

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 1999

or

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

For the transition period from _____ to _____.

Commission File Number: 1-8389

PUBLIC STORAGE, INC.
(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of
incorporation or organization)
701 Western Avenue, Glendale, California
(Address of principal executive offices)

95-3551121
(I.R.S. Employer
Identification Number)
91201-2394
(Zip Code)

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

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of August 5, 1999:

Common Stock, \$.10 par value, 129,322,991 shares outstanding

Class B Common Stock, \$.10 Par Value - 7,000,000 shares

Equity Stock, Series A, \$.01 Par Value - 225,000 shares

PUBLIC STORAGE, INC.

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

	June 30, 1999	December 31, 1998
	(Unaudited)	
<u>ASSETS</u>		
Cash and cash equivalents.....	\$ 67,935	\$ 51,225
Real estate facilities, at cost:		
Land.....	1,015,983	803,226
Buildings.....	2,687,883	2,159,065
	3,703,866	2,962,291
Accumulated depreciation.....	(467,757)	(411,176)
	3,236,109	2,551,115
Construction in process.....	115,874	83,138
	3,351,983	2,634,253
Investment in real estate entities.....	419,883	450,513
Intangible assets, net.....	198,979	203,635
Notes receivable from affiliates.....	25,296	5,415
Other assets.....	83,867	58,863
Total assets.....	\$ 4,147,943	\$ 3,403,904
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Notes payable.....	\$ 172,551	\$ 81,426
Accrued and other liabilities.....	95,253	63,813
Total liabilities.....	267,804	145,239
Minority interest.....	151,197	139,325
Commitments and contingencies		
Shareholders' equity:		
Preferred Stock, \$0.01 par value, 50,000,000 shares authorized, 11,138,850 shares issued and outstanding (11,129,650 issued and outstanding at December 31, 1998), at liquidation preference:		
Cumulative Preferred Stock, issued in series.....	1,098,900	868,900
Common Stock, \$0.10 par value, 200,000,000 shares authorized, 129,307,724 shares issued and outstanding (115,965,945 at December 31, 1998).....	12,931	11,598
Class B Common Stock, \$0.10 par value, 7,000,000 shares authorized and issued.....	700	700
Paid-in capital.....	2,523,362	2,178,465
Cumulative net income.....	937,581	802,088
Cumulative distributions paid.....	(844,532)	(742,411)
Total shareholders' equity.....	3,728,942	3,119,340
Total liabilities and shareholders' equity.....	\$ 4,147,943	\$ 3,403,904

See accompanying notes.

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

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	1999	1998	1999	1998
Revenues:				
Rental income:				
Self-storage facilities	\$ 149,745	\$ 119,887	\$ 278,774	\$ 231,565
Commercial properties	1,948	1,715	3,862	19,396
Portable self-storage	6,448	6,118	11,876	11,289
Equity earnings of real estate entities	9,347	7,317	17,469	9,936
Facility management fee	1,409	1,652	2,823	3,417
Interest and other income	3,557	4,352	5,920	8,004
	<u>172,454</u>	<u>141,041</u>	<u>320,724</u>	<u>283,607</u>
Expenses:				
Cost of operations:				
Self-storage facilities	45,602	35,892	86,231	70,838
Commercial properties	631	654	1,269	6,502
Portable self-storage	9,383	14,460	18,747	29,513
Cost of facility management	217	268	472	554
Depreciation and amortization	33,519	25,192	62,493	53,411
General and administrative	2,617	2,226	4,628	4,562
Interest expense	2,530	933	3,734	2,095
	<u>94,499</u>	<u>79,625</u>	<u>177,574</u>	<u>167,475</u>
Income before minority interest	77,955	61,416	143,150	116,132
Minority interest in income	<u>(4,304)</u>	<u>(4,217)</u>	<u>(7,657)</u>	<u>(10,569)</u>
Net income	<u>\$ 73,651</u>	<u>\$ 57,199</u>	<u>\$ 135,493</u>	<u>\$ 105,563</u>
Net income allocation:				
Allocable to preferred shareholders	\$ 23,824	\$ 20,129	\$ 45,354	\$ 40,269
Allocable to common shareholders	49,827	37,070	90,139	65,294
	<u>\$ 73,651</u>	<u>\$ 57,199</u>	<u>\$ 135,493</u>	<u>\$ 105,563</u>
Per common share:				
Net income per share - Basic	<u>\$0.39</u>	<u>\$0.33</u>	<u>\$0.73</u>	<u>\$0.58</u>
Net income per share - Diluted	<u>\$0.39</u>	<u>\$0.32</u>	<u>\$0.73</u>	<u>\$0.58</u>
Weighted average common shares -				
Basic	<u>128,904</u>	<u>113,970</u>	<u>123,793</u>	<u>111,731</u>
Weighted average common shares -				
Diluted	<u>129,250</u>	<u>114,430</u>	<u>124,133</u>	<u>112,246</u>

See accompanying notes.

PUBLIC STORAGE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY
(Amounts in thousands, except share amounts)

(Unaudited)

	Cumulative Senior Preferred Stock	Common Stock	Class B Common Stock	Paid-in Capital	Cumulative Net Income	Cumulative Distributions	Total Shareholders' Equity
Balances at December 31, 1998.....	\$ 868,900	\$ 11,598	\$ 700	\$ 2,178,465	\$ 802,088	\$ (742,411)	\$ 3,119,340
Issuance of common stock:							
In connection with the Storage Trust merger (13,009,485 shares).....	-	1,301	-	345,922	-	-	347,223
Acquisition of minority interest (568,761 shares) ...	-	56	-	14,434	-	-	14,490
Conversion of OP units (54,605 shares)	-	5	-	1,452	-	-	1,457
Exercise of stock options (399,155 shares).....	-	40	-	8,043	-	-	8,083
Repurchase of common stock (690,227 shares)	-	(69)	-	(17,509)	-	-	(17,578)
Issuance of preferred stock:							
Series K and Series L (9,200 shares).....	230,000	-	-	(7,445)	-	-	222,555
Net income	-	-	-	-	135,493	-	135,493
Cash distributions:							
Cumulative Senior Preferred Stock	-	-	-	-	-	(45,354)	(45,354)
Common Stock.....	-	-	-	-	-	(56,767)	(56,767)
Balances at June 30, 1999	<u>\$ 1,098,900</u>	<u>\$ 12,931</u>	<u>\$ 700</u>	<u>\$ 2,523,362</u>	<u>\$ 937,581</u>	<u>\$ (844,532)</u>	<u>\$ 3,728,942</u>

See accompanying notes.

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

(Unaudited)

	For the Six Months Ended	
	June 30,	
	1999	1998
Cash flows from operating activities:		
Net income.....	\$ 135,493	\$ 105,563
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	62,493	53,411
Depreciation included in equity earnings of real estate entities.....	9,574	6,639
Minority interest in income.....	7,657	10,569
Total adjustments.....	79,724	70,619
Net cash provided by operating activities.....	215,217	176,182
Cash flows from investing activities:		
Principal payments received on notes receivable from affiliates.....	26,818	4,375
Notes receivable from affiliates.....	(29,500)	(33,000)
Capital improvements to real estate facilities.....	(10,156)	(10,336)
Construction in process.....	(45,238)	(34,306)
Acquisition of minority interests in consolidated real estate partnerships.....	(14,654)	(10,816)
Proceeds from the liquidation of real estate and real estate investments.....	8,417	10,275
Acquisition of investment in real estate entities.....	(50,456)	(46,041)
Acquisition of real estate facilities.....	(5,243)	(47,392)
Acquisition cost of business combinations.....	(171,896)	(10,014)
Investment in portable self-storage business.....	-	(10,655)
Refund of deposit on real estate purchase.....	-	12,500
Reduction in cash due to a change in accounting method with respect to PS Business Parks, Inc. (Note 2).....	-	(11,259)
Net cash used in investing activities.....	(291,908)	(186,669)
Cash flows from financing activities:		
Repayment of borrowings on the line of credit.....	-	(7,000)
Principal payments on notes payable.....	(8,875)	(10,302)
Net proceeds from the issuance of common stock.....	8,083	237,434
Net proceeds from the issuance of preferred stock.....	222,555	-
Repurchase of common stock.....	(17,578)	(12,991)
Distributions paid to shareholders.....	(102,121)	(90,075)
Distributions from operations to minority interests in real estate entities.....	(12,472)	(17,596)
Net reinvestment (divestment) by minority interests in consolidated real estate entities.....	(2,068)	51,464
Other.....	5,877	805
Net cash provided by financing activities.....	93,401	151,739
Net increase in cash and cash equivalents.....	16,710	141,252
Cash and cash equivalents at the beginning of the period.....	51,225	41,455
Cash and cash equivalents at the end of the period.....	\$ 67,935	\$ 182,707

See accompanying notes.

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

(Unaudited)

(Continued)

	For the Six Months Ended June 30,	
	1999	1998
Supplemental schedule of non-cash investing and financing activities:		
Assets and liabilities acquired with respect to business combinations:		
Real estate facilities.....	\$ (720,197)	\$ (81,295)
Construction in process	(11,449)	-
Investment in real estate entities	(356)	-
Mortgage notes receivable	(6,739)	-
Other assets.....	(1,633)	(294)
Accrued and other liabilities	22,824	2,366
Minority interest	32,201	35,334
Notes payable.....	100,000	-
Deconsolidation of PS Business Parks Inc. (Note 2):		
Investments in real estate entities	-	(219,224)
Real estate facilities, net of accumulated depreciation	-	433,446
Other assets.....	-	2,048
Accrued and other liabilities	-	(10,106)
Notes payable.....	-	(14,526)
Minority interest	-	(202,897)
Notes receivable issued in connection with real estate dispositions.....	(10,460)	-
Other assets received in connection with real estate dispositions	(3,800)	-
Assets and liabilities assumed in connection with acquisitions of real estate facilities:		
Cancellation of mortgage notes receivable	-	2,495
Assumption of note payable.....	-	14,526
Minority interest	-	1,205
Reduction to investment in real estate entities in connection with business combinations and acquisitions of real estate facilities	66,230	20,585
Disposition of real estate facilities in exchange for notes receivable and other assets ...	22,677	-
Acquisition of real estate facilities in exchange for the assumption of notes payable and increase in minority interest.....	-	(18,753)
Acquisition of minority interest and real estate in exchange for common stock:		
Real estate facilities.....	(17,155)	(9,400)
Minority interest	(13,446)	(12,485)
Issuance of common stock:		
In connection with business combinations	347,223	13,817
In connection with the conversion of Convertible Preferred Stock.....	-	1,281
To acquire interests in real estate entities	-	17,133
To acquire minority interest in consolidated real estate entities.....	15,947	11,070
Conversion of 8.25% convertible preferred stock.....	-	(1,281)
Acquisition of investment in real estate entities for common stock.....	-	(17,133)

See accompanying notes.

PUBLIC STORAGE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1999
(unaudited)

1. Description of the business

Public Storage, Inc. (the "Company") is a California corporation, which was organized in 1980. The Company is a fully integrated, self-administered and self-managed real estate investment trust ("REIT") that acquires, develops, owns and operates self-storage facilities which offer self-storage spaces for lease, usually on a month-to-month basis, for personal and business use. The Company invests in real estate facilities primarily through the acquisition of wholly owned facilities combined with the acquisition of equity interests in real estate entities owning real estate facilities. At June 30, 1999, the Company had direct and indirect equity interests in 1,434 properties located in 38 states, including 1,306 self-storage facilities, 121 commercial properties, and seven industrial facilities developed for use in the operations of Public Storage Pickup and Delivery. All of the self-storage facilities are operated by the Company under the "Public Storage" name, while the commercial properties are operated by PS Business Parks, Inc., an affiliated public REIT, and its operating partnership (the REIT and partnership are collectively referred to as "PSBP").

In 1996 and 1997, the Company organized Public Storage Pickup and Delivery, Inc. as a separate corporation and a related partnership (the corporation and partnership are collectively referred to as "PSPUD") to operate a portable self-storage business that rents storage containers to customers for storage generally in leased central warehouses. At June 30, 1999, PSPUD operated 36 facilities in 11 states.

2. Summary of significant accounting policies

Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from estimates. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 1999 are not necessarily indicative of the results that may be expected for the year ended December 31, 1999. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1998.

The consolidated financial statements include the accounts of the Company, PSPUD, and 33 controlled limited partnerships including an operating partnership owning the properties acquired from Storage Trust Realty, Inc. (collectively, the "Consolidated Entities"). Collectively, the Company and the Consolidated Entities own a total of 1,199 real estate facilities, consisting of 1,191 self-storage facilities, one commercial property, and seven industrial facilities for use by PSPUD.

At June 30, 1999, the Company also has equity investments in 15 other affiliated limited partnerships whose principal business is the ownership of 115 self-storage facilities in aggregate, which are managed by the Company. In addition, the Company has an ownership interest in PSBP, which owns and operates 120 commercial properties. The Company does not control these entities; accordingly, the Company's investments in these entities are accounted for using the equity method.

From the time of PSBP's formation through March 31, 1998, the Company consolidated the accounts of PSBP in its financial statements. During the second quarter of 1998, the Company's ownership interest in

PUBLIC STORAGE, INC.
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(unaudited)

PSBP was reduced below 50% and, accordingly, the Company ceased to have a controlling interest in PSBP. As a result, the Company, effective April 1, 1998, no longer includes the accounts of PSBP in its consolidated financial statements and has accounted for its investment using the equity method. The income statement for all periods after March 31, 1998 include the Company's equity in income of PSBP. Further, commercial property operations for the periods after March 31, 1998 reflect only the commercial property operations of facilities owned by the Company which have both self-storage and commercial use combined at the same property location.

