP & DELIVERY, INC.
PUBLIC STORAGE PICKUP & DELIVERY – OREGON, INC.
GRANT MOVING & STORAGE COMPANY
PUBLIC STORAGE PICKUP & DELIVERY, L.P.
BY: PUBLIC STORAGE PICKUP & DELIVERY, INC.
GENERAL PARTNER

By: /s/ John Reyes

John Reyes
Senior Vice President

[Guarantors Signatures Continued on Next Page]

[Signature Page to Second Amendment to Credit Agreement with Public Storage, Inc.]

PSA INSTITUTIONAL PARTNERS, L.P.
BY: PS TEXAS HOLDINGS, LTD.
GENERAL PARTNER
BY: PS GPT PROPERTIES, INC.
ITS GENERAL PARTNER

STORAGE TRUST PROPERTIES, L.P.
BY: PS TEXAS HOLDINGS, LTD.
GENERAL PARTNER
BY: PS GPT PROPERTIES, INC.
ITS GENERAL PARTNER

PS PARTNERS VIII, LTD.
BY: PS TEXAS HOLDINGS, LTD.
GENERAL PARTNER
BY: PS GPT PROPERTIES, INC.
ITS GENERAL PARTNER

PS PARTNERS, LTD.
BY: PS TEXAS HOLDINGS, LTD.
GENERAL PARTNER
BY: PS GPT PROPERTIES, INC.
ITS GENERAL PARTNER

PUBLIC STORAGE INSTITUTIONAL FUND
BY: PS TEXAS HOLDINGS, LTD.
GENERAL PARTNER
BY: PS GPT PROPERTIES, INC.
ITS GENERAL PARTNER

PUBLIC STORAGE INSTITUTIONAL FUND III
BY: PS TEXAS HOLDINGS, LTD.
GENERAL PARTNER
BY: PS GPT PROPERTIES, INC.
ITS GENERAL PARTNER

CONNECTICUT STORAGE FUND
BY: PS GPT PROPERTIES, INC.
GENERAL PARTNER

By: /s/ John Reyes

John Reyes
Senior Vice President

[Signatures Continued on Next Page]

[Signature Page to Second Amendment to Credit Agreement with Public Storage, Inc.]

AGENT AND LENDERS:

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Agent,
the Swingline Lender, and as a Lender

By: /s/ John P. Manning _____

John P. Manning
Senior Vice President

WACHOVIA BANK, NATIONAL ASSOCIATION,
successor to First Union National Bank,
as Syndication Agent and as a Lender

By: /s/ David M. Blackman _____

David M. Blackman
Director

CREDIT SUISSE FIRST BOSTON
Acting through its Cayman Islands Branch

By: /s/ William O'Daly _____

William O'Daly
Director

By: /s/ Cassandra Droogan _____

Cassandra Droogan
Associate

AMSOUTH BANK

By: /s/ Lee Surtees _____

Lee Surtees
Officer

[Signatures Continued on Next Page]

[Signature Page to Second Amendment to Credit Agreement with Public Storage, Inc.]

DEUTSCHE BANK TRUST COMPANY AMERICAS

By: /s/ Steven P. Lapham

Steven P. Lapham
Managing Director

CITICORP NORTH AMERICA, INC.

By: /s/ David Bouton

David Bouton
Vice President

THE BANK OF NEW YORK

By: /s/ Lisa M. Brown

Lisa M. Brown
Managing Director

ANNEX I

Lenders' Commitments

Lender	Commitment Amount
Wells Fargo Bank, National Association	\$55,000,000
Wachovia Bank, National Association	\$45,000,000
AmSouth Bank	\$25,000,000
Credit Suisse First Boston	\$20,000,000
Citicorp North America, Inc.	\$20,000,000
Deutsche Bank Trust Company Americas	\$20,000,000
The Bank of New York	\$15,000,000
Total	\$200,000,000.00

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Ronald L. Havner, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Public Storage, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation;
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or person performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Ronald L. Havner, Jr.

Name: Ronald L. Havner, Jr.

Title: Chief Executive Officer

Date: May 7, 2004

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Harvey Lenkin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Public Storage, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation;
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or person performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Harvey Lenkin

Name: Harvey Lenkin

Title: President

Date: May 7, 2004

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John Reyes, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Public Storage, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation;
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or person performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ John Reyes

Name: John Reyes

Title: Chief Financial Officer

Date: May 7, 2004

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Public Storage, Inc. (the "Company") for the quarterly period ended March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Ronald L. Havner, Jr., as Chief Executive Officer of the Company, Harvey Lenkin, as President of the Company, and John Reyes, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Ronald L. Havner, Jr.

Name: Ronald L. Havner, Jr.
Title: Chief Executive Officer
Date: May 7, 2004

/s/ Harvey Lenkin

Name: Harvey Lenkin
Title: President
Date: May 7, 2004

/s/ John Reyes

Name: John Reyes
Title: Chief Financial Officer
Date: May 7, 2004