

PUBLIC STORAGE INC /CA  
Form DEFM14A  
July 25, 2006  
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As filed with the Securities and Exchange Commission on July 25, 2006

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

**SCHEDULE 14A**  
**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**  
**(Amendment No. \_\_)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**PUBLIC STORAGE, INC.**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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**TO THE SHAREHOLDERS OF  
PUBLIC STORAGE, INC. AND  
SHURGARD STORAGE CENTERS, INC.**

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

If the merger is completed, Shurgard shareholders will receive Public Storage common stock in exchange for their shares of Shurgard common stock. Each share of Shurgard common stock will be converted into the right to receive 0.82 shares of Public Storage common stock. The value of the shares of Public Storage to be received by Shurgard shareholders is dependent on the market price of Public Storage at the time of the merger as the exchange ratio is fixed. Upon completion of the merger, we estimate that Shurgard's former shareholders will own approximately 24% of the then-outstanding shares of Public Storage common stock, based on the number of shares of Shurgard and Public Storage common stock outstanding on June 23, 2006. Public Storage's shareholders will continue to own their existing shares. Shares of Public Storage common stock are listed on the New York Stock Exchange under the symbol PSA. Upon completion of the merger, Shurgard common stock, which is listed on the New York Stock Exchange under the symbol SHU, will be delisted. We expect the merger to be taxable for federal income tax purposes for Shurgard shareholders.

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

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

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

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

Ronald L. Havner, Jr.

David K. Grant

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President and Chief Executive Officer

President and Chief Executive Officer

Public Storage, Inc.

Shurgard Storage Centers, Inc.

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

This joint proxy statement/prospectus is dated July 24, 2006, and is first being mailed to Shurgard and Public Storage shareholders on or about July 24, 2006.

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**REFERENCES TO ADDITIONAL INFORMATION**

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

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

In addition, Public Storage's SEC filings are available to the public on Public Storage's website, [www.publicstorage.com](http://www.publicstorage.com), and Shurgard's SEC filings are available to the public on Shurgard's website, [www.shurgard.com](http://www.shurgard.com). Information contained on Public Storage's website, Shurgard's website or the website of any other person is not incorporated by reference into this joint proxy statement/prospectus, and you should not consider information contained on those websites as part of this joint proxy statement/prospectus.

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

Public Storage, Inc.

701 Western Avenue

Glendale, CA 91201-2349

Attention: Investor Relations

Telephone: (818) 244-8080

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

Shurgard Storage Centers, Inc.

1155 Valley Street, Suite 400

Seattle, WA 98109-4426

Attention: Investor Relations

Telephone: (206) 624-8100

**If you would like to request documents, please do so by August 15, 2006, in order to receive them before the shareholders' meetings.**

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

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**SHURGARD STORAGE CENTERS, INC.**

**1155 Valley Street, Suite 400**

**Seattle, WA 98109-4426**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON AUGUST 22, 2006**

To the shareholders of Shurgard Storage Centers, Inc.:

Shurgard will hold a special meeting of its shareholders at 9:00 a.m. (PDT), on Tuesday, August 22, 2006, at the Bell Harbor International Conference Center, Pier 66, 2211 Alaskan Way, Seattle, Washington, unless postponed or adjourned to a later date. The Shurgard special meeting will be held for the following purposes:

1. To approve the Agreement and Plan of Merger, dated as of March 6, 2006, by and among Shurgard Storage Centers, Inc, Public Storage, Inc. and ASKL Sub LLC, an indirect subsidiary of Public Storage, and the transactions contemplated by the merger agreement, including the merger of Shurgard with and into ASKL Sub LLC, on the terms and subject to the conditions contained in the merger agreement, and the exchange of each outstanding share of Shurgard common stock for the right to receive 0.82 shares of Public Storage common stock. A copy of the merger agreement is attached as Annex A to the accompanying joint proxy statement/prospectus; and
2. To approve adjournments or postponements of the Shurgard special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the Shurgard special meeting to approve the above proposals.

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

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

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

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

By order of the board of directors,

Jane A. Orenstein

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Vice President, General Counsel and Corporate Secretary

Seattle, Washington, July 24, 2006

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



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**PUBLIC STORAGE, INC.**

**701 Western Avenue**

**Glendale, California 91201-2349**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON AUGUST 22, 2006**

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

**Time and Date:** 9:00 a.m., local time, on Tuesday, August 22, 2006

**Place:** The Hilton Glendale, 100 West Glenoaks Boulevard, Glendale, California

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

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

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

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

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

By order of the board of directors,

Stephanie G. Heim

Secretary

Glendale, California, July 24, 2006

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

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### **QUESTIONS AND ANSWERS ABOUT THE SHAREHOLDERS MEETINGS AND THE MERGER**

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

#### **The Merger**

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

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

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

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

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

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

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

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

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

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

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

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

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



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Eliminating duplicative general and administrative expenses and improving cost efficiencies;

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

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

Increasing Public Storage's equity market capitalization.

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

**Q: What will happen in the proposed merger?**

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

**Q: What vote is required to approve the merger?**

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

**Q: What will Shurgard shareholders receive in the merger?**

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

**Q: Do Shurgard shareholders have dissenters' rights?**

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

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

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

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

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

**Q: Do Public Storage shareholders have dissenters' rights?**

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

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

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

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

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

**Q: Where does Public Storage common stock trade?**

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

**Q: When do you expect to complete the merger?**

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

**Q: Are there risks involved in undertaking the merger?**

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

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

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

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

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

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

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

### **Q: Should I send in my stock certificates now?**

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

### **Other Public Storage Annual Meeting Proposals**

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

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

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

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

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

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

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

### **Procedures**

### **Q: When and where are the shareholders' meetings?**

A: The Shurgard special meeting will be held on Tuesday, August 22, 2006, 9:00 a.m. (PDT) at the Bell Harbor International Conference Center, Pier 66, 2211 Alaskan Way, Seattle, Washington.