Use of estimates

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

Income taxes

For all taxable years subsequent to 1980, the Company qualified and intends to continue to qualify as a REIT, as defined in Section 856 of the Internal Revenue Code. As a REIT, the Company is not taxed on that portion of its taxable income which is distributed to its shareholders, provided that the Company meets certain tests. The Company believes it will meet these tests during 1999 and, accordingly, no provision for income taxes has been made in the accompanying financial statements.

Financial instruments

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

Real estate facilities

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

Allowance for possible losses

The Company has no allowance for possible losses relating to any of its real estate investments, including notes receivable. The need for such an allowance is evaluated by management by means of periodic reviews of its investment portfolio.

Intangible assets

Intangible assets consist of property management contracts (\$165,000,000) and the cost over the fair value of net tangible and identifiable intangible assets (\$67,726,000) acquired. Intangible assets are amortized by the straight-line method over 25 years. At June 30, 1999, intangible assets are net of accumulated amortization of \$33,747,000 (\$29,091,000 at December 31, 1998). Included in depreciation and amortization expense for the three and six months ended June 30, 1999 and 1998 is \$2,328,000 and \$4,656,000, respectively, related to the amortization of intangible assets.

PUBLIC STORAGE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(unaudited)

Revenue and expense recognition

Property rents are recognized as earned. Equity in earnings of real estate entities are recognized based on the Company's ownership interest in the earnings of each of the unconsolidated real estate entities. Advertising costs are expensed as incurred.

Environmental costs

The Company's policy is to accrue environmental assessments and/or remediation cost when it is probable that such efforts will be required and the related costs can be reasonably estimated. The Company's current practice is to conduct environmental investigations in connection with property acquisitions. As a result of environmental investigations of its properties, the Company recorded an amount, which in management's best estimate will be sufficient to satisfy anticipated costs of known investigation and remediation requirements. Although there can be no assurance, the Company is not aware of any environmental contamination of any of its facilities which individually or in the aggregate would be material to the Company's overall business, financial condition, or results of operations.

Net income per common share

In 1997, the Financial Accounting Standards Board issued Statement No. 128, Earning per Share. Statement 128 replaced the calculation of primary and fully diluted net income per share with basic and diluted net income per share. Unlike primary net income per share, basic net income per share excludes any dilutive effects of options, warrants or convertible securities that are convertible into common shares of the Company.

Diluted net income per common share is computed using the weighted average common shares outstanding, plus the impact of stock options. The Class B Common Stock is not included in the determination of net income per common share because all contingencies required for the conversion to common stock have not been satisfied as of June 30, 1999. In addition, the inclusion of the Company's convertible preferred stock in the determination of net income per common share has been determined to be anti-dilutive for the six months ended June 30, 1998.

In computing earnings per common share, preferred stock dividends totaling \$23,824,000 and \$20,129,000 for the three months ended June 30, 1999 and 1998, respectively, and \$45,354,000 and \$40,269,000 for the six months ended June 30, 1999 and 1998, respectively, reduced income available to common shareholders.

Stock-based compensation

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

Reclassifications

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

PUBLIC STORAGE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1999
(unaudited)

3. Business Combinations

On March 12, 1999, the Company completed a merger transaction with Storage Trust Realty, Inc. ("Storage Trust"). As a result of the merger, the Company acquired interests in 215 self-storage facilities located in 16 states totaling approximately 12 million net rentable square feet. In the merger, each share of beneficial interest of Storage Trust was exchanged for 0.86 shares of the Company's common stock (approximately 13,009,485 shares of the Company's common stock were issued and approximately an additional 1,011,963 shares were reserved for issuance upon conversion of limited partnership units in Storage Trust's operating partnership). The aggregate acquisition cost of the merger was approximately \$575.7 million, consisting of the issuance of the Company's common stock of approximately \$347.2 million, cash of approximately \$105.2 million, the assumption of debt in the amount of \$100.0 million, and the Company's pre-existing investment in Storage Trust of approximately \$23.3 million.

On June 30, 1999, the Company acquired all of the limited partnership interests in 13 affiliated partnerships. As a result of the Company's increased ownership interest and control of the partnerships, the Company began to consolidate the accounts of these partnerships. The total consideration was approximately \$109.7 million, consisting of cash of approximately \$66.7 million and the Company's pre-existing investment in the Partnerships of approximately \$43.0 million.

The merger with Storage Trust was structured as a tax-free transaction. The merger and acquisition of affiliated limited partner interests have been accounted for using the purchase method. Accordingly, allocations of the total acquisition cost to the net assets acquired were made based upon the fair value of such assets and liabilities assumed, as follows:

	Storage Trust Merger	Partnership Acquisitions	Total
(Amounts in thousands)			
Real estate facilities.....	\$ 598,577	\$ 121,620	\$ 720,197
Construction in process.....	11,449	-	11,449
Investment in real estate entities.....	356	-	356
Mortgage notes receivable.....	6,739	-	6,739
Other assets.....	1,309	324	1,633
Accrued liabilities.....	(15,745)	(7,079)	(22,824)
Minority interest.....	(27,009)	(5,192)	(32,201)
	\$ 575,676	\$ 109,673	\$ 685,349

The historical operating results of the above business combinations prior to their dates of acquisition have not been included in the Company's historical operating results. Pro forma selected financial data for the six months ended June 30, 1999 and 1998 as though the above acquisitions had been effective at January 1, 1998 are as follows:

(In thousands, except per share data)	Six Months Ended June 30, 1999	Six Months Ended June 30, 1998
Revenues.....	\$345,375	\$330,493
Net income.....	138,641	113,255
Net income per common share (Basic).....	0.72	0.59
Net income per common share (Diluted).....	0.72	0.58

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(unaudited)

The pro forma data does not purport to be indicative of operations that would have occurred had the merger and acquisition of limited partnership interests occurred at the beginning of each period or future results of operations of the Company. Certain pro forma adjustments were made to the combined historical amounts to reflect (i) expected reductions in general and administrative expenses, (ii) certain significant acquisitions made by Storage Trust in 1998, (iii) estimated increased interest costs to finance the cash portion of the acquisition cost, and (iv) estimated increased depreciation expense.

4. Real estate facilities

Activity in real estate facilities during 1999 is as follows:

	In thousands
Operating facilities, at cost	
Balance at December 31, 1998	\$ 2,962,291
Property acquisitions – business combinations	720,197
Facility contributed to development joint venture	(11,194)
Disposition of facilities	(23,933)
Property acquisitions - third party purchases	5,243
Developed facilities	23,951
Acquisition of minority interest	17,155
Capital improvements	10,156
Balance at June 30, 1999	3,703,866
Accumulated depreciation:	
Balance at December 31, 1998	(411,176)
Additions during the year	(57,837)
Disposition of facilities	1,256
Balance at June 30, 1999	(467,757)
Construction in progress:	
Balance at December 31, 1998	83,138
Current development	45,238
Property acquisitions – merger with Storage Trust	11,449
Developed facilities	(23,951)
Balance at June 30, 1999	115,874
Total real estate facilities at June 30, 1999	\$ 3,351,983

Construction in progress at June 30, 1999 includes 24 self-storage facilities, five expansions of existing self-storage facilities, and nine industrial facilities, which will be utilized as portable self-storage facilities. The Company's policy is to capitalize interest incurred on debt during the course of construction of its self-storage and industrial facilities. Interest capitalized during the three and six months ended June 30, 1999 was \$988,000 and \$1,946,000, respectively, compared with \$1,023,000 and \$2,280,000 for the same periods in 1998.

Effective April 30, 1999, the Company sold six properties acquired in the merger with Storage Trust for approximately \$10.5 million and granted the acquiror an option exercisable in December 1999 to acquire an additional eight properties acquired in the merger with Storage Trust for approximately \$18.8 million. The Company is now leasing these eight properties to the acquiror. There was no gain or loss on this transaction.

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June 30, 1999
(unaudited)

In addition, during the six months ended June 30, 1999, the Company disposed of a developed commercial facility, two self-storage facilities through condemnation proceedings, and three plots of land for an aggregate of approximately \$12.2 million. There was no gain or loss on these transactions.

5. Investment in real estate entities

At June 30, 1999, the Company's investment in real estate entities consists of (i) limited and general partnership interests in approximately 14 affiliated partnerships, which principally own self-storage facilities, (ii) the Company's ownership interest in a joint venture, established to develop and operate self-storage facilities and (iii) the Company's ownership interest in PSBP. Such interests are accounted for using the equity method of accounting.

In April 1997, the Company formed a joint venture partnership with an institutional investor (the "Joint Venture") to participate in the development of approximately \$220 million of self-storage facilities. The Joint Venture has a total of 30 opened facilities with a total cost of \$151.0 million at June 30, 1999, and has 13 projects in process with an aggregate cost incurred to date of approximately \$40.1 million (\$17.9 million estimated to complete) at June 30, 1999.

At June 30, 1999, the Joint Venture is reviewing an additional six projects (\$20.7 million incurred at June 30, 1999, with remaining costs to complete of \$5.8 million). One of these projects has been approved subsequent to June 30, 1999 (through August 9, 1999), and upon approval of the remaining five facilities, the Joint Venture will be fully committed. These six projects include one completed facility and five facilities under construction. At June 30, 1999, approximately \$16.4 million is included in construction in process and approximately \$4.3 million is included in real estate facilities with respect to these six projects. As the projects are approved, the construction costs will be transferred to the Joint Venture.

During the six months ended June 30, 1999, the Company recognized earnings from its investments totaling \$17,469,000. Included in equity in earnings of real estate entities for the six months ended June 30, 1999 is the Company's share of depreciation expense totaling \$9,574,000. Summarized combined financial data (based on historical cost) with respect to those unconsolidated real estate entities in which the Company had an ownership interest at June 30, 1999 are as follows:

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	For the six months ended June 30, 1999			
	Other	Development	PSBP (A)	Total
	Equity Investments	Joint Venture		
	(Amounts in thousands)			
Rental income.....	\$ 24,594	\$ 6,205	\$ 59,976	\$ 90,775
Other income.....	638	270	523	1,431
Total revenues.....	<u>25,232</u>	<u>6,475</u>	<u>60,499</u>	<u>92,206</u>
Cost of operations.....	7,969	3,237	17,031	28,237
Depreciation.....	3,123	1,881	14,047	19,051
Other expenses.....	2,606	45	3,324	5,975
Total expenses.....	<u>13,698</u>	<u>5,163</u>	<u>34,402</u>	<u>53,263</u>
Net income before minority interest.....	11,534	1,312	26,097	38,943
Minority interest.....	-	-	(6,400)	(6,400)
Net income.....	<u>\$ 11,534</u>	<u>\$ 1,312</u>	<u>\$ 19,697</u>	<u>\$ 32,543</u>
<u>At June 30, 1999:</u>				
Real estate, net.....	\$ 117,216	\$ 187,471	\$ 764,127	\$ 1,068,814
Total assets.....	152,815	203,142	784,622	1,140,579
Total liabilities.....	62,998	20,006	65,464	148,468
Minority interest.....	-	-	168,436	168,436
Total equity.....	89,817	183,136	550,722	823,675
The Company's investment (book value) at June 30, 1999.....	\$ 114,236	\$ 54,940	\$ 250,707	\$ 419,883
The Company's effective average ownership interest at June 30, 1999.....	40%	30%	41%	39%

(A) \$862,000 of PSBP's net income for the six months ended June 30, 1999 was allocated to preferred shareholders.

6. Revolving line of credit

As of June 30, 1999, the Company had no borrowings on its unsecured credit agreement with a group of commercial banks. The credit agreement (the "Credit Facility") has a borrowing limit of \$150 million and an expiration date of July 31, 2001. The expiration date may be extended by one year on each anniversary of the credit agreement. Interest on outstanding borrowings is payable monthly. At the option of the Company, the rate of interest charged is equal to (i) the prime rate or (ii) a rate ranging from the London Interbank Offered Rate ("LIBOR") plus 0.40% to LIBOR plus 1.10% depending on the Company's credit ratings and coverage ratios, as defined. In addition, the Company is required to pay a quarterly commitment fee of 0.250% (per annum) of the unused portion of the Credit Facility. The Credit Facility allows the Company, at its option, to request the group of banks to propose the interest rate they would charge on specific borrowings not to exceed \$50 million. However, in no case may the interest rate proposal be greater than the amount provided by the Credit Facility.

7. Minority interest

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

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relating to the consolidated operations of the Consolidated Entities, except as described below with respect to minority interest acquired in the merger with Storage Trust.

In connection with the merger with Storage Trust, minority interest increased by approximately \$27.0 million, reflecting the fair value of 1,011,963 operating partnership units ("OP Units") in Storage Trust's operating partnership owned by minority interests. As of June 30, 1999, 957,358 of such units are outstanding. OP Units are convertible on a one-for-one basis (subject to certain limitations) into common shares of the Company at the option of the unitholder. Minority interest in income with respect to OP Units reflects the OP Units' share of the net income of the Company, with net income allocated to minority interests with respect to weighted average outstanding OP Units on a per unit basis equal to diluted earnings per common share.

During the six months ended June 30, 1999, the Company acquired limited partnership interests in certain of the Consolidated Entities in several transactions for an aggregate cost of \$30.6 million, consisting of approximately \$14.7 million in cash and \$15.9 million in the issuance of the Company's common stock. These transactions had the effect of reducing minority interest by approximately \$13.4 million. The excess of the cost over the underlying book value (\$17.2 million) has been allocated to real estate facilities in consolidation.

8. Shareholders' equity

Preferred stock

At June 30, 1999 and December 31, 1998, the Company had the following series of Preferred Stock outstanding:

Series	Dividend Rate	At June 30, 1999		At December 31, 1998	
		Shares Outstanding	Carrying Amount	Shares Outstanding	Carrying Amount
Series A	10.000%	1,825,000	\$ 45,625,000	1,825,000	\$ 45,625,000
Series B	9.200%	2,386,000	59,650,000	2,386,000	59,650,000
Series C	Adjustable	1,200,000	30,000,000	1,200,000	30,000,000
Series D	9.500%	1,200,000	30,000,000	1,200,000	30,000,000
Series E	10.000%	2,195,000	54,875,000	2,195,000	54,875,000
Series F	9.750%	2,300,000	57,500,000	2,300,000	57,500,000
Series G	8.875%	6,900	172,500,000	6,900	172,500,000
Series H	8.450%	6,750	168,750,000	6,750	168,750,000
Series I	8.625%	4,000	100,000,000	4,000	100,000,000
Series J	8.000%	6,000	150,000,000	6,000	150,000,000
Series K	8.250%	4,600	115,000,000	-	-
Series L	8.250%	4,600	115,000,000	-	-
Total Cumulative Senior Preferred Stock		11,138,850	\$ 1,098,900,000	11,129,650	\$ 868,900,000

On January 19, 1999, the Company issued 4.6 million depositary shares (each representing 1/1,000 of a share) of its Preferred Stock, Series K, raising net proceeds of approximately \$111.3 million. On March 10, 1999, the Company issued 4.6 million depositary shares (each representing 1/1,000 of a share) of its Preferred Stock, Series L, raising net proceeds of approximately \$111.3 million.

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Holders of the Company's preferred stock will not be entitled to vote on most matters, except under certain conditions and as noted above. In the event of a cumulative arrearage equal to six quarterly dividends or failure by the Company to maintain a Debt Ratio (as defined) of 50% or less, the holders of all outstanding series of preferred stock (voting as a single class without regard to series) will have the right to elect two additional members to serve on the Company's Board of Directors until all events of default have been cured. At June 30, 1999, there were no dividends in arrears and the Debt Ratio was 4.2%.

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

Equity Stock

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

In June 1997, the Company contributed \$22,500,000 (225,000 shares) of its Equity Stock, Series A ("Equity Stock") to a partnership in which the Company is the general partner. As a result of this contribution, the Company obtained a controlling interest in the Partnership and began to consolidate the accounts of the Partnership and therefore the equity stock is eliminated in consolidation. The Equity Stock ranks on a parity with Common Stock and junior to the Company's Cumulative Senior Preferred Stock with respect to general preference rights and has a liquidation amount of ten times the amount paid to each Common Share up to a maximum of \$100 per share. Quarterly distributions per share on the Equity Stock are equal to the lesser of (i) 10 times the amount paid per Common Stock or (ii) \$2.20.

Common Stock

During the six months ended June 30, 1999, the Company issued 13,009,485 shares of common stock in connection with the merger with Storage Trust, 568,761 shares of common stock in connection with the acquisition of minority interests, 399,155 shares of common stock in connection with the exercise of stock options, and 54,605 shares of common stock in connection with the conversion of OP units.

In June 1998, the Company's Board of Directors authorized the repurchase from time to time of up to 10,000,000 shares of the Company's common stock on the open market or in privately negotiated transactions. During the six months ended June 30, 1999, the Company repurchased a total of 690,227 shares, for a total aggregate cost of approximately \$17.6 million. Through June 30, 1999, the Company has repurchased a total of 3,509,627 shares of common stock (of the 10,000,000 shares authorized) at an aggregate cost of approximately \$89.9 million. From July 1, 1999 through August 9, 1999, the Company repurchased an additional 945,400 shares of common stock at an aggregate cost of approximately \$24.0 million.

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Class B Common Stock

The Class B Common Stock will (i) not participate in distributions until the later to occur of funds from operations (“FFO”) per Common Share as defined below, aggregating \$1.80 during any period of four consecutive calendar quarters, or January 1, 2000. Thereafter, the Class B Common Stock will participate in distributions, other than liquidating distributions, at the rate of 97% of the per share distributions on the Common Stock, provided that cumulative distributions of at least \$0.22 per quarter per share have been paid on the Common Stock, (ii) not participate in liquidating distributions, (iii) not be entitled to vote (except as expressly required by California law) and (iv) automatically convert into Common Stock, on a share for share basis, upon the later to occur of FFO per Common Share aggregating \$3.00 during any period of four consecutive calendar quarters or January 1, 2003.

For these purposes, FFO means net income (loss) before (i) gain (loss) on early extinguishment of debt, (ii) minority interest in income and (iii) gain (loss) on disposition of real estate, adjusted as follows: (i) plus depreciation and amortization, and (ii) less FFO attributable to minority interest. FFO per Common Share means FFO less preferred stock dividends (other than dividends on convertible preferred stock) divided by the outstanding weighted average shares of Common Stock assuming conversion of all outstanding convertible securities and the Class B Common Stock.

For these purposes, FFO per share of Common Stock (as defined) was \$2.34 for the four consecutive calendar quarters ended June 30, 1999.

Dividends

The following summarizes dividends paid during the first six months of 1999:

	Distributions Per Share or Depository Share	Total Distributions
Series A	\$1.250	\$ 2,281,000
Series B	\$1.150	2,744,000
Series C	\$0.844	1,012,000
Series D	\$1.188	1,426,000
Series E	\$1.250	2,744,000
Series F	\$1.219	2,802,000
Series G	\$1.109	7,656,000
Series H	\$1.056	7,130,000
Series I	\$1.078	4,312,000
Series J	\$1.000	6,000,000
Series K	\$0.934	4,296,000
Series L	\$0.642	2,951,000
		<hr/>
Common	\$0.440	45,354,000
		<hr/>
Total dividends paid		56,767,000
		<hr/> <hr/>
		\$ 102,121,000

The dividends paid with respect to the Series K and Series L, represent a partial period from the date of issuance though June 30, 1999.

The dividend rate on the Series C Preferred Stock for the first and second quarters of 1999 was equal to 6.75% per annum. The dividend rate per annum will be adjusted quarterly and will be equal to the highest of one of three U.S. Treasury indices (Treasury Bill Rate, Ten Year Constant Maturity Rate, or Thirty Year Constant Maturity Rate) multiplied by 110%. However, the dividend rate for any dividend period will neither

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be less than 6.75% per annum nor greater than 10.75%. The dividend rate for the quarter ending September 30, 1999 will be equal to 6.75% per annum.

10. Segment Information

In July 1997, the FASB issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("FAS 131"), which establishes standards for the way that public business enterprises report information about operating segments. This statement is effective for financial statements for periods beginning after December 15, 1997. The Company has adopted this standard effective for the year ended December 31, 1998. For information regarding the description of each reportable segment, policies relating to the measurement of segment profit or loss, and a discussion of segment assets, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1998.

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

	Six months ended June 30,		
	1999	1998	Change
	(Dollar amounts in thousands)		
<u>Reconciliation of Revenues by Segment:</u>			
<u>Self storage</u>			
Self-storage property rentals	\$278,774	\$231,565	\$47,209
Facility management	2,823	3,319	(496)
Equity in earnings - self storage property operations	11,119	10,848	271
Self storage segment revenues	292,716	245,732	46,984
 <u>Portable self storage</u>	 11,876	 11,289	 587
 <u>Commercial properties</u>			
Commercial property rentals	3,862	19,396	(15,534)
Facility management	-	98	(98)
Equity in earnings - commercial property operations	17,300	7,444	9,856
Commercial properties segment revenues	21,162	26,938	(5,776)
 <u>Other items not allocated to segments:</u>			
Equity in earnings - Depreciation (self storage)	(3,967)	(4,244)	277
Equity in earnings - Depreciation (commercial properties)	(5,607)	(2,395)	(3,212)
Equity in earnings - general and administrative and other	(1,376)	(1,717)	341
Interest and other income	5,920	8,004	(2,084)
Total other items not allocated to segments	(5,030)	(352)	(4,678)
 Total revenues	 \$320,724	 \$283,607	 \$37,117

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	<u>Six months ended June 30,</u>		
	<u>1999</u>	<u>1998</u>	<u>Change</u>
	(Dollar amounts in thousands)		
<u>Reconciliation of Net Income by Segment:</u>			
<u>Self storage</u>			
Self-storage properties	\$192,543	\$160,727	\$31,816
Facility management.....	2,351	2,777	(426)
Equity in earnings – self storage property operations	11,119	10,848	271
Total self storage segment net income.....	<u>206,013</u>	<u>174,352</u>	<u>31,661</u>
<u>Portable self storage</u>	<u>(6,871)</u>	<u>(18,224)</u>	<u>11,353</u>
<u>Commercial properties</u>			
Commercial properties.....	2,593	12,894	(10,301)
Facility management.....	-	86	(86)
Equity in earnings – commercial property operations	17,300	7,444	9,856
Total commercial property segment net income	<u>19,893</u>	<u>20,424</u>	<u>(531)</u>
<u>Other items not allocated to segments:</u>			
Equity in earnings - depreciation (self-storage)	(3,967)	(4,244)	277
Equity in earnings - depreciation (commercial properties)	(5,607)	(2,395)	(3,212)
Equity in earnings - general and administrative and other.....	(1,376)	(1,717)	341
Depreciation - self storage	(61,639)	(49,233)	(12,406)
Depreciation - commercial properties	(854)	(4,178)	3,324
Interest and other income.....	5,920	8,004	(2,084)
General and administrative	(4,628)	(4,562)	(66)
Interest expense.....	(3,734)	(2,095)	(1,639)
Minority interest in income.....	(7,657)	(10,569)	2,912
Total other items not allocated to segments.....	<u>(83,542)</u>	<u>(70,989)</u>	<u>(12,553)</u>
 Total net income	 <u>\$135,493</u>	 <u>\$105,563</u>	 <u>\$29,930</u>

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

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

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

Results of Operations

Net income for the three months ended June 30, 1999 was \$73,651,000 compared to \$57,199,000 for the same period in 1998, representing an increase of \$16,452,000 or 28.8%. Net income for the six months ended June 30, 1999 was \$135,493,000 compared to \$105,563,000 for the same period in 1998, representing an increase of \$29,930,000 or 28.4%. The increase in net income was primarily the result of improved property operations, the acquisition of additional real estate investments during 1998 and 1999, and reduced operating losses from the Pickup and Delivery portable self-storage business.

Net income allocable to the common shareholders was \$49,827,000 (\$0.39 per common share, based on 129,250,000 weighted average diluted shares) for the three months ended June 30, 1999 compared to \$37,070,000 (\$0.32 per common share, based on 114,430,000 weighted average diluted shares) for the same period in 1998. In computing net income per common share, dividends to the Company's preferred shareholders (\$23,824,000 and \$20,129,000, respectively for the three months ended June 30, 1999 and 1998, respectively) have been deducted from net income in determining net income allocable to the Company's common shareholders.

Net income allocable to the common shareholders was \$90,139,000 (\$0.73 per common, based on 124,133,000 weighted average diluted shares) for the six months ended June 30, 1999 compared to \$65,294,000 (\$0.58 per common shares, based on 112,246,000 weighted average diluted shares) for the same period in 1998. In computing net income per common share, dividends to the Company's preferred shareholders (\$45,354,000 and \$40,269,000 for the six months ended June 30, 1999 and 1998, respectively) have been deducted from net income in determining net income allocable to the Company's common shareholders.

Operating losses generated from the Company's portable self-storage business have negatively impacted net income allocable to the common shareholders. Operating losses from the Company's portable self storage business were \$2,935,000 or approximately \$0.02 per common share on a diluted basis for the three months ended June 30, 1999 and \$8,342,000 or approximately \$0.07 per common share on a diluted basis, for the same period in 1998. Operating losses from the Company's portable self storage business were \$6,871,000 or approximately \$0.06 per common share on a diluted basis for the six months ended June 30, 1999 and \$18,224,000, or approximately \$0.16 per common share on a diluted basis, for the same period in 1998.

Real Estate Operations

Rental income and cost of operations have increased for the three and six months ended June 30, 1999 compared to the same periods in 1998 due to the Company's merger and acquisition activities throughout 1998 and 1999, most notably the merger with Storage Trust. This was offset partially by the deconsolidation of PSBP whereby the accounts of PSBP, effective April 1, 1998, were no longer consolidated with the Company's and the Company began to account for its investment in PSBP using the equity method. As a result of these items, the number of self-storage facilities included in the Company's consolidated financial statements has increased from 918 at June 30, 1998 to 1,191 at June 30, 1999.