The Public Storage annual meeting will be held on Tuesday, August 22, 2006, 9:00 a.m. (PDT) at The Hilton Glendale, 100 West Glenoaks Boulevard, Glendale, California.

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

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

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

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### **Q: What should I do now?**

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

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

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

### **Q: How will my proxy be voted?**

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

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

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

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

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

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

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

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

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



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

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

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

### **Q: What if I don't provide my broker with instructions on how to vote?**

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

#### *Shurgard Shareholders*

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

#### *Public Storage Shareholders*

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

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

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

### **Q: What if I abstain from voting?**

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

If you are a Shurgard shareholder:

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

See *The Shurgard Special Meeting Voting of Proxies*.

If you are a Public Storage shareholder:

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

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

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

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

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

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

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

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

**Q: Who can help answer my questions?**

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

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**SUMMARY**

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

*Shurgard's consolidated financial statements as set forth under *Index to Consolidated Financial Statements of Shurgard*, *Shurgard Management's Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2005* and *Selected Historical Financial Data of Shurgard* for each of the fiscal years ended December 31, 2005, 2004, 2003, 2002 and 2001 have been revised to reflect the reclassification of two properties from held for sale to properties held for use during the three-month period ended March 31, 2006. There is no effect on Shurgard's previously reported net income, financial condition or cash flows.*

**The Companies**

***Shurgard (page 162)***

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

Shurgard Storage Centers, Inc.

1155 Valley Street, Suite 400

Seattle, WA 98109-4426

Telephone: (206) 624-8100

***Public Storage (page 144)***

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

Public Storage, Inc.

701 Western Avenue

Glendale, CA 91201-2349

Telephone: (818) 244-8080

***ASKL Sub LLC***

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

the possibility that the merger might not be completed as a result of the failure to satisfy certain closing conditions, including securing approvals from shareholders of both Shurgard and Public Storage, which failure to complete the merger could result in significant distractions to Shurgard's employees, and Shurgard would still be obligated to pay certain fees and expenses of its advisors regardless of whether the merger was consummated;

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



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

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

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

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

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

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

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

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

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

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

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

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

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

In connection with its search for strategic alternatives and negotiation and execution of the merger agreement with Public Storage, to date Shurgard has paid fees of \$15.0 million to its legal, financial and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The merger will be dilutive to Public Storage shareholders.

### **The Merger (page 49)**

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

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

### **Merger Consideration (page 127)**

Holders of Shurgard common stock (other than Public Storage, Merger Sub, any other subsidiary of Public Storage, Shurgard and dissenting Shurgard shareholders who properly exercise their dissenters' rights) will be entitled to receive 0.82 shares of Public Storage common stock for each share of Shurgard common stock that they own. As a result, Public Storage will issue approximately 41 million shares of Public Storage common stock in the merger based on the number of shares of Shurgard common stock outstanding on the record date. We refer to the stock consideration to be paid to Shurgard shareholders by Public Storage as the merger consideration.

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



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

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

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

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

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

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

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



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

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

*Shurgard Shareholders.* The record date for the special meeting of Shurgard shareholders is June 23, 2006. This means that you must have been a shareholder of record of Shurgard's common stock at the close of business on June 23, 2006, in order to vote at the special meeting. You are entitled to one vote for each share of common stock you owned on that date. On Shurgard's record date, Shurgard's voting securities carried 47,411,173 votes, which consisted of 47,411,173 shares of common stock.

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

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

*Shurgard.* At the close of business on the record date for the Shurgard special meeting, directors and executive officers of Shurgard and their affiliates beneficially owned and were entitled to vote approximately 1,641,646 shares of Shurgard common stock, collectively representing 3.5% of the shares of Shurgard common stock outstanding on that date.

*Public Storage.* As of the record date for the Public Storage annual meeting, there were 129,351,154 shares of Public Storage common stock outstanding and entitled to vote at the annual meeting, approximately 19.3% of which were owned and entitled to be voted by Public Storage directors and executive officers and their affiliates, 8,744,193 depository shares representing Public Storage equity stock, series A outstanding and entitled to vote at the annual meeting, approximately 1.4% of which were owned and entitled to be voted by Public Storage directors and executive officers and their affiliates, and 4,289,544 shares of Public Storage equity stock, series AAA outstanding and entitled to vote at the annual meeting, all of which were owned and entitled to be voted by an entity controlled by Public Storage.

**Table of Contents****Ownership of Public Storage After the Merger (page 44)**

Based on the number of shares of Public Storage and Shurgard common stock outstanding on their respective record dates, after completion of the merger, Public Storage expects to issue approximately 41 million shares of Public Storage common stock and former Shurgard shareholders will own approximately 24% of the then-outstanding shares of Public Storage common stock.

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

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

As of the consummation of the merger, all outstanding stock options held by the directors, officers and employees of Shurgard under the Shurgard Storage Centers, Inc. 1995 Long-Term Incentive Compensation Plan, the Shurgard Storage Centers, Inc. 2000 Long-Term Incentive Plan and the Shurgard Storage Centers, Inc. 2004 Long-Term Incentive Plan, which plans we refer to in this section collectively as the stock plans, will become fully vested and will be converted into options to acquire the number of shares of Public Storage common stock multiplied by 0.82 (and rounded down to the nearest share). As of the consummation of the merger, all outstanding stock options granted to directors under the Shurgard Storage Centers, Inc. Amended and Restated Stock Incentive Plan for Nonemployee Directors, which plan we refer to in this section as the director incentive plan, will terminate. For 20 days prior to the consummation of the merger, each director will be entitled to exercise all options granted to such director, whether vested or unvested. Additionally, by virtue of the merger any outstanding restricted shares of Shurgard common stock held by the directors, officers or employees that were granted under the stock plans will be converted into the number of shares of Public Storage common stock obtained by multiplying such number of restricted shares of Shurgard common stock by 0.82. Assuming a value of \$63.60 per share of Shurgard common stock (the value of a share of Shurgard common stock at the closing of the market on March 6, 2006, the date of the merger agreement), the aggregate value of the unvested options and restricted stock held by executive officers and directors that will be accelerated in connection with the merger is approximately \$12.1 million. For more information regarding the treatment of Shurgard options and restricted following the merger, please see *Interests of Shurgard Directors and Executive Officers in the Merger Option Vesting; Conversion of Options and Restricted Stock*.

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

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

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

### **Public Storage Executive Officers After the Merger (page 93)**

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

### **Special Meeting of Shurgard Shareholders (page 41)**

The special meeting of Shurgard shareholders will be held on Tuesday, August 22, 2006, at 9:00 a.m., (PDT), at the Bell Harbor International Conference Center, Pier 66, 2211 Alaskan Way, Seattle, Washington. At the Shurgard special meeting, Shurgard shareholders will be asked:

to approve the merger agreement and the transactions contemplated thereby, including the merger, and

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

Shurgard shareholders are entitled to vote at the Shurgard special meeting if they owned shares of Shurgard common stock as of the close of business on June 23, 2006, the Shurgard record date. On the Shurgard record date, there were 47,411,173 shares of Shurgard common stock entitled to vote at the Shurgard special meeting. Shareholders will have one vote at the Shurgard special meeting for each share of Shurgard common stock that they owned on the Shurgard record date.

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

### **Annual Meeting of Public Storage Shareholders (page 44)**

Public Storage will hold an annual meeting of its shareholders at 9:00 a.m. (PDT) on Tuesday, August 22, 2006 at The Hilton Glendale, 100 West Glenoaks Boulevard, Glendale, California. At the Public Storage annual meeting, Public Storage shareholders will be asked:

To approve the merger agreement and the transactions contemplated thereby, including the issuance of Public Storage common stock;

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

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

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

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

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

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

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

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

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

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

## **Voting Agreements (page 142)**

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

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

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

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

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

### **Dissenters Rights (page 122)**

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

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

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

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

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

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

### **Conditions to Completion of the Merger (page 134)**

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

the required approvals of Shurgard shareholders;

the required approvals of Public Storage shareholders;

the absence of any injunction or other order prohibiting the consummation of the merger by a court or provision of law;

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

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

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

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

the representations and warranties of Shurgard being true and correct, subject to the materiality standards contained in the merger agreement;

Shurgard's performance of and compliance with, in all material respects, all agreements and covenants required by the merger agreement;

there not having occurred a material adverse effect on Shurgard since March 6, 2006;

the parties to the merger agreement having obtained all permits and consents legally required to consummate the merger, subject to the materiality standards contained in the merger agreement; and

Shurgard's delivery of a tax opinion on Shurgard's status as a REIT.

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

the representations and warranties of Public Storage and Merger Sub being true and correct, subject to the materiality standards contained in the merger agreement;

Public Storage's and Merger Sub's performance of and compliance with, in all material respects, all agreements and covenants required by the merger agreement;

there not having occurred a material adverse effect on Public Storage or Merger Sub since March 6, 2006; and

Public Storage's delivery of a tax opinion on Public Storage's status as a REIT.

### **Required Regulatory Approvals (page 121)**

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

### **Termination of the Merger Agreement (page 137)**

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

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



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

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

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

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

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Additionally, Shurgard may terminate the merger agreement if:

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

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

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

### **Termination Fees (page 138)**

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

### **No Solicitation by Shurgard (page 132)**

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

### **Material United States Federal Income Tax Consequences (page 94)**

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

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

### **Accounting Treatment (page 121)**

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

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**Risks (page 29)**

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

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

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

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

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

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

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

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

Distributions to Shurgard shareholders will decrease after the merger;

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

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

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

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

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

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

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

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

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

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

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

Public Storage shareholders will incur immediate dilution.

**Table of Contents****Transaction Expenses (page 241)**

Public Storage and Shurgard have paid, and will be obligated to pay, certain fees and expenses in connection with the merger, even if the merger is not completed. In connection with its search for strategic alternatives and negotiation and execution of the merger agreement with Public Storage, Shurgard has to date paid fees of \$15.0 million. Public Storage has to date paid fees of less than \$700,000 in connection with the merger, and the negotiation and execution of the merger agreement with Shurgard. If the transaction is completed, Public Storage and Shurgard currently expect to pay an aggregate of approximately \$68.1 million in fees and other expenses associated with the merger, including related severance costs.

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

The following table sets forth the closing sale prices of Public Storage common stock and Shurgard common stock as reported on the New York Stock Exchange on March 6, 2006, the last trading day prior to the date of the merger agreement, and on July 20, 2006, the last trading day prior to the printing of this joint proxy statement/prospectus for which it was practicable to obtain this information. This table also shows the equivalent per share price of Shurgard common stock.

Date	Public Storage	Shurgard	Equivalent Per Share Price (1)
	Common Stock	Common Stock	
March 6, 2006	\$79.46	\$63.60	\$65.16
July 20, 2006	\$77.11	\$62.95	\$63.23

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

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

**Comparison of Rights of Shareholders (page 257)**

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

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

**Legal Proceedings Relating to the Merger (page 126)**

On March 7, 2006, a putative class action complaint was filed on behalf of the public shareholders of Shurgard in the Superior Court of the State of Washington, King County, against Shurgard and certain of its directors entitled *Staer v. Shurgard Storage Centers, Inc. et al* (case no. 06-2-08148-0). The complaint alleges, among other things, that the directors of Shurgard breached their fiduciary duties by failing to properly value Shurgard and by failing to protect against alleged conflicts of interest arising out of certain directors' interests in the transaction. Among other things, the complaint seeks an order enjoining Shurgard from consummating the acquisition. The time for defendants to respond to the complaint has not yet run. Defendants intend to defend the action vigorously.