Self-storage operations: The following table summarizes the operating results (before depreciation) of (i) the 886 self-storage facilities that the Company has owned and operated on a stabilized basis throughout the period from January 1, 1998 to June 30, 1999 (the "Consistent Group"), and (ii) all other facilities (the "Other Facilities"):

Summary of Self-storage operations - Historical

	Three months ended June 30,			Six months ended June 30,		
	1999	1998	Change	1999	1998	Change
	(Amounts in thousands, except per square foot data)					
<u>Rental income</u>						
Consistent Group	\$120,401	\$116,498	3.4%	\$237,608	\$227,144	4.6%
Other Facilities	29,344	3,389	765.9%	41,166	4,421	831.1%
	<u>149,745</u>	<u>119,887</u>	<u>24.9%</u>	<u>278,774</u>	<u>231,565</u>	<u>20.4%</u>
<u>Cost of Operations</u>						
Consistent Group	35,234	34,868	1.0%	71,944	69,405	3.7%
Other Facilities	10,368	1,024	912.5%	14,287	1,433	897.0%
	<u>45,602</u>	<u>35,892</u>	<u>27.1%</u>	<u>86,231</u>	<u>70,838</u>	<u>21.7%</u>
<u>Net operating income</u>						
Consistent Group	85,167	81,630	4.3%	165,664	157,739	5.0%
Other Facilities	18,976	2,365	702.4%	26,879	2,988	799.6%
	<u>\$104,143</u>	<u>\$83,995</u>	<u>24.0%</u>	<u>\$192,543</u>	<u>\$160,727</u>	<u>19.8%</u>
Net rentable square feet (at the end of the period, in 000's).....	70,406	55,028	27.9%	70,406	55,028	27.9%
Number of facilities (at the end of the period).....	1,191	918	29.7%	1,191	918	29.7%
Consistent Group Data:						
Weighted average annualized realized rent per occupied square foot.....	\$9.91	\$9.61	3.0%	\$9.88	\$9.45	4.6%
Weighted average annualized scheduled rent per square foot	\$10.25	\$10.07	1.8%	\$10.22	\$9.94	2.8%
Weighted average occupancy for the period	92.7%	92.5%	0.2%	91.8%	91.8%	0.0%

Rental income for the Consistent Group facilities for three and six months ended June 30, 1999, respectively, is net of promotional discounts totaling \$3.7 million and \$3.9 million, respectively, compared to \$7.5 million and \$7.8 million for the same periods in 1998. In addition, included in cost of operations for the Consistent Group facilities for the three and six months ended June 30, 1999, respectively, are costs associated with the telephone reservation center and advertising totaling \$3.6 million and \$7.2 million, respectively, compared to \$2.7 million and \$5.5 million, respectively, for the same periods in 1998.

Commercial Property Operations: The following table sets forth the commercial property operations included in the Company's financial statements:

Commercial Property Operations - Historical

	Three months ended June 30,			Six months ended June 30,		
	1999	1998	Change	1999	1998	Change
	(Amounts in thousands)					
Rental income	\$ 1,948	\$ 1,715	13.6%	\$ 3,862	\$ 19,396	(80.1)%
Cost of operations	631	654	(3.5)%	1,269	6,502	(80.5)%
Net operating income.....	<u>\$ 1,317</u>	<u>\$ 1,061</u>	<u>24.1%</u>	<u>\$ 2,593</u>	<u>\$ 12,894</u>	<u>(79.9)%</u>

During the second quarter of 1998, the Company ceased to have a controlling interest in PSBP. As a result, effective April 1, 1998, the Company no longer includes the accounts of PSBP in its consolidated financial statements and began accounting for its investment in PSBP using the equity method (see "Equity in earnings of real estate entities"). The income statement for the six months ended June 30, 1998 includes the consolidated operating results of PSBP for the three months ended March 31, 1998. The significant decrease in rental income and cost of operations for the six months ended June 30, 1999 reflects the Company's deconsolidation of PSBP.

Equity in earnings of real estate entities: In addition to its ownership of 12,621,428 common shares and operating partnership units in PSBP, the Company had general and limited partnership interests in 15 limited partnerships at June 30, 1999. (PSBP and the limited partnerships are collectively referred to as the "Unconsolidated Entities"). Due to the Company's limited ownership interest and control of these entities, the Company does not consolidate the accounts of these entities for financial reporting purposes, and accounts for such investments using the equity method.

Equity in earnings of real estate entities for the six months ended June 30, 1999 consists of the Company's pro rata share of the Unconsolidated Entities based upon the Company's ownership interest for the period. In the aggregate, the Unconsolidated Entities own a total of 235 real estate facilities, 115 of which are self-storage facilities. The following table sets forth the significant components of the Company's equity in earnings of real estate entities:

Historical summary:

	Three months ended June 30,			Six months ended June 30,		
	1999	1998	Change	1999	1998	Change
	(Amounts in thousands)					
Property operations:						
PSBP	\$8,878	\$7,444	\$1,434	\$17,300	\$7,444	\$9,856
Development Joint Venture ..	569	119	450	915	180	735
Other partnerships.....	6,283	5,829	454	10,204	10,668	(464)
	<u>15,730</u>	<u>13,392</u>	<u>2,338</u>	<u>28,419</u>	<u>18,292</u>	<u>10,127</u>
Depreciation:						
PSBP	(2,940)	(2,395)	(545)	(5,607)	(2,395)	(3,212)
Development Joint Venture ..	(304)	(111)	(193)	(565)	(191)	(374)
Other partnerships.....	(2,201)	(2,267)	66	(3,402)	(4,053)	651
	<u>(5,445)</u>	<u>(4,773)</u>	<u>(672)</u>	<u>(9,574)</u>	<u>(6,639)</u>	<u>(2,935)</u>
Other: (1)						
PSBP	(1,057)	(501)	(556)	(1,883)	(501)	(1,382)
Development Joint Venture ..	21	27	(6)	43	58	(15)
Other partnerships.....	98	(828)	926	464	(1,274)	1,738
	<u>(938)</u>	<u>(1,302)</u>	<u>364</u>	<u>(1,376)</u>	<u>(1,717)</u>	<u>341</u>
Total equity in earnings of real estate entities	<u>\$9,347</u>	<u>\$7,317</u>	<u>\$2,030</u>	<u>\$17,469</u>	<u>\$9,936</u>	<u>\$7,533</u>

(1) "Other" reflects the Company's share of general and administrative expense, interest expense, interest income, and other non-property, non-depreciation related operating results of these entities. For PSBP, it also includes the Company's share of preferred dividends paid by PSBP.

The increase in 1999 earnings compared to 1998 is principally the result of the deconsolidation of PSBP whereby the accounts of PSBP, effective April 1, 1998, were no longer consolidated with the Company's and the Company began to account for its investment in PSBP using the equity method.

Portable Self-Storage Operations: At June 30, 1999, PSPUD operated 36 facilities in 11 states. Due to the start-up nature of the business, PSPUD incurred operating losses totaling approximately \$2,935,000 and \$6,871,000 for the three and six months ended June 30, 1999, as compared to \$8,342,000 and \$18,224,000 for the same periods in 1998:

Portable self-storage:

	Three months ended June 30,			Six months ended June 30,		
	1999	1998	Change	1999	1998	Change
	(Amounts in thousands)					
Rental and other income	\$ 6,448	\$ 6,118	\$ 330	\$ 11,876	\$ 11,289	\$ 587
Cost of operations:						
Direct operating costs.....	7,383	8,757	(1,374)	14,796	18,238	(3,442)
Marketing and advertising ..	307	3,777	(3,470)	729	7,335	(6,606)
Depreciation	1,250	1,138	112	2,432	2,029	403
General and administrative.	443	788	(345)	790	1,911	(1,121)
Total cost of operations	<u>9,383</u>	<u>14,460</u>	<u>(5,077)</u>	<u>18,747</u>	<u>29,513</u>	<u>(10,766)</u>
Operating losses	<u>\$ (2,935)</u>	<u>\$ (8,342)</u>	<u>\$ 5,407</u>	<u>\$ (6,871)</u>	<u>\$ (18,224)</u>	<u>\$ 11,353</u>

Included in direct operating costs above are \$2.8 million and \$5.7 million, respectively, with respect to facility leases for the three and six months ended June 30, 1999, as compared to \$3.4 million and \$6.6 million, respectively, for the same periods in 1998.

Until the PSPUD facilities are operating profitably, PSPUD's operations are expected to continue to adversely impact the Company's earnings and cash flow. PSPUD believes that its business is likely to be more successful in certain markets than in others. There can be no assurances as to the level of PSPUD's expansion, level of gross rentals, level of move-outs or profitability.

Property Management Operations

At June 30, 1999, the Company managed 150 self-storage facilities (115 owned by Unconsolidated Entities and 35 owned by third parties) pursuant to property management contracts. The property management contracts generally provide for compensation equal to 6% of gross revenues of the facilities managed.

Property Management Operations:

	Three months ended June 30,		Change	Six months ended June 30,		Change
	1999	1998		1999	1998	
	(Amounts in thousands)					
Facility management fees:						
Self-storage	\$1,409	\$1,652	\$(243)	\$2,823	\$3,319	\$(496)
Commercial properties	-	-	-	-	98	(98)
	<u>1,409</u>	<u>1,652</u>	<u>(243)</u>	<u>2,823</u>	<u>3,417</u>	<u>(594)</u>
Cost of operations:						
Self-storage	217	268	(51)	472	542	(70)
Commercial properties	-	-	-	-	12	(12)
	<u>217</u>	<u>268</u>	<u>(51)</u>	<u>472</u>	<u>554</u>	<u>(82)</u>
Net operating income:						
Self-storage	1,192	1,384	(192)	2,351	2,777	(426)
Commercial properties	-	-	-	-	86	(86)
	<u>\$1,192</u>	<u>\$1,384</u>	<u>\$(192)</u>	<u>\$2,351</u>	<u>\$2,863</u>	<u>\$(512)</u>

Since June 30, 1998, the Company completed several acquisitions of self-storage facilities from affiliated entities and, as a result, self-storage properties which were managed by the Company became owned facilities and the related management fee income with respect to these facilities ceased. Since the Company has acquired in the past, and may continue to seek to acquire in the future, self-storage facilities owned by Unconsolidated Entities, the company's facility management income and related cost of operations should continue to decrease.

The decrease in property management operations with respect to commercial properties for 1999 as compared to 1998 is due to the deconsolidation of PSBP, which eliminated commercial properties management fee income and cost of operations after April 1, 1998.

Other Income and Expense Items

Interest and other income: The Company operates additional businesses through affiliates, including retail sales of locks, boxes, and packing supplies as well as the rental of trucks. The net results of these two businesses are presented along with interest and other income, as “interest and other income.” The components of interest and other income are detailed as follows:

Interest and Other Income:

	Three months ended June 30,			Six months ended June 30,		
	1999	1998	Change	1999	1998	Change
Sales of packaging material and truck rental income:						
Revenues	\$3,484	\$2,189	\$1,295	\$5,619	\$3,671	\$1,948
Cost of operations.....	(2,387)	(1,842)	(545)	(4,197)	(3,133)	(1,064)
Net operating income	1,097	347	750	1,422	538	884
Interest and other income.....	2,460	4,005	(1,545)	4,498	7,466	(2,968)
Total interest and other income	<u>\$3,557</u>	<u>\$4,352</u>	<u>\$(795)</u>	<u>\$5,920</u>	<u>\$8,004</u>	<u>\$(2,084)</u>

Interest and other income principally consists of interest earned on cash balances and interest related to mortgage notes receivable. The decrease in interest income for the six months ended June 30, 1999 compared to the same periods in 1998 is primarily due to decreased interest income on excess cash balances.

Depreciation and amortization: Depreciation and amortization expense has increased \$8,327,000 to \$33,519,000 for the three months ended June 30, 1999 as compared to \$25,192,000 for the same period in 1998. Depreciation and amortization expense has increased \$9,082,000 to \$62,493,000 for the six months ended June 30, 1999 as compared to \$53,411,000 for the same period in 1998. These increases are principally due to the acquisition of additional real estate facilities during 1998 and 1999, offset partially by the deconsolidation of PSBP. Amortization expense with respect to intangible assets totaled \$2,328,000 and \$4,656,000 for the three and six months, respectively, ended June 30, 1999 and 1998.

Minority interest in income: Minority interest in income represents the income allocable to equity interests in the Consolidated Entities, which are not owned by the Company. Minority interest in income was \$4,304,000 and \$7,657,000, respectively, for the three and six months ended June 30, 1999, as compared to \$4,217,000 and \$10,569,000, respectively, for the same periods in 1998.

The decrease in minority interest in income is primarily the result of the deconsolidation of PSBP, whereby the minority interest with respect to PSBP after June 30, 1998 was removed from the Company’s consolidated financial statements.

Supplemental Property Data and Trends

At June 30, 1999, there were approximately 48 ownership entities owning in aggregate 1,306 self-storage facilities, including the facilities which the Company owns and/or operates. At June 30, 1999, 115 of these facilities were owned by the Unconsolidated Entities, in which the Company has an ownership interest and uses the equity method of accounting. The remaining 1,191 facilities are owned by the Company and Consolidated Entities, many of which were acquired through business combinations, including the merger with Storage Trust, during 1999 and 1998. The following table summarizes the Company’s investment in real estate facilities as of June 30, 1999, excluding the seven real estate facilities used in PSPUD’s operations:

	Number of Facilities in which the Company has an ownership interest			Net Rentable Square Footage (in thousands)		
	Self-Storage Facilities	Commercial Properties	Total	Self-Storage Facilities	Commercial Properties	Total
	Wholly-owned facilities	629	1	630	38,469	9
Facilities owned by Consolidated Entities	562	-	562	31,937	-	31,937
Total consolidated facilities.....	1,191	1	1,192	70,406	9	70,415
Facilities owned by Unconsolidated Entities.....	115	120	235	6,749	11,640	18,389
Total facilities in which the Company has an ownership interest.....	1,306	121	1,427	77,155	11,649	88,804

In order to evaluate how the Company's overall portfolio has performed, management analyzes the operating performance of a consistent group of self-storage facilities representing 979 (57.3 million net rentable square feet) of the 1,306 self-storage facilities (herein referred to as "Same Store" self-storage facilities). The 979 facilities represent a pool of properties, which have been operated under the "Public Storage" name, at a stabilized level, by the Company since January 1, 1994. From time to time, the Company removes facilities from the Same Store pool as a result of expansions or dispositions of the properties, primarily from condemnations by governmental authorities, which make such facilities' results not comparable to previous periods. The Same Store group of properties includes 893 consolidated facilities and 86 facilities owned by Unconsolidated Entities. The following table summarizes the pre-depreciation historical operating results of the Same Store self-storage facilities:

Same Store mini-warehouse facilities (979 facilities):

(historical property operations)

	Three months ended June 30,			Six months ended June 30,		
	1999	1998	Change	1999	1998	Change
	(Amounts in thousands)					
Rental income.....	\$135,135	\$130,260	3.7%	\$266,347	\$253,952	4.9%
Cost of operations (includes an imputed 6% property management fee) (1)	45,725	45,188	1.2%	92,958	89,828	3.5%
Net operating income	\$89,410	\$85,072	5.1%	\$173,389	\$164,124	5.6%
Gross profit margin (2)	66.2%	65.3%	0.9%	65.1%	64.6%	0.5%
<u>Weighted Average:</u>						
Occupancy during the period	93.1%	92.9%	0.2%	92.2%	92.2%	0.0%
Annualized realized rent per sq. ft. for period.(3)	\$10.13	\$9.80	3.4%	\$10.08	\$9.62	4.8%
Annualized scheduled rent per sq. ft. for period (3)....	\$10.50	\$10.28	2.1%	\$10.48	\$10.14	3.4%

1. Assumes payment of property management fees on all facilities, including those facilities owned by the Company for which effective November 16, 1995 no fee is paid.
2. Gross profit margin is computed by dividing property net operating income (which excludes depreciation expense) by rental revenues. Cost of operations includes a 6% management fee. The gross profit margin excluding the property management fee was 72.2% and 71.3% for the three months ended June 30, 1999 and 1998, respectively; and 71.1% and 70.6% for the six months ended June 30, 1999 and 1998, respectively.
3. Realized rent per square foot represents the actual revenue earned per occupied square foot during the period - annualized. Management believes this is a more relevant measure than the scheduled rental rates, since scheduled rates can be discounted through the use of promotions.