**Table of Contents****FINANCIAL SUMMARY****Selected Historical Financial Data of Public Storage**

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

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

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

**Cash flow Data:**

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

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

- (1) During 2005, 2004, 2003, 2002, and 2001, Public Storage completed several significant asset acquisitions, business combinations and equity transactions. See Notes 4, 7, 8, 9 and 10 to Public Storage's consolidated financial statements included in the December 31, 2005 annual report on Form 10-K.
- (2) Commencing January 1, 2002, Public Storage adopted and modified a business plan that included the closure or consolidation of certain non-strategic containerized storage facilities. Public Storage sold two commercial properties—one in 2002, the other in 2004. During 2003 Public Storage sold five self-storage facilities. The historical operations of these facilities are classified as discontinued operations, with the rental income, cost of operations, depreciation expense and gain or loss on disposition of these facilities for current and prior periods included in the line-item Discontinued Operations on the consolidated income statement.
- (3) During 2004, holders of \$200,000,000 of Public Storage's Series N preferred partnership units agreed to a restructuring which included reducing their distribution rate from 9.5% to 6.4% in exchange for a special distribution of \$8,000,000. This special distribution, combined with \$2,063,000 in costs incurred at the time the units were originally issued that were charged against income in accordance with the Securities and Exchange Commission's clarification of Emerging Issues Task Force Topic D-42, are included in minority interest in income.



**Table of Contents****Selected Historical Financial Data of Shurgard**

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

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

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

- (1) The consolidation of Shurgard Europe and First Shurgard in Shurgard's financial statements for periods beginning January 1, 2004 materially affects the comparability of total revenue, total assets and total borrowings presented in this table. See Note 3 to Shurgard's Consolidated Financial Statements.
- (2) The balances for 2001 (balance sheet data only) have not been audited.
- (3) Total borrowings include participation rights liability net of discount of \$40.6 million, \$47.5 million and \$47.7 million in 2003, 2002 and 2001, respectively.
- (4) For all reported periods, Shurgard reclassified to discontinued operations the results of properties that it intended to sell or had sold as of March 31, 2006. See Note 25 to Shurgard's consolidated financial statements as of December 31, 2005 and 2004, and for each of the years in the three-year period ended December 31, 2005.

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

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

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

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

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

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

**Table of Contents****COMPARATIVE PER SHARE INFORMATION**

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

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

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

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**RISK FACTORS**

**Risks Relating To The Merger And Public Storage's Business**

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

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

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

The prices of Public Storage common stock and Shurgard common stock at the closing of the merger may vary from their respective prices on the date the merger agreement was executed, on the date of this document and on the date of the meetings. As a result, the value represented by the exchange ratio will also vary. For example, based on the range of closing prices of Public Storage common stock during the period from March 6, 2006, the last trading day before public announcement of the merger, through July 20, 2006, the exchange ratio represented a value ranging from a high of \$65.54 to a low of \$58.73 for each share of Shurgard common stock. Because the date that the merger is completed will be later than the date of the meetings, at the time of your company's meeting, you will not know the exact market value of the Public Storage common stock that Shurgard shareholders will receive upon completion of the merger.

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

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

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

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

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

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

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

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

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

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

The merger is subject to customary conditions to closing, including the receipt of required approvals of the shareholders of Shurgard and Public Storage. If any condition to the merger is not satisfied or, if permissible, waived, the merger will not be completed. In addition, Public Storage and Shurgard may terminate the merger agreement in certain circumstances. If Public Storage and Shurgard do not complete the merger, the market price of Public Storage common stock or Shurgard common stock may fluctuate to the extent that the current market prices of those shares reflect a market assumption that the merger will be completed. Public Storage and Shurgard also have paid, and will be obligated to pay, certain fees and expenses in connection with the merger, even if the merger is not completed. In connection with its search for strategic alternatives and negotiation and execution of the merger agreement with Public Storage, Shurgard has to date paid fees of \$15.0 million. Public Storage has to date paid fees of less than \$700,000 in connection with the merger, and the negotiation and execution of the merger agreement with Shurgard. In addition, Public Storage and Shurgard have each diverted significant management resources in an effort to complete the merger and are each subject to restrictions contained in the merger agreement on the conduct of its business. If the merger is not completed, Public Storage and Shurgard will have incurred significant costs, including the diversion of management resources, for which it will have received little or no benefit. Further, in specified circumstances, Shurgard may be required to pay to Public Storage a termination fee of \$125 million if the merger agreement is terminated. For a detailed description of the circumstances in which such termination fee will be paid, see *The Merger Agreement Termination and Other Fees*.

***Distributions to Shurgard shareholders will decrease after the merger.***

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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**Table of Contents*****Public Storage cannot protect against liabilities that may result from indirect investments.***

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

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

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

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

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

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

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

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

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

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

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

***Public Storage shareholders will incur immediate dilution.***

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

### **Risks Relating To Shurgard's Business**

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

### **Real Estate Investment Risks**

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

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

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

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

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

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

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

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

***Shurgard's growth strategy in Europe may not be successful.***

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

the continued growth in acceptance of the self-storage concept in a market where the concept remains relatively new;

Shurgard's ability to compete effectively as the European market develops and becomes more competitive; and

Shurgard's ability to locate, acquire and develop appropriate new properties.

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

### ***Risks Relating to Qualification and Operation as a REIT***

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

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

the rules governing REITs are highly complex;

Shurgard does not control all factual determinations that affect REIT status; and

Shurgard's circumstances may change in the future.

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

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

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

sells property that is considered to be held for sale to customers in the ordinary course of its trade or business (for example, inventory) for federal income tax purposes; and

fails to satisfy certain distribution rules, as described below.

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

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

85% of its ordinary income for the calendar year;

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

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

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

### ***Financing Risks***

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

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

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

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

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

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

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

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

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

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

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

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**Table of Contents*****Covenants in Shurgard's debt agreements could limit its activities.***

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

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

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

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

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

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

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

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



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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

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

the ability of Public Storage to integrate the Shurgard businesses with Public Storage's businesses and achieve the expected synergies from the merger;

the approval of the merger agreement and the transactions contemplated by the merger agreement, including the merger, at the Shurgard special meeting;

the approval of the merger agreement and the transactions contemplated thereby, including the issuance of Public Storage common stock, at the Public Storage annual meeting;

changes in federal income tax laws and regulations;

the timing of the completion of the merger;

the actual financial position and results of operations of Public Storage following the merger, which may differ significantly from the pro forma financial data contained in this joint proxy statement/prospectus;

the impact of competitive products and pricing;

general market conditions in the self-storage industry;

the level of capital resources required for future acquisitions and operations; and

changes in laws and regulations.

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

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### **THE SHURGARD SPECIAL MEETING**

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

#### **Purpose of the Special Meeting**

Shurgard will hold a special meeting of its shareholders at 9:00 a.m. (PDT), on Tuesday, August 22, 2006, at the Bell Harbor International Conference Center, Pier 66, 2211 Alaskan Way, Seattle, Washington, unless postponed or adjourned to a later date. The Shurgard special meeting will be held for the following purposes:

1. To approve the merger agreement and the transactions contemplated by the merger agreement, including the merger, pursuant to which Shurgard will merge with and into Merger Sub and each outstanding share of Shurgard common stock for the right to receive 0.82 shares of Public Storage common stock; and
2. To approve adjournments or postponements of the Shurgard special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the Shurgard special meeting to approve the above proposals.

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

#### **Record Date; Shares Entitled to Vote; Quorum**

Only holders of record of Shurgard common stock at the close of business on June 23, 2006, the Shurgard record date for the Shurgard special meeting, are entitled to notice of, and to vote at, the Shurgard special meeting and any reconvened meeting following an adjournment or postponement of the Shurgard special meeting. On the Shurgard record date, 47,411,173 shares of Shurgard common stock were outstanding and held by approximately 8,181 holders of record.

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

#### **Vote Required**

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

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

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

### **Shares Owned by Shurgard Directors and Executive Officers**

At the close of business on the Shurgard record date, directors and executive officers of Shurgard beneficially owned and were entitled to vote 1,641,646 shares of Shurgard common stock, which represented approximately 3.5% of the shares of Shurgard common stock outstanding on that date. In connection with the merger agreement, Charles K. Barbo has entered into a voting agreement with Public Storage, pursuant to which Mr. Barbo has agreed, among other things, to vote all of the shares of Shurgard common stock beneficially owned by him, representing approximately 3% of the outstanding shares, in favor of the approval of the merger agreement and the transactions contemplated thereby, including the merger.

### **Voting of Proxies**

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

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

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

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

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### **Revocability of Proxies**

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

executing a later-dated proxy card relating to the same shares and delivering it to Shurgard's Corporate Secretary by telephone or mail before the taking of the vote at the Shurgard special meeting;

using the telephone as described in the instructions included with your proxy card(s) or voting instruction card(s);

filing with Shurgard's Corporate Secretary before the taking of the vote at the Shurgard special meeting a written notice of revocation bearing a later date than the proxy card; or

attending the Shurgard special meeting and voting in person (although attendance at the Shurgard special meeting will not, in and of itself, revoke a proxy).

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

### **Solicitation of Proxies**

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

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

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

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

### **Adjournment and Postponement**

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

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

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

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**THE PUBLIC STORAGE ANNUAL MEETING**

**General**

This joint proxy statement/prospectus is being provided to Public Storage shareholders as part of a solicitation of proxies by the Public Storage board of directors for use at the annual meeting of Public Storage shareholders and at any adjournment or postponement thereof. This joint proxy statement/prospectus is first being furnished to shareholders of Public Storage on or about July 24, 2006. This joint proxy statement/prospectus provides Public Storage shareholders with the information they need to know to be able to vote or instruct their vote to be cast at the annual meeting of Public Storage shareholders.

**Date, Time and Place of the Public Storage Annual Meeting**

The annual meeting of Public Storage shareholders will be held at 9:00 a.m., (PDT), on Tuesday, August 22, 2006, at The Hilton Glendale, 100 West Glenoaks Boulevard, Glendale, California

**Purposes of the Public Storage Annual Meeting**

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

to approve the merger agreement and the transactions contemplated thereby, including the issuance of Public Storage common stock;

to elect ten members of Public Storage's board of directors;

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

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

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

**Record Date; Outstanding Shares; Shares Entitled to Vote**

Only shareholders of record of (a) Public Storage common stock, (b) depositary shares each representing 1/1,000 of a share of Public Storage equity stock, series A or (c) Public Storage equity stock, series AAA at the close of business on the record date of June 23, 2006 will be entitled to vote at the meeting, or at any reconvened meeting following an adjournment or postponement of the meeting. Each depositary share of Public Storage equity stock, series A represents 1/1,000 of one share of Public Storage equity stock, series A. The Public Storage equity stock, series A has been deposited with Computershare Trust Company, N.A. (formerly known as EquiServe Trust Company, N.A.) as Depositary. On the record date, Public Storage had approximately 129,351,154 shares of Common Stock, 8,744,193 Depositary Shares representing 8,744.193 shares of equity stock, series A, and 4,289,544 shares of equity stock, series AAA issued and outstanding. Based on the number of shares of Public Storage and Shurgard common stock outstanding on their respective record dates, after completion of the merger, Public Storage expects to issue approximately 41 million shares of Public Storage common stock and former Shurgard shareholders will own approximately 24% of the then-outstanding shares of Public Storage common stock.

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

## Edgar Filing: PUBLIC STORAGE INC /CA - Form DEFM14A

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



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### **Voting Your Proxy**

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

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

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

If you hold your shares as a participant in the PS 401(k)/Profit Sharing Plan, your proxy will serve as a voting instruction for the trustee of the plan with respect to the amount of shares of common stock credited to your account as of the record date. If you provide voting instructions via your proxy/instruction card with respect to your shares held in the plan, trustee will vote those shares of common stock in the manner specified. The trustee will vote any shares for which it does not receive instructions in the same proportion as the shares for which voting instructions have been received, unless the trustee is required by law to exercise its discretion in voting such shares. To allow sufficient time for the trustee to vote your shares, the trustee must receive your voting instructions by August 18, 2006.