Rental income for the Same Store facilities included promotional discounts totaling \$3,923,000 and

\$8,049,000, respectively, for the three and six months ended June 30, 1999, respectively as compared to \$4,136,000 and \$8,358,000 for the same periods in 1998.

During the year ended December 31, 1998 as compared to the year ended December 31, 1997, the Same Store facilities exhibited growth in rental income and net operating income of 7.6% and 8.2%, respectively, as a result of increased realized rents and occupancies. The growth in rental income and net operating income has decreased in the first six months of 1999 to 4.9% and 5.6%, respectively, as compared to the first six months of 1998 which was 7.7% and 8.8%, respectively, due to flat occupancies and smaller increases in realized rents than was experienced in 1998. The Company expects the level of growth to continue at levels less than that experienced in 1998, as it expects no significant increases in occupancies and expects continued moderated increases in realized rents.

Liquidity and Capital Resources

The Company believes that its internally generated net cash provided by operating activities will continue to be sufficient to enable it to meet its operating expenses, capital improvements, debt service requirements and distributions to shareholders for the foreseeable future.

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

	For the six months ended June 30,	
	1999	1998
	(Amounts in thousands)	
Net income	\$135,493	\$105,563
Depreciation and amortization	62,493	53,411
Depreciation from Unconsolidated Entities	9,574	6,639
Minority interest in income.....	7,657	10,569
Net cash provided by operating activities.....	215,217	176,182
Distributions from operations to minority interests	(12,472)	(17,596)
Cash from operations allocable to the Company’s shareholders.....	202,745	158,586
Less: preferred stock dividends.....	(45,354)	(40,269)
Cash from operations available to common shareholders	157,391	118,317
Capital improvements to maintain facilities:.....	(10,156)	(10,336)
Add back: minority interest share of capital improvements to maintain facilities	518	915
Funds available for principal payments on debt, common dividends and reinvestment.....	147,753	108,896
Cash distributions to common shareholders.....	(56,767)	(49,806)
Funds available for principal payments on debt and reinvestment	\$90,986	\$59,090

The Company expects to fund its growth strategies with cash on hand at June 30, 1999, internally generated retained cash flows, proceeds from issuing equity securities and borrowings under its \$150 million credit facility. The Company intends to repay amounts borrowed under the credit facility from undistributed operating cash flow or, as market conditions permit and are determined to be advantageous, from the public or private placement of equity securities.

The Company's portfolio of real estate facilities remains substantially unencumbered. At June 30, 1999, the Company had debt outstanding of \$172.6 million, of which \$30.6 million is mortgage debt and \$142 million is unsecured senior notes, and had consolidated real estate facilities with a book value of \$3.4 billion. The Company has been reluctant to finance its acquisitions with debt and generally will only increase its mortgage borrowing through the assumption of pre-existing debt on acquired real estate facilities.

During the first quarter of 1999, the Company issued a total of 9.2 million depositary shares (each representing 1/1,000 of a share) of its Preferred Stock, Series K and L, raising net proceeds of approximately \$222.6 million. Proceeds of the offerings were utilized to pay costs in connection with the Storage Trust merger. The remaining proceeds will be utilized to fund the Company's development activities, PSPUD activities and acquisition activities.

Distribution requirements: The Company's conservative distribution policy has been the principal reason for the Company's ability to retain significant operating cash flows which have been used to make additional investments and reduce debt. During the six months ended June 30, 1999 and 1998, the Company distributed to common shareholders approximately 36.1% and 42.1% of its cash available from operations allocable to common shareholders, respectively.

During the six months ended June 30, 1999, the Company paid dividends totaling \$45,354,000 to the holders of the Company's Senior Preferred Stock and \$56,767,000 to the holders of Common Stock. The Company estimates the regular distribution requirements for fiscal 1999 with respect to Senior Preferred Stock outstanding at June 30, 1999 to be approximately \$95.2 million. Distributions with respect to the common stock will be determined based upon the Company's REIT distribution requirements after taking into consideration distributions to the Company's preferred shareholders.

The Company expects to make a special distribution to common shareholders in 1999 assuming a continuation of its increasing level of taxable income.

Capital improvement requirements: During 1999, the Company budgeted approximately \$20.1 million for capital improvements in respect of its consolidated properties (\$19.5 million for its self-storage facilities and \$0.6 million for its commercial space), excluding amounts to be incurred with respect to the facilities acquired in the Storage Trust merger. The minority interests' share of the budgeted capital improvements is approximately \$1.5 million. During the six months ended June 30, 1999, the Company incurred capital improvements of approximately \$10.2 million. In addition, the Company expects to spend over the next 18 months approximately \$15 million in property improvements to the properties acquired in the Storage Trust merger.

Debt Service requirements: The Company does not believe it has any significant refinancing risks with respect to its notes payable, all of which is fixed rate. At June 30, 1999, the Company had total outstanding notes payable of approximately \$172,551,000 (including \$100,000,000 assumed in connection with the March 1999 merger with Storage Trust). Approximate principal maturities of notes payable at June 30, 1999 are as follows:

	Unsecured Senior Notes	Fixed Rate Mortgage Debt	Total
	(Amounts in thousands)		
1999 (remainder of)	\$ 4,000	\$ 1,523	\$ 5,523
2000	8,750	2,622	11,372
2001	9,500	2,910	12,410
2002	24,450	3,229	27,679
2003	35,900	3,584	39,484
Thereafter	59,400	16,683	76,083
	<u>\$ 142,000</u>	<u>\$ 30,551</u>	<u>\$ 172,551</u>
Weighted Average Rate	<u>7.4%</u>	<u>10.3%</u>	<u>7.9%</u>

Repurchases of the Company's Common Stock: As previously announced, the Company's Board of Directors authorized the repurchase from time to time of up to 10,000,000 shares of the Company's common stock on the open market or in privately negotiated transactions. In the six months ended June 30, 1999, the Company repurchased a total of 690,227 shares, for a total aggregate cost of approximately \$17.6 million. Cumulatively since the repurchase announcement, through June 30, 1999, the Company has repurchased a total of 3,509,627 shares of common stock at an aggregate cost of approximately \$89.9 million. From July 1, 1999 through August 9, 1999, the Company repurchased an additional 945,400 shares of common stock at an aggregate cost of approximately \$24.0 million.

Development Activities: As previously announced, in April 1997, the Company and an institutional investor formed a joint venture partnership for the purpose of developing up to \$220 million of self-storage facilities. The joint venture is funded solely with equity capital consisting of 30% from the Company and 70% from the institutional investor. The Company's share of the cost of the real estate in the joint venture is approximately \$57.3 million at June 30, 1999.

During the six months ended June 30, 1999, the joint venture opened five new self storage facilities that it had developed (approximately 317,000 net rentable sq. ft.). In addition, one project that was completed by the Company in 1998 was contributed to the joint venture in the quarter ended March 31, 1999. As of June 30, 1999, the joint venture had 30 operating facilities, with 1,822,000 net rentable square feet and total development costs of approximately \$151.0 million. As of June 30, 1999, the joint venture is developing 13 additional projects (approximately 865,000 net rentable square feet) that were in process, with total costs incurred of \$40.1 million and estimated remaining costs to complete of \$17.9 million.

At June 30, 1999, the Joint Venture is reviewing an additional six projects (\$20.7 million incurred at June 30, 1999, with remaining costs to complete of \$5.8 million). One of these projects has been approved subsequent to June 30, 1999 (through August 9, 1999), and upon approval of the remaining five facilities, the Joint Venture will be fully committed. These six projects include one completed facility and five facilities under construction. At June 30, 1999, approximately \$16.4 million is included in construction in process and approximately \$4.3 million is included in real estate facilities with respect to these six projects. As the projects are approved, the construction costs will be transferred to the Joint Venture.

The Company has plans to develop a total of 36 additional self storage facilities, with total estimated costs of construction of approximately \$165 million, with completions over approximately the next 18 to 24 months. This development is in addition to the six properties that are being reviewed by the joint venture and the 13 facilities that the Joint Venture is currently developing. At June 30, 1999, 19 of these facilities are in process, with approximately \$36 million incurred and \$50 million of costs to complete, and 17 represent identified sites which have not yet begun construction (with total estimated costs of approximately \$79 million). All of these projects are subject to significant contingencies

The Company intends to fund this construction either through a second development joint venture or alone through a combination of retained cash flow, borrowings on the Company's line of credit, or the private or public placement of equity securities.

In addition, the Company is developing nine facilities that can be used by PSPUD. The Company has incurred \$34.7 million with respect to these facilities at June 30, 1999, with remaining costs to complete of \$35.5 million.

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

Funds from Operations: Total funds from operations or "FFO" increased to \$202,745,000 for the six months ended June 30, 1999 compared to \$158,586,000 for the same period in 1998. FFO available to common shareholders (after deducting preferred stock dividends) increased to \$157,391,000 for the six months ended June 30, 1999 compared to \$118,317,000 for the same period in 1998. FFO means net income or (loss) (computed in accordance with generally accepted accounting principles) before: (i) gain or (loss) on early extinguishment of debt, (ii) minority interest in income and (iii) gain or (loss) on the disposition of real estate, adjusted as follows: (i) plus depreciation and amortization (including the Company's pro-rata share of depreciation and amortization of unconsolidated equity interests and amortization of assets acquired in a merger, including property management agreements and goodwill), and (ii) less FFO attributable to minority interest.

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

Impact of Year 2000

The Company has completed an assessment of all of its hardware and software applications to identify susceptibility to what is commonly referred to as the "Y2K Issue" whereby certain computer programs have been written using two digits rather than four to define the applicable year. Any of the Company's computer programs or hardware with the Y2K Issue that have date-sensitive applications or embedded chips may recognize a date using "00" as the year 1900 rather than the year 2000, resulting in miscalculations or system failure causing disruptions of operations.

The Company has two phases in its process with respect to each of its systems; i) assessment, whereby the Company evaluates whether the system is Y2K compliant and identifies the plan of action with respect to remediating any Y2K issues identified and ii) implementation, whereby the Company completes the plan of action prepared in the assessment phase and verifies that Y2K compliance has been achieved.

Implementations have been completed on the Company's critical applications that impact the Company, such as the general ledger, property operations, and related systems. Contingency plans have been developed for use in case the Company's assessment did not identify all Y2K issues, or if the implementation were subsequently determined to not fully remediate Y2K issues that were identified. While the Company presently believes that the impact of the Y2K Issue on its systems can be mitigated, if the Company's plan for ensuring Year 2000 compliance and the related contingency plans were to fail, be insufficient, or not be implemented on a timely basis, Company operations could be materially impacted.

Certain of the Company's other non-computer related systems that may be impacted by the Y2K Issue, such as security systems, have been evaluated. The Company expects the implementation of the required solutions to be completed in advance of December 31, 1999. Based upon its evaluation, the Company has no reason to believe that lack of compliance or failure of required solutions would materially impact the Company's operations.

The Company exchanges electronic data with certain outside vendors in the banking and payroll processing areas. The Company has been advised by these vendors that their systems are or will be Year 2000 compliant, but has requested a Year 2000 compliance certification from these entities. The Company is not aware of any other vendors, suppliers, or other external agents with a Y2K Issue that would materially impact the Company's results of operations, liquidity, or capital resources. However, the Company has no means of ensuring that external agents will be Year 2000 compliant, and there can be no assurance that the Company has identified all such external agents. The inability of external agents to complete their Year 2000 compliance process in a timely fashion could materially impact the Company. The effect of non-compliance by external agents is not determinable.

The cost of the Company's year 2000 compliance activities (which primarily consists of the costs of new systems) is estimated at approximately \$4.2 million, of which approximately \$4.0 million has been incurred to date. These costs are capitalized. The Company's year 2000 compliance efforts have not resulted in any significant deferrals in other information system projects.