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

### **Revoking Your Proxy**

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

### **Recommendations of the Public Storage Board of Directors**

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

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

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

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

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



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### **Quorum**

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

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

### **Voting Rights**

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

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

### **Required Vote**

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

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

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

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

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

### **Voting by Public Storage's Directors and Executive Officers**

As of the record date for the Public Storage annual meeting, Public Storage's directors and executive officers had the right to vote approximately 24,996,049 shares of the then outstanding Public Storage common stock at the Public Storage annual meeting. As of the record date of the Public Storage annual meeting, these shares represented approximately 19.3% of the Public Storage common stock outstanding and entitled to vote at the meeting. The Hughes family, which owns approximately 36% of outstanding Public Storage common stock, has agreed to vote in favor of the merger. See *Agreements Related to the Merger The Voting Agreements Hughes Family Voting Agreement*.

As of the record date for the Public Storage annual meeting, Public Storage's directors and executive officers had the right to vote approximately 123,679 shares of the then outstanding depositary shares representing Public Storage equity stock, series A at the Public Storage annual meeting. As of the record date of the Public Storage annual meeting, these shares represented approximately 1.4% of the depositary shares representing Public Storage equity stock, series A outstanding and entitled to vote at the meeting.

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

### **Proxy Solicitation Costs**

Public Storage will pay the cost of soliciting proxies. In addition to solicitation by mail, certain directors, officers and regular employees of the Public Storage and its affiliates may solicit the return of proxies by telephone, personal interview or otherwise. Public Storage may also reimburse brokerage firms and other persons representing the beneficial owners of its stock for their reasonable expenses in forwarding proxy solicitation materials to such beneficial owners. MacKenzie Partners, Inc., a proxy soliciting firm, has been retained to assist Public Storage in the solicitation of proxies, for which MacKenzie Partners, Inc. will receive normal and customary fees and expenses not expected to exceed \$25,000.

### **Description of Items of Business for the Annual Meeting**

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

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

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

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**ITEM 2 ELECTION OF DIRECTORS**

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

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

**The Public Storage board of directors recommends that Public Storage shareholders vote FOR the election of the nominees named above. Proxies solicited by the Public Storage board will be so voted unless you specify otherwise.**

**ITEM 3 RATIFICATION OF APPOINTMENT OF INDEPENDENT**

**REGISTERED PUBLIC ACCOUNTANTS**

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

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

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**THE MERGER**

**Background of the Merger and Prior Contacts**

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

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

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

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

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

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

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

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

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

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

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

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

July 8, 2005

Mr. Charles Barbo, CEO and Chairman of the Board

Mr. David Grant, President and COO

Shurgard

1155 Valley Street, Suite 400

Seattle, Washington 98109

Dear Chuck,

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

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

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

a combined company with ownership interests in over 2,000 quality properties in 38 states and seven European countries

a more active trading market for their securities

enhanced credit ratings and access to capital

reduced overall leverage

the combined company's financial resources and strong financial position will facilitate expanded career opportunities for the best people

lower general and administrative expenses

a more secure common dividend with greater upside potential

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

higher FFO per share growth

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

significant opportunities for revenue and expense synergies



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

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

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

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

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

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

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

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

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

Sincerely,

/s/ RONALD L. HAVNER, JR.

Ronald L. Havner, Jr.

Chief Executive Officer

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

July 12, 2005

Mr. Ron Havner

Chief Executive Officer

Public Storage

701 Western Avenue, Suite 200

Glendale, CA 91201-2397

Dear Ron,

I received your letter dated July 8, 2005.

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

We will respond to you promptly thereafter.

Sincerely,

/s/ CHARLES BARBO

Charles Barbo

Chairman and Chief Executive Officer

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

July 13, 2005

Dear [Director]:

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

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

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

Sincerely,

/s/ RONALD L. HAVNER, JR.

Ronald L. Havner, Jr.

Chief Executive Officer

cc: Charles Barbo

David Grant

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

July 15, 2005

Mr. Ron Havner

Chief Executive Officer

Public Storage

701 Western Avenue, Suite 200

Glendale, CA 91201-2397

Dear Ron,

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

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

Sincerely,

/s/ CHARLES BARBO

Charles Barbo

Chairman and Chief Executive Officer

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

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

July 26, 2005

Mr. Ron Havner

Chief Executive Officer

Public Storage, Inc.

701 Western Avenue, Suite 200

Glendale, CA 91201-2397

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Dear Ron,

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

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

Sincerely,

/s/ CHARLES K. BARBO

Charles K. Barbo

Chairman and Chief Executive Officer

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

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

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

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

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

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

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

September 23, 2005

Dear [Director],

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

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

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

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

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

I look forward to hearing from you.

Sincerely,

/s/ RONALD L. HAVNER, JR.

Ronald L. Havner, Jr.

Chief Executive Officer

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Opinion of Public Storage's Financial Advisor**

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

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

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

the merger agreement;

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

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

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

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

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

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

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Goldman Sachs also held discussions with members of the senior managements of Public Storage and Shurgard regarding their assessment of the past and current business operations, financial condition, and future prospects of Shurgard and with members of the senior management of Public Storage regarding their assessment of the strategic rationale for, and the potential benefits of, the merger and the past and current business operations, financial condition, and future prospects of Public Storage. In addition, Goldman Sachs reviewed the reported price and trading activity for the shares of Public Storage common stock and the shares of Shurgard common stock, compared certain financial and stock market information for Public Storage and Shurgard with similar information for certain other companies the securities of which are publicly traded, reviewed the financial terms of certain recent business combinations in the REIT industry specifically and in other industries generally and performed such other studies and analyses, and considered such other factors, as it considered appropriate.

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

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

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

### *Exchange Ratio Analysis.*

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

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

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

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

**Exchange Ratio Summary (per share amounts)**

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

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

*Illustrative Dividend Discount Analysis.*

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

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

	Illustrative Per Share Value Indications	
Shurgard	\$50.50	\$62.32

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

	<b>Illustrative Per Share Value Indications</b>	
Public Storage	\$65.84	\$81.61

*Contribution Analysis.*

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

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

<b>Contribution Analysis</b>		
<b>2006E</b>	<b>Shurgard %</b>	<b>Public Storage %</b>
FFO	19.30%	80.70%
EBITDA <sup>(1)</sup>	25.79%	74.21%
Shares - 0.82x Exchange Ratio	23.45%	76.55%

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

**Table of Contents***Historical Stock Trading Analysis.*

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

**Share Premium Analysis****0.82x Exchange Ratio Implied Purchase Price of \$64.26**

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

*Selected Transactions Analysis.*

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

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

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

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

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



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

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

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

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

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

Implied Capitalization Rate and Implied Value per Square Foot Analysis.

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

**Capitalization Rate Analysis (\$ in millions)**

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

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

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

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

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

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

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

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

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

Goldman Sachs and its affiliates, as part of their investment banking business, are continually engaged in performing financial analyses with respect to businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and other transactions as well as for estate, corporate and other purposes. Goldman Sachs has acted as financial advisor to Public Storage in connection with, and have participated in certain of the

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negotiations leading to, the contemplated merger. In addition, Goldman Sachs has provided certain investment banking services to Public Storage from time to time, including having acted as (i) co-managing underwriter of a public offering of 5,000,000 depository shares of 6.50% Series W Cumulative Preferred Stock of Public Storage in September 2003, (ii) co-managing underwriter of a public offering of 4,400,000 depository shares of 6.45% Series X Cumulative Preferred Stock of Public Storage in November 2003, (iii) co-managing underwriter of a public offering of 4,000,000 depository shares of 6.25% Series Z Cumulative Preferred Stock of Public Storage in February 2004, (iv) co-managing underwriter of a public offering of 4,000,000 depository shares of 6.125% Series A Cumulative Preferred Stock of Public Storage in March 2004, (v) co-managing underwriter of a public offering of 4,000,000 depository shares of 7.125% Series B Cumulative Preferred Stock of Public Storage in June 2004, (vi) co-managing underwriter of a public offering of 4,000,000 depository shares of 6.60% Series C Cumulative Preferred Stock of Public Storage in September 2004, (vii) co-managing underwriter of a public offering of 4,000,000 depository shares of 7.00% Series G Cumulative Preferred Stock of Public Storage in December 2005, (viii) co-managing underwriter of a public offering of 4,000,000 depository shares of 6.95% Series H Cumulative Preferred Stock of Public Storage in January 2006 and (ix) co-managing underwriter of a public offering of 18,000,000 depository shares of 7.25% Series I Cumulative Preferred Stock of Public Storage in April 2006. Goldman Sachs also may provide investment banking services to Public Storage, Shurgard and their respective affiliates in the future. In connection with the above-described services Goldman Sachs has received, and may receive, compensation. The aggregate fees received by Goldman Sachs from the investment banking services it rendered to Public Storage and its affiliates as described above were approximately \$464 thousand (excluding fees in connection with the merger).

Goldman Sachs is a full service securities firm engaged, either directly or through its affiliates, in securities trading, investment management, financial planning and benefits counseling, risk management, hedging, financing and brokerage activities for both companies and individuals. In the ordinary course of these activities, Goldman Sachs and its affiliates may provide such services to Public Storage, Shurgard and their respective affiliates, may actively trade the debt and equity securities (or related derivative securities) of Public Storage, Shurgard and their respective affiliates for their own account and for the accounts of their customers and may at any time hold long and short positions of such securities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

the possibility that the merger might not be completed as a result of the failure to satisfy certain closing conditions, including securing approvals from shareholders of both Shurgard and Public Storage, which failure to complete the merger could result in significant distractions to Shurgard's employees, and to date Shurgard has already paid fees to its advisors in connection with its search for strategic alternatives and negotiation and execution of the merger agreement with Public Storage of approximately \$15.0 million;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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





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

**Opinions of Shurgard's Financial Advisors**

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

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

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

***Opinion of Citigroup Global Markets Inc.***

In arriving at its opinion, Citigroup:

reviewed the merger agreement;

held discussions with senior officers, directors and other representatives and advisors of Shurgard concerning Shurgard's businesses, operations and prospects;

held discussions with senior officers, directors and other representatives and advisors of Shurgard and senior officers and other representatives and advisors of Public Storage concerning Public Storage's business, operations and prospects;

examined publicly available business and financial information and other information and data relating to Shurgard provided to or discussed with Citigroup by Shurgard's management, including financial forecasts and other information and data relating to Shurgard prepared by Shurgard's management;



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

reviewed the financial terms of the merger as set forth in the merger agreement in relation to, among other things: current and historical market prices of Shurgard common stock and Public Storage common stock; the historical and projected earnings and other operating data of Shurgard and Public Storage; and the capitalization and financial condition of Shurgard and Public Storage;