The costs of the projects and the date on which the Company expects to achieve Year 2000 Compliance are based upon management's best estimates, and were derived utilizing numerous assumptions of future events. There can be no assurance that these estimates will be achieved, and actual results could differ materially from those anticipated. There can be no assurance that the Company has identified all potential Y2K Issues either within the Company or at external agents. In addition, the impact of the Y2K issue on governmental entities and utility providers and the resultant impact on the Company, as well as disruptions in the general economy, may be material but cannot be reasonably determined or quantified.

Item 3. Qualitative and Quantitative Disclosures about Market Risk

To limit the Company's exposure to market risk, the Company principally finances its operations and growth with permanent equity capital consisting either of common or preferred stock. At June 30, 1999, the Company's debt as a percentage of total shareholders' equity (based on book values) was 4.6%.

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

The Company's market risk sensitive instruments include notes payable which totaled \$172.6 million at June 30, 1999. Substantially all of the Company's notes payable bear interest at fixed rates. See Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources for approximate principal maturities of the notes payable as of June 30, 1999.

PART II. OTHER INFORMATION

Item 1 Legal Proceedings

Anderson v. Public Storage, Inc., San Francisco Superior Court (filed September 19, 1997)

Grant v. Public Storage, Inc., San Diego Superior Court (filed October 6, 1997)

Wren v. Public Storage, Inc., San Francisco Superior Court (filed October 16, 1997)

Each of the plaintiffs in these cases is suing the Company on behalf of a purported class of California tenants who rented storage spaces from the Company and contends that the Company's fees for late payments under its rental agreements for storage space constitute unlawful "penalties" under the liquidated damages provisions of California law and under California's unfair business practices act. None of the plaintiffs has assigned any dollar amount to the claims.

In February 1998, the lower court dismissed the Anderson case, but in May 1999 the court of appeal reversed the lower court's dismissal of the plaintiff's claim under the California unfair business practices act and affirmed the dismissal under the liquidated damages provisions of California law. The Company is continuing to vigorously contest the claims in all three legal proceedings.

Grinnel v. Public Storage, Inc., Baltimore City Circuit Court (filed August 4, 1999)

Plaintiff in this case is suing the Company on behalf of a purported class of Maryland tenants who rented storage spaces from the Company and contends that the Company's fees for late payments under its rental agreements for storage space exceeds the amount of interest that can be charged under the Maryland constitution and are therefore unlawful "penalties." None of the plaintiffs has assigned any dollar amount to the claims. The Company intends to vigorously contest the claims in the proceedings.

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

Item 4. Submission of Matters to a Vote of Security Holders

The Company held an annual meeting of shareholders on May 6, 1999. Proxies for the annual meeting were solicited pursuant to Regulation 14 under the Securities Exchange Act of 1934. The annual meeting involved the following matters:

1. Approval of an amendment to the Company's bylaws to change the authorized number of directors from a range of five to nine to a range of eight to fifteen, with the exact number of directors to be initially fixed at ten – approval of this proposal required the affirmative vote of the holders of a majority of the Company's outstanding shares of Common Stock, and this proposal was approved by the following vote

	<u>For</u>	<u>Against</u>	<u>Abstain</u>	<u>No Vote</u>
Common Stock	89,727,720	2,409,659	383,731	6,906,291

2. Election of Directors

<u>Name</u>	<u>Number of Shares of Common Stock</u>	
	<u>Voted For</u>	<u>Withheld</u>
B. Wayne Hughes	93,367,996	6,059,408
Harvey Lenkin	98,648,295	779,109
Marvin M. Lotz	98,619,879	807,525
B. Wayne Hughes, Jr.	95,956,555	3,470,849
Robert J. Abernethy	98,882,492	544,912
Dann V. Angeloff	98,645,940	781,464
William C. Baker	98,871,031	556,373
Thomas J. Barrack, Jr.	91,787,227	7,640,177
Uri P. Harkham	98,877,077	550,327
Daniel C. Staton	98,701,641	725,763

Item 6 Exhibits and Reports on Form 8-K

(a) Exhibits:

- 3.1 Restated Articles of Incorporation. Filed with Registrant's Registration Statement No. 33-54557 and incorporated herein by reference.
- 3.2 Certificate of Determination for the 10% Cumulative Preferred Stock, Series A. Filed with Registrant's Registration Statement No. 33-54557 and incorporated herein by reference.
- 3.3 Certificate of Determination for the 9.20% Cumulative Preferred Stock, Series B. Filed with Registrant's Registration Statement No. 33-54557 and incorporated herein by reference.
- 3.4 Amendment to Certificate of Determination for the 9.20% Cumulative Preferred Stock, Series B. Filed with Registrant's Registration Statement No. 33-56925 and incorporated herein by reference.
- 3.5 Certificate of Determination for the 8.25% Convertible Preferred Stock. Filed with Registrant's Registration Statement No. 33-54557 and incorporated herein by reference.
- 3.6 Certificate of Determination for the Adjustable Rate Cumulative Preferred Stock, Series C. Filed with Registrant's Registration Statement No. 33-54557 and incorporated herein by reference.
- 3.7 Certificate of Determination for the 9.50% Cumulative Preferred Stock, Series D. Filed with Registrant's Form 8-A/A Registration Statement relating to the 9.50% Cumulative Preferred Stock, Series D and incorporated herein by reference.

- 3.8 Certificate of Determination for the 10% Cumulative Preferred Stock, Series E. Filed with Registrant's Form 8-A/A Registration Statement relating to the 10% Cumulative Preferred Stock, Series E and incorporated herein by reference.
- 3.9 Certificate of Determination for the 9.75% Cumulative Preferred Stock, Series F. Filed with Registrant's Form 8-A/A Registration Statement relating to the 9.75% Cumulative Preferred Stock, Series F and incorporated herein by reference.
- 3.10 Certificate of Determination for the Convertible Participating Preferred Stock. Filed with Registrant's Registration Statement No. 33-63947 and incorporated herein by reference.
- 3.11 Certificate of Amendment of Articles of Incorporation. Filed with Registrant's Registration Statement No. 33-63947 and incorporated herein by reference.
- 3.12 Certificate of Determination for the 8-7/8% Cumulative Preferred Stock, Series G. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000th of a Share of 8-7/8% Cumulative Preferred Stock, Series G and incorporated herein by reference.
- 3.13 Certificate of Determination for the 8.45% Cumulative Preferred Stock, Series H. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000th of a Share of 8.45% Cumulative Preferred Stock, Series H and incorporated herein by reference.
- 3.14 Certificate of Determination for the Convertible Preferred Stock, Series CC. Filed with Registrant's Registration Statement No. 333-03749 and incorporated herein by reference.
- 3.15 Certificate of Correction of Certificate of Determination for the Convertible Participating Preferred Stock. Filed with Registrant's Registration Statement No. 333-08791 and incorporated herein by reference.
- 3.16 Certificate of Determination for 8-5/8% Cumulative Preferred Stock, Series I. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8-5/8% Cumulative Preferred Stock, Series I and incorporated herein by reference.
- 3.17 Certificate of Amendment of Articles of Incorporation. Filed with Registrant's Registration Statement No. 333-18395 and incorporated herein by reference.
- 3.18 Certification of Determination for Equity Stock, Series A. Filed with Registrant's Form 10-Q for the quarterly period ended June 30, 1997 and incorporated herein by reference.
- 3.19 Certification of Determination for 8% Cumulative Preferred Stock, Series J. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8% Cumulative Preferred Stock, Series J and incorporated herein by reference.
- 3.20 Certificate of Correction of Certificate of Determination for the 8.25% Convertible Preferred Stock. Filed with Registrant's Registration Statement No. 333-61045 and incorporated herein by reference.

- 3.21 Certification of Determination for 8-1/4% Cumulative Preferred Stock, Series K. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8-1/4% Cumulative Preferred Stock, Series K and incorporated herein by reference.
- 3.22 Certificate of Determination for 8-1/4% Cumulative Preferred Stock, Series L. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8-1/4% Cumulative Preferred Stock, Series L and incorporated herein by reference.
- 3.23 Bylaws, as amended. Filed with Registrant's Registration Statement No. 33-64971 and incorporated herein by reference.
- 3.24 Amendment to Bylaws adopted on May 9, 1996. Filed with Registrant's Registration Statement No. 333-03749 and incorporated herein by reference.
- 3.25 Amendment to Bylaws adopted on June 26, 1997. Filed with Registrant's Registration Statement No. 333-41123 and incorporated herein by reference.
- 3.26 Amendment to Bylaws adopted on January 6, 1998. Filed with Registrant's Registration Statement No. 333-41123 and incorporated herein by reference.
- 3.27 Amendment to Bylaws adopted on February 10, 1998. Filed with Registrant's Current Report on Form 8-K dated February 10, 1998 and incorporated herein by reference.
- 3.28 Amendment to Bylaws adopted on March 4, 1999. Filed with Registrant's Current Report on Form 8-K dated March 4, 1999 and incorporated herein by reference.
- 3.29 Amendment to Bylaws adopted on May 6, 1999. Filed with Registrant's Form 10-Q for the quarterly period ended March 31, 1999 and incorporated herein by reference.
- 10.1 Second Amended and Restated Management Agreement by and among Registrant and the entities listed therein dated as of November 16, 1995. Filed with PS Partners, Ltd.'s Annual Report on Form 10-K for the year ended December 31, 1996 and incorporated herein by reference.
- 10.2 Amended Management Agreement between Registrant and Public Storage Commercial Properties Group, Inc. dated as of February 21, 1995. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 1994 and incorporated herein by reference.
- 10.3 Loan Agreement between Registrant and Aetna Life Insurance Company dated as of July 11, 1988. Filed with Registrant's Current Report on Form 8-K dated July 14, 1988 and incorporated herein by reference.
- 10.4 Amendment to Loan Agreement between Registrant and Aetna Life Insurance Company dated as of September 1, 1993. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 1993 and incorporated herein by reference.
- 10.5 Second Amended and Restated Credit Agreement by and among Registrant, Wells Fargo Bank, National Association, as agent, and the financial institutions party thereto dated as of February 25, 1997. Filed with Registrant's Registration Statement No. 333-22665 and incorporated herein by reference.

- 10.6 Note Assumption and Exchange Agreement by and among Public Storage Management, Inc., Public Storage, Inc., Registrant and the holders of the notes dated as of November 13, 1995. Filed with Registrant's Registration Statement No. 33-64971 and incorporated herein by reference.
- 10.7 Registrant's 1990 Stock Option Plan. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 1994 and incorporated herein by reference.
- 10.8 Registrant's 1994 Stock Option Plan. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference.
- 10.9 Registrant's 1996 Stock Option and Incentive Plan. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference.
- 10.10 Agreement and Plan of Reorganization among Registrant, Public Storage Properties IX, Inc., and PS Business Parks, Inc. dated as of December 13, 1995. Filed with Registrant's Registration Statement No. 333-00591 and incorporated herein by reference.
- 10.11 Deposit Agreement dated as of December 13, 1995, among Registrant, The First National Bank of Boston, and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 8-7/8 Cumulative Preferred Stock, Series G. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000th of a Share of 8-7/8 Cumulative Preferred Stock, Series G and incorporated herein by reference.
- 10.12 Deposit Agreement dated as of January 25, 1996, among Registrant, The First National Bank of Boston, and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 8.45% Cumulative Preferred Stock, Series H. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000th of a Share of 8.45% Cumulative Preferred Stock, Series H and incorporated herein by reference.
- 10.13 Employment Agreement between Registrant and B. Wayne Hughes dated as of November 16, 1995. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 1995 and incorporated herein by reference.
- 10.14 Deposit Agreement dated as of November 1, 1996, among Registrant, The First National Bank of Boston, and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 8-5/8% Cumulative Preferred Stock, Series I. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000th of a Share of 8-5/8% Cumulative Preferred Stock, Series I and incorporated herein by reference.
- 10.15 Agreement and Plan of Reorganization among Registrant, Public Storage Properties XIV, Inc. and, Public Storage Properties XV, Inc. dated as of December 5, 1996. Filed with Registrant's Registration Statement No. 333-22665 and incorporated herein by reference.
- 10.16 Agreement and Plan of Reorganization among Registrant, Public Storage Properties XVI, Inc., Public Storage Properties XVII, Inc., Public Storage Properties XVIII, Inc. and Public Storage Properties XIX, Inc. dated as of April 9, 1997. Filed with Registrant's Registration Statement No. 333-26959 and incorporated herein by reference.