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

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

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

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

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

In rendering its opinion, Citigroup assumed and relied, without assuming any responsibility for independent verification, on the accuracy and completeness of all financial and other information and data publicly available or provided to, or otherwise reviewed by, or discussed with, it and on the assurances of the managements of Shurgard and Public Storage that they were not aware of any relevant information that was omitted or remained undisclosed to Citigroup with respect to its respective company. With respect to financial forecasts and other information and data provided to, or otherwise reviewed by, or discussed with, Citigroup relating to Shurgard, Citigroup was advised by Shurgard's management and assumed, with Shurgard's consent, that the forecasts and other information and data were reasonably prepared on bases that reflected the best currently available estimates and judgments of Shurgard's management as to the future financial performance of Shurgard. Citigroup was not provided with, or given access to, internal financial forecasts relating to Public Storage prepared by Public Storage's management and, accordingly, Citigroup utilized, with Shurgard's consent, publicly available consensus research analysts' estimates relating to Public Storage for purposes of certain of its analyses. With respect to these publicly available consensus estimates, Citigroup was advised by Public Storage's management that such consensus estimates were reasonable estimates of the future financial performance of Public Storage when compared with Public Storage's annualized fourth quarter 2005 financial performance and assumed, with Shurgard's consent, that such consensus estimates reflected reasonable estimates and judgments as to the future financial performance of Public Storage. Citigroup also assumed, with Shurgard's consent, that the merger would be consummated in accordance with its terms, without waiver, modification or amendment of any material term, condition or agreement, and that, in the course of obtaining the necessary regulatory or third party approvals, consents, releases and waivers for the merger, no delay, limitation, restriction or condition would be imposed that would have an adverse effect on Shurgard, Public Storage or the merger. Citigroup was advised by Shurgard's and Public Storage's managements that each of Shurgard and Public Storage operated in conformity with the requirements for qualification as a real estate investment trust, or REIT, for federal income tax purposes since its formation as a REIT, and Citigroup assumed, with Shurgard's consent, that the merger would not adversely affect the status or operations of Shurgard or Public Storage as a REIT. In connection with Citigroup's engagement and at the direction of Shurgard's board of directors, Citigroup was requested to approach, and Citigroup held discussions with, third parties to solicit indications of interest in the possible acquisition of all or a part of Shurgard.

Citigroup did not express any opinion as to what the value of Public Storage common stock actually will be when issued pursuant to the merger or the prices at which Public Storage common stock or Shurgard common



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

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

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

***Opinion of Banc of America Securities LLC***

For purposes of its opinion, Banc of America Securities:

reviewed publicly available financial statements and other business and financial information of Shurgard and Public Storage;

reviewed internal financial statements and other financial and operating data concerning Shurgard;

reviewed a draft of Public Storage's Annual Report on Form 10-K for the fiscal year ended December 31, 2005;

reviewed financial forecasts relating to Shurgard prepared by Shurgard's management;

reviewed publicly available consensus research analysts' estimates for Public Storage;

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

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

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reviewed the potential pro forma financial impact of the merger on the estimated funds from operations per share and certain dividend and other financial statistics of Public Storage;

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

compared the financial performance of Shurgard and Public Storage and the prices and trading activity of Shurgard common stock and Public Storage common stock with each other and with that of certain other publicly traded companies which Banc of America Securities deemed relevant;

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

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

reviewed the merger agreement;

considered Banc of America Securities' efforts to solicit, at Shurgard's direction, third party indications of interest in the possible acquisition of all or a portion of Shurgard and the fact that Shurgard had publicly announced that it would explore its strategic alternatives; and

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

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

Banc of America Securities expressed no view or opinion as to any terms or aspects of the merger other than the exchange ratio to the extent expressly specified in its opinion, including, without limitation, the form or structure of the merger or tax or accounting aspects of the merger. In addition, Banc of America Securities expressed no opinion as to the relative merits of the merger in comparison to other transactions available to Shurgard or in which Shurgard might engage or as to whether any transaction might be more favorable to Shurgard as an alternative to the merger, nor did Banc of America Securities express any opinion as to the





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

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

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

***Summary of Joint Financial Analyses***

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

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

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

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

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

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

***Shurgard Analyses***

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

Public Storage

Extra Space Storage, Inc.

U-Store-It Trust

Sovran Self Storage Inc.

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

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

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

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

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

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

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

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

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

in the case of assets under construction and assets held for sale, by applying a selected range of premiums to the cost of those assets;

in the case of minority interests in joint ventures, based on the book value of those interests adjusted for the estimated value of storage centers operated by such joint ventures assuming market capitalization rates; and

in the case of other assets and liabilities, based on the book values of such assets and liabilities as reflected on Shurgard's preliminary and unaudited balance sheet as of December 31, 2005 prepared by Shurgard's management.

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

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

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

**Pro Forma Accretion/Dilution Analysis**

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

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

**Public Storage Financial and Stock Market Considerations**

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

**Certain Information**

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

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

**Shurgard Projections**

(in thousands, except per share amounts)

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

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



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- pursuit of its strategic alternative process and the merger, unanticipated property abandonment and impairment costs, fluctuations in foreign currencies, fluctuations in interest rates and derivatives gains and losses. In addition, the projections were developed without giving effect to Statement of Financial Accounting Standards No. 123(R), Share-Based Payment ( FAS 123(R) ), an amendment of FAS No. 123, Accounting for Stock-Based Compensation, which is effective for the fiscal year beginning January 1, 2006.
- (2) Subsequent to providing these projections to potential bidders, Shurgard identified an error in its calculation of projected depreciation and amortization for the years ended December 31, 2007 and 2008. Projected depreciation and amortization (in thousands) should have been \$99,407 for 2007 and \$104,436 for 2008. Accordingly, projected net income (in thousands) should have been \$46,056 for 2007 and \$67,078 for 2008. This error had no impact on projected FFO for any period presented.
  - (3) Excludes depreciation related to non-real estate assets and minority interests in depreciation and amortization.
  - (4) Funds from Operations ( FFO, as defined on page 191) is a non-GAAP financial measure. This non-GAAP financial measure was provided to potential bidders (including Public Storage) and Shurgard's financial advisors. However, this measure does not provide a complete picture of Shurgard's operations. Non-GAAP measures are not prepared in accordance with GAAP, and should not be considered a substitute for or superior to GAAP results. Shurgard believes FFO is a meaningful financial measure as a supplement to net earnings, because net earnings assumes that the values of real estate assets diminish predictably over time as reflected through depreciation and amortization expenses. Shurgard believes that the values of real estate assets fluctuate due to market conditions. Shurgard's calculation of FFO may not be comparable to similarly titled measures reported by other companies because not all companies calculate FFO in the same manner.

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

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

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



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

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

### ***Principal Assumptions of Projections***

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

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

#### ***U.S. Operations***

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

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

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

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

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

#### ***European Operations***

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

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

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

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

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

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

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

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

***Funding, Capital, and Other Assumptions***

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

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