- 10.17 Limited Partnership Agreement of PSAF Development Partners, L. P. between PSAF Development, Inc. and the Limited Partner dated as of April 10, 1997. Filed with Registrant's Form 10-Q for the quarterly period ended March 31, 1997 and incorporated herein by reference.
- 10.18 Deposit Agreement dated as of August 28, 1997 among Registrant, The First National Bank of Boston, and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 8% Cumulative Preferred Stock, Series J. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8% Cumulative Preferred Stock, Series J and incorporated herein by reference.
- 10.19 Agreement and Plan of Reorganization between Registrant and Public Storage Properties XX, Inc. dated as of December 13, 1997. Filed with Registrant's Registration Statement No. 333-49247 and incorporated herein by reference.
- 10.20 Agreement of Limited Partnership of PS Business Parks, L. P. dated as of March 17, 1998. Filed with PS Business Parks, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998 and incorporated herein by reference.
- 10.21 Deposit Agreement dated as of January 19, 1999 among Registrant, BankBoston, N. A. and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 8-1/4% Cumulative Preferred Stock, Series K. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8-1/4% Cumulative Preferred Stock, Series K and incorporated herein by reference.
- 10.22 Agreement and Plan of Merger among Storage Trust Realty, Registrant and Newco Merger Subsidiary, Inc. dated as of November 12, 1998. Filed with Registrant's Registration Statement No. 333-68543 and incorporated herein by reference.
- 10.23 Amendment No. 1 to Agreement and Plan of Merger among Storage Trust Realty, Registrant, Newco Merger Subsidiary, Inc. and STR Merger Subsidiary, Inc. dated as of January 19, 1999. Filed with Registrant's Registration Statement No. 333-68543 and incorporated herein by reference.
- 10.24 Amended and Restated Agreement of Limited Partnership of Storage Trust Properties, L. P., dated as of March 12, 1999. Filed herewith.
- 10.25 Storage Trust Realty 1994 Share Incentive Plan. Filed with Storage Trust Realty's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference.
- 10.26 Amended and Restated Storage Trust Realty Retention Bonus Plan effective as of November 12, 1998. Filed with Registrant's Registration Statement No. 333-68543 and incorporated herein by reference.
- 10.27 Deposit Agreement dated as of March 10, 1999 among Registrant, Bank Boston, N.A. and the holders of the depositary receipts evidencing the Depositary Shares Each Representing 1/1,000 of a Share of 8-1/4% Cumulative Preferred Stock, Series L. Filed with Registrant's Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8-1/4% Cumulative Preferred Stock, Series L and incorporated herein by reference.

- 10.28 Note Purchase Agreement and Guaranty Agreement with respect to \$100,000,000 of Senior Notes of Storage Trust Properties, L.P. Filed with Storage Trust Realty's Annual Report on Form 10-K for the year ended December 31, 1996 and incorporated herein by reference.
 - 11 Statement Re: Computation of Earnings Per Share. Filed herewith.
 - 12 Statement Re: Computation of Ratio of Earnings to Fixed Charges. Filed herewith.
 - 27 Financial data schedule. Filed herewith.
- (b) Reports on Form 8-K

No reports on Form 8-K were filed by the Company during the quarter ended June 30, 1999.

SIGNATURES

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

DATED: August 13, 1999

PUBLIC STORAGE, INC.

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

PUBLIC STORAGE, INC.
Exhibit 10.24 – Amended and Restated Agreement of Limited Partnership
Of Storage Trust Properties, L.P.
(March 12, 1999)

This **AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP (March 12, 1999)** of Storage Trust Properties, L.P. (the “**Partnership**”) is entered into by and among PS Texas Holdings, Ltd. (the “**General Partner**”), a Texas limited partnership, as the General Partner and the Persons whose names are set forth on Exhibit A as attached hereto, as the Limited Partners, together with any other Persons who become Partners in the Partnership as provided herein;

WHEREAS, the Partnership was formed by the filing of a certificate of limited partnership with the Secretary of State of the State of Delaware as of July 13, 1994 by Storage Trust Realty, a Maryland real estate investment trust, as the original general partner;

WHEREAS, Storage Trust Realty and the Initial Limited Partner entered into an Agreement of Limited Partnership on July 13, 1994 for the formation of the Partnership under the Revised Uniform Limited Partnership Act of the State of Delaware;

WHEREAS, the aforementioned Agreement of Limited Partnership was amended on August 10, 1994 (as so amended, the “**Original Partnership Agreement**”) to, among other things, change the name of the Partnership from “**Storagemaster Properties, L.P.**” to “**Storage Trust Properties, L.P.**”;

WHEREAS, the Original Partnership Agreement was completely amended and restated pursuant to that certain Amended and Restated Agreement of Limited Partnership dated as of November 16, 1994, which then was amended by that certain First Amendment dated as of November 12, 1996, implementing a minor clarifying change;

WHEREAS, the agreement was further amended by that Second Amendment dated as of March 12, 1999 in connection with the merger of Storage Trust Realty into Public Storage, Inc., a California corporation; concurrently with the merger, Public Storage, Inc. transferred the general partner interest to PS Texas Holdings, Ltd., which is indirectly wholly-owned by Public Storage, Inc., and

WHEREAS, the Partners desire to ratify the formation of, and provide for the continuation of, the Partnership, and to set forth their respective rights and duties relating to the Partnership on the amended and restated terms as provided in this amended and restated agreement which integrates the language of the prior amendments and clarifies the language of the agreement in connection with the substitution of PS Texas Holdings, Ltd. as the General Partner, accordingly, this agreement supersedes for all purposes the Original Partnership Agreement, as previously amended, and constitutes the entire agreement from and after the date hereof;

NOW, THEREFORE, in consideration of the mutual promises and agreements herein made and intending to be legally bound, the parties hereby agree as follows:

Article I
DEFINED TERMS

The following definitions shall be for all purposes, unless otherwise clearly indicated to the contrary, applied to the terms used in this Agreement.

“**Act**” means the Delaware Revised Uniform Limited Partnership Act, as it may be amended from time to time, and any successor to such statute.

“Additional Limited Partner” means a Person admitted to the Partnership as a Limited Partner pursuant to **Section 4.2** hereof and who is shown as such on the books and records of the Partnership.

“Adjusted Capital Account” means the Capital Account maintained for each Partner as of the end of each Partnership Year (a) increased by any amounts which such Partner is obligated to restore pursuant to any provision of this Agreement or is deemed to be obligated to restore pursuant to the penultimate sentences of Regulations Sections 1.704-2(g)(1) and 1.704-2(i)(5) and (b) decreased by the items described in Regulations Sections 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5), and 1.704-1(b)(2)(ii)(d)(6). The foregoing definition of Adjusted Capital Account is intended to comply with the provisions of Regulations Section 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith.

“Adjusted Capital Account Deficit” means, with respect to any Partner, the deficit balance, if any, in such Partner’s Adjusted Capital Account as of the end of the relevant Partnership Year.

“Adjusted Property” means any property the Carrying Value of which has been adjusted pursuant to **Section 4.4** hereof. Once an Adjusted Property is deemed distributed by, and recontributed to, the Partnership for Federal income tax purposes upon a termination thereof pursuant to Section 708 of the Code, such property shall thereafter constitute a Contributed Property until the Carrying Value of such property is further adjusted pursuant to **Section 4.4** hereof.

“Affiliate” means, with respect to any Person, (a) any Person directly or indirectly controlling, controlled by or under common control with such Person, (b) any Person owning or controlling 10 percent or more of the outstanding voting interests of such Person, (c) any Person of which such Person owns or controls 10 percent or more of the voting interests, or (d) any officer, director, general partner or trustee of such Person or any Person referred to in clauses (a), (b) and (c) above.

“Agreed Value” means (a) in the case of any Contributed Property set forth in Exhibit B and as of the time of its contribution to the Partnership, the Agreed Value of such property as set forth in Exhibit B; (b) in the case of any Contributed Property not set forth in Exhibit B and as of the time of its contribution to the Partnership, the 704(c) Value of such property or other consideration, reduced by any liabilities either assumed by the Partnership upon such contribution or to which such property is subject when contributed, and (c) in the case of any property distributed to a Partner by the Partnership, the Partnership’s Carrying Value of such property at the time such property is distributed, reduced by any indebtedness either assumed by such Partner upon such distribution or to which such property is subject at the time of distribution as determined under Section 752 of the Code and the Regulations thereunder.

“Agreement” means this Amended and Restated Agreement of Limited Partnership, as it may be amended, supplemented or restated from time to time.

“Articles” mean Public Storage, Inc.’s Restated Articles of Incorporation filed with the California Secretary of State on August 1, 1989, as amended from time to time.

“Assignee” means a Person to whom one or more Partnership Units have been transferred in a manner permitted under this Agreement, but who has not become a Substituted Limited Partner, and who has the rights set forth in **Section 11.5**.

“Available Cash” means with respect to any period for which such calculation is being made,

(a) all cash revenues and funds received by the Partnership from whatever source (excluding the proceeds of any Capital Contribution to the Partnership pursuant to **Section 4.1** hereof) plus the amount of any reduction (including, without limitation, a reduction resulting because the General Partner determines such amounts are no longer necessary) in reserves of the Partnership, which reserves are referred to in clause (b)(iv) below;

(b) less the sum of the following (except to the extent made with the proceeds of any Capital Contribution):

(i) all interest, principal and other debt payments made during such period by the Partnership,

(ii) all cash expenditures (including capital expenditures) made by the Partnership during such period,

(iii) investments in any entity (including loans made thereto) to the extent that such investments are not otherwise described in clauses (b)(i) or (ii), and

(iv) the amount of any increase in reserves established during such period which the General Partner determines are necessary or appropriate in its sole and absolute discretion.

Notwithstanding the foregoing, Available Cash shall not include any cash received or reductions in reserves, or take into account any disbursements made or reserves established, after commencement of the dissolution and liquidation of the Partnership.

“Book-Tax Disparities” means, with respect to any item of Contributed Property or Adjusted Property, as of the date of any determination, the difference between the Carrying Value of such Contributed Property or Adjusted Property and the adjusted basis thereof for Federal income tax purposes as of such date. A Partner’s share of the Partnership’s Book-Tax Disparities in all of its Contributed Property and Adjusted Property will be reflected by the difference between such Partner’s Capital Account balance as maintained pursuant to **Section 4.4** and the hypothetical balance of such Partner’s Capital Account computed as if it had been maintained strictly in accordance with Federal income tax accounting principles.

“Business Day” means any day except a Saturday, Sunday or other day on which commercial banks in Chicago, Illinois are authorized or required by law to close.

“Capital Account” means the Capital Account maintained for a Partner pursuant to **Section 4.4** hereof.

“Capital Contribution” means, with respect to any Partner, any cash, cash equivalents or the Agreed Value of Contributed Property which such Partner contributes or is deemed to contribute to the Partnership pursuant to **Section 4.1** or **4.2** hereof.

“Carrying Value” means (a) with respect to a Contributed Property or Adjusted Property, the 704(c) Value of such property reduced (but not below zero) by all Depreciation with respect to such Property charged to the Partners’ Capital Accounts and (b) with respect to any other Partnership property, the adjusted basis of such property for Federal income tax purposes, all as of the time of determination. The Carrying Value of any property shall be adjusted from time to time in accordance with **Section 4.4** hereof, and to reflect changes, additions or other adjustments to the Carrying Value for dispositions and acquisitions of Partnership properties, as deemed appropriate by the General Partner.

“Certificate” means the Certificate of Limited Partnership relating to the Partnership filed in the office of the Secretary of State of the State of Delaware, as amended from time to time in accordance with the terms hereof and the Act.

“Code” means the Internal Revenue Code of 1986, as amended. Any reference herein to a specific section or sections of the Code shall be deemed to include a reference to any corresponding provision of future law.

“Common Share Rights” has the meaning set forth in **Section 4.2(e)**.

“Common Shares” means the shares of common stock, \$.10 par value per share, of Public Storage, Inc. If, pursuant to the authority granted in **Section 11.2(b)**, all or any portion of the General Partnership Interest is transferred to an entity that is, directly or indirectly, wholly-owned by the General Partner, references in this Agreement to Common Shares shall be to the shares of common equity of the ultimate controlling parent entity of the General Partner.

“Consent” means the consent or approval of a proposed action by a Partner given in accordance with **Section 14.2** hereof.

“Contributed Property” means each property or other asset (but excluding cash), in such form as may be permitted by the Act contributed or deemed contributed to the Partnership (including for this purpose any property or other asset deemed contributed to the Partnership on termination and reconstitution thereof pursuant to Section 708 of the Code). Once the Carrying Value of a Contributed Property is adjusted pursuant to **Section 4.4** hereof, such property shall no longer constitute a Contributed Property for purposes of **Section 4.4** hereof, but shall be deemed an Adjusted Property for such purposes.

“Conversion Right” has the meaning set forth in **Section 4.2(e)(1)** hereof.

“Converting Partner” has the meaning set forth in **Section 4.2(e)(1)** hereof.

“Debt” means, as to any Person, as of any date of determination, (a) all indebtedness of such Person for borrowed money or for the deferred purchase price of property or services, which purchase price is due more than six months after the date of placing such property in service or taking delivery and title thereto or the completion of such services, (b) all amounts owed by such Person to banks or other Persons in respect of reimbursement obligations under letters of credit, surety bonds and other similar instruments guaranteeing payment or other performance of obligations by such Person, (c) all indebtedness for borrowed money or for the deferred purchase price of property or services secured by any lien on any property owned by such Person, to the extent attributable to such Person’s interest in such property, even though such Person has not assumed or become liable for the payment thereof, and (d) lease obligations of such Person which, in accordance with generally accepted accounting principles, should be capitalized.

“Depreciation” means for each fiscal year, an amount equal to the Federal income tax depreciation, amortization, or other cost recovery deduction allowable with respect to an asset for such year, except that if the Carrying Value of an asset differs from its adjusted basis for Federal income tax purposes at the beginning of such year or other period, Depreciation shall be an amount which bears the same ratio to such beginning Carrying Value as the Federal income tax depreciation, amortization, or other cost recovery deduction for such year bears to such beginning adjusted tax basis; **provided, however**, that if the Federal income tax depreciation, amortization, or other cost recovery deduction for such year is zero, Depreciation shall be determined with reference to such beginning Carrying Value using any reasonable method selected by the General Partner.

“Dispose of” has the meaning set forth in **Section 11.7(a)**.

“Effective Date” means the date of closing of the sale of shares of the General Partner pursuant to that certain Underwriting Agreement among the General Partner and the Representative and the other underwriters, upon which this Agreement shall become effective.

“Event of Dissolution” has the meaning set forth in **Section 13.1**.

“General Partner” means PS Texas Holdings, Ltd., a Texas limited partnership, or its successors or assigns as a general partner of the Partnership, except to the extent that a reference to the General Partner, by its context, indicates a reference to Storage Trust Realty, a Maryland real estate investment trust, as the original general partner of the Partnership, such as in the definitions of “Effective Date” and “Representative”. If, pursuant to the

authority granted in **Section 11.2(b)**, all or any portion of the General Partnership Interest is transferred to an entity that is, directly or indirectly, wholly-owned by the General Partner, references in this Agreement to the General Partner shall be deemed, if the context is appropriate, to be references to either the ultimate controlling parent entity of the General Partner, the entity actually owning the General Partnership Interest, or both. (Effective March 12, 1999, Public Storage, Inc. as successor general partner by merger to Storage Trust Realty, exercised this right of transfer to PS Texas Holdings, Ltd., an entity indirectly wholly-owned by Public Storage, Inc.; accordingly, references to the General Partner shall, as appropriate in the context, be either to Public Storage, Inc., to PS Texas Holdings, Ltd., or to both.)

“General Partnership Interest” means a Partnership Interest held by a General Partner that is a general partnership interest. A General Partnership Interest may be expressed as a number of Partnership Units.

“IRS” means the Internal Revenue Service, which administers the internal revenue laws of the United States.

“Immediate Family” means, with respect to any natural Person, such natural Person’s spouse, parents, descendants, nephews, nieces, brothers, and sisters.

“Incapacity” or **“Incapacitated”** means, (a) as to any individual Partner, death, total physical disability or entry by a court of competent jurisdiction adjudicating him incompetent to manage his Person or his estate, (b) as to any corporation which is a Partner, the filing of a certificate of dissolution, or its equivalent, for the corporation or the revocation of its charter, (c) as to any partnership which is a Partner, the dissolution and commencement of winding up of the partnership, (d) as to any estate which is a Partner, the distribution by the fiduciary of the estate’s entire interest in the Partnership, (e) as to any trustee of a trust which is a Partner, the termination of the trust (but not the substitution of a new trustee), or (f) as to any Partner, the bankruptcy of such Partner. For purposes of this definition, bankruptcy of a Partner shall be deemed to have occurred when (i) the Partner commences a voluntary proceeding seeking liquidation, reorganization or other relief under any bankruptcy, insolvency or other similar law now or hereafter in effect, (ii) the Partner is adjudged as bankrupt or insolvent, or a final and nonappealable order for relief under any bankruptcy, insolvency or similar law now or hereafter in effect has been entered against the Partner, (iii) the Partner executes and delivers a general assignment for the benefit of the Partner’s creditors, (iv) the Partner files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against the Partner in any proceeding of the nature described in clause (ii) above, (v) the Partner seeks, consents to or acquiesces in the appointment of a trustee, receiver or liquidator for the Partner or for all or any substantial part of the Partner’s properties, (vi) any proceeding seeking liquidation, reorganization or other relief under any bankruptcy, insolvency or other similar law now or hereafter in effect has not been dismissed within 120 days after the commencement thereof, (vii) the appointment without the Partner’s consent or acquiescence of a trustee, receiver or liquidator has not been vacated or stayed within 90 days of such appointment, or (viii) an appointment referred to in clause (vii) is not vacated within 90 days after the expiration of any such stay.

“Indemnitee” means (a) any Person made a party to a proceeding by reason of his status as (i) the General Partner or (ii) an officer of the Partnership or a trustee or officer of the General Partner, and (b) such other Persons (including Affiliates of the General Partner or the Partnership) as the General Partner may designate from time to time, in its sole and absolute discretion.

“Initial Limited Partner” means Michael G. Burnam.

“Limited Partner” means any Person named as a Limited Partner in Exhibit A attached hereto, as such Exhibit may be amended from time to time, or any Substituted Limited Partner or Additional Limited Partner, in such Person’s capacity as a Limited Partner in the Partnership.

“Limited Partnership Interest” means a Partnership Interest of a Limited Partner in the Partnership representing a fractional part of the Partnership Interests of all Limited Partners and includes any and all benefits to which the holder of such a Partnership Interest may be entitled as provided in this Agreement, together with all obligations of such Person to comply with the terms and provisions of this Agreement. A Limited Partnership Interest may be expressed as a number of Partnership Units.

“Liquidating Transaction” means any sale or other disposition of all or substantially all of the assets of the Partnership or a related series of transactions that, taken together, results in the sale or other disposition of all or substantially all of the assets of the Partnership.

“Liquidator” has the meaning set forth in **Section 13.2**.

“Net Income” means for any taxable period, the excess, if any, of the Partnership’s items of income and gain for such taxable period over the Partnership’s items of loss and deduction for such taxable period. The items included in the calculation of Net Income shall be determined in accordance with **Section 4.4**. Once an item of income, gain, loss or deduction that has been included in the initial computation of Net Income is subjected to the special allocation rules in **Sections 6.2** and **6.3**, Net Income or the resulting Net Loss, whichever the case may be, shall be recomputed without regard to such item.

“Net Loss” means for any taxable period, the excess, if any, of the Partnership’s items of loss and deduction for such taxable period over the Partnership’s items of income and gain for such taxable period. The items included in the calculation of Net Loss shall be determined in accordance with **Section 4.4**. Once an item of income, gain, loss or deduction that has been included in the initial computation of Net Loss is subjected to the special allocation rules in **Sections 6.2** and **6.3**, Net Loss or the resulting Net Income, whichever the case may be, shall be recomputed without regard to such item.

“New Securities” has the meaning set forth in **Section 4.2(c)**.

“Non-Competition Agreements” means those certain Non-Competition Agreements dated as of the Effective Date between the General Partner (Storage Trust Realty) and each of Gordon Burnam, Michael G. Burnam and P. Crismon Burnam.

“Nonrecourse Built-in Gain” means, with respect to any Contributed Properties or Adjusted Properties that are subject to a mortgage or negative pledge securing a Nonrecourse Liability, the amount of any taxable gain that would be allocated to the Partners pursuant to **Section 6.3(b)** if such properties were disposed of in a taxable transaction in full satisfaction of such liabilities and for no other consideration.

“Nonrecourse Deductions” has the meaning set forth in Regulations Section 1.704-2(b)(1), and the amount of Nonrecourse Deductions for a Partnership Year shall be determined in accordance with the rules of Regulations Section 1.704-2(c).

“Nonrecourse Liability” has the meaning set forth in Regulations Section 1.752-1(a)(2).

“Notice of Conversion” means the Notice of Conversion substantially in the form of Exhibit C to this Agreement.

“Option Plans” means the option plans for Common Shares or Units, as the case may be, restricted share plans or employee benefit plans established by the General Partner, the Partnership or Storage Management.

“Original Partnership Agreement” has the meaning set forth in the recitals hereto.

“Partner” means a General Partner or a Limited Partner, and **“Partners”** means the General Partner and the Limited Partners.

“Partner Minimum Gain” means an amount, with respect to each Partner Nonrecourse Debt, equal to the Partnership Minimum Gain that would result if such Partner Nonrecourse Debt were treated as a Nonrecourse Liability, determined in accordance with Regulations Section 1.704-2(i)(3).

“Partner Nonrecourse Debt” has the meaning set forth in Regulations Section 1.704-2(b)(4).

“Partner Nonrecourse Deductions” has the meaning set forth in Regulations Section 1.704-2(i)(2), and the amount of Partner Nonrecourse Deductions with respect to a Partner Nonrecourse Debt for a Partnership Year shall be determined in accordance with the rules of Regulations Section 1.704-2(i)(2).

“Partnership” means Storage Trust Properties, L.P., the limited partnership formed under the Act and pursuant to this Agreement, and any successor thereto.

“Partnership Interest” means an ownership interest in the Partnership representing a Capital Contribution by either a Limited Partner or the General Partner and includes any and all benefits to which the holder of such a Partnership Interest may be entitled as provided in this Agreement, together with all obligations of such Person to comply with the terms and provisions of this Agreement. A Partnership Interest may be expressed as a number of Partnership Units.

“Partnership Minimum Gain” has the meaning set forth in Regulations Section 1.704-2(b)(2), and the amount of Partnership Minimum Gain, as well as any net increase or decrease in Partnership Minimum Gain, for a Partnership Year shall be determined in accordance with the rules of Regulations Section 1.704-2(d).

“Partnership Record Date” means the record date established by the General Partner for the distribution of Available Cash pursuant to **Section 5.1** hereof, which record date shall be the same as the record date established by the General Partner for a distribution to its shareholders of some or all of its portion of such distribution.

“Partnership Unit” or **“Unit”** means a fractional, undivided share of the Partnership Interests of all Partners issued pursuant to **Sections 4.1** and **4.2**, in such number as set forth on Exhibit A attached hereto, as such Exhibit may be amended from time to time. The ownership of Partnership Units may be evidenced by the form of non-transferable, non-negotiable certificate for units substantially in the form attached hereto as Exhibit D.

“Partnership Year” means the fiscal year of the Partnership, which shall be the calendar year.

“Percentage Interest” means, as to a Partner, its interest in the Partnership as determined by dividing the Partnership Units owned by such Partner by the total number of Partnership Units then outstanding and as specified in Exhibit A attached hereto, as such Exhibit may be amended from time to time.

“Person” means an individual or a corporation, partnership, trust, unincorporated organization, association or other entity.

“Recapture Income” means any gain recognized by the Partnership (computed without regard to any adjustment required by Section 734 or Section 743 of the Code) upon the disposition of any property or asset of the Partnership, which gain is characterized as ordinary income because it represents the recapture of deductions previously taken with respect to such property or asset.

“Redemption Amount” means an amount of cash per Partnership Unit equal to the Value on the Valuation Date of the Common Shares that the Partner being redeemed would have been entitled to receive under **Section 4.2(e)**. The Redemption Amount shall be increased by the amount, if any, of the then unpaid balance in the Unpaid Distribution Account maintained for the Partnership Units that are purchased by the General Partner pursuant to **Section 8.6**.

“Regulations” means the Income Tax Regulations promulgated under the Code, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

“REIT” means a real estate investment trust under Section 856 of the Code.

“Representative” means Kemper Securities, Inc., as representative of the several underwriters participating in the initial public offering of the General Partner’s (Storage Trust Realty’s) Common Shares.

“Residual Gain” or **“Residual Loss”** means any item of gain or loss, as the case may be, of the Partnership recognized for Federal income tax purposes resulting from a sale, exchange or other disposition of Contributed Property or Adjusted Property, to the extent such item of gain or loss is not allocated pursuant to **Section 6.3(b)(1)(i)** or **6.3(b)(2)(i)** to eliminate Book-Tax Disparities.

“704(c) Value” of any Contributed Property means the value of such property as set forth in Exhibit B, or if no value is set forth in Exhibit B, the fair market value of such property or other consideration at the time of contribution as determined by the General Partner using such reasonable method of valuation as it may adopt; **provided, however**, that the 704(c) Value of any property deemed contributed to the Partnership for Federal income tax purposes upon termination and reconstitution thereof pursuant to Section 708 of the Code shall be determined in accordance with **Section 4.4** hereof. Subject to **Section 4.4** hereof, the General Partner shall use such method as it deems reasonable and appropriate to allocate the aggregate of the 704(c) Value of Contributed Properties among each separate property on a basis proportional to its fair market value.

“Shares” means any Common Shares issued to a Limited Partner upon conversion of its Units pursuant to **Section 4.2(e)**.

“Specified Conversion Date” means the tenth Business Day after receipt by the General Partner of a Notice of Conversion; **provided** that no Specified Conversion Date shall occur before two years from the date of this Agreement without the consent of the General Partner as provided in **Section 4.2(e)** herein.

“Storage Management” means Storage Realty Management Co., a Delaware corporation.

“Subsidiary” means, with respect to any Person, any corporation or other entity of which a majority of (a) the voting power of the voting equity securities or (b) the outstanding equity interests is owned, directly or indirectly, by such Person. With respect to the General Partner and the Partnership, “Subsidiary” shall include (without limitation) Storage Management.

“Substituted Limited Partner” means a Person who is admitted as a Limited Partner to the Partnership pursuant to **Section 11.4**.

“Transaction” has the meaning set forth in **Section 11.2(c)**.

“Unit Adjustment Factor” means initially 1.0; **provided** that in the event that Public Storage (a) declares or pays a dividend on its outstanding Common Shares in Common Shares or makes a distribution to all holders of its outstanding Common Shares in Common Shares, (b) subdivides its outstanding Common Shares, or (c) combines its outstanding Common Shares into a smaller number of Common Shares, the Unit Adjustment Factor shall be adjusted to become a fraction, the numerator of which shall be the number of Common Shares issued and outstanding on the record date (assuming for such purposes that such dividend, distribution, subdivision or combination has occurred as of such time), and the denominator of which shall be the actual number of Common Shares (determined without the above assumption) issued and outstanding on the record date for such dividend, distribution, subdivision or combination. Any adjustment to the Unit Adjustment Factor shall become effective immediately after the effective date of such event retroactive to the record date, if any, for such event; **provided further**, that immediately subsequent to any Transaction either under which Public Storage (or, if the Unit Adjustment Factor has previously been adjusted under this proviso, the applicable successor) is not the surviving party or in which Public Storage survives but becomes the subsidiary of another Person, the Unit Adjustment Factor shall be adjusted by multiplying it by the number of Shares of the successor to which the holders of Shares of Public Storage (or, if applicable, Shares of the successor) are entitled to receive for each such Share in connection with such Transaction; **provided further**, that immediately following the merger of Storage Trust Realty, a Maryland real estate investment trust, with or into Public Storage, or a subsidiary of Public Storage, pursuant to that certain Agreement and Plan of Merger dated November 12, 1998, by and among Storage Trust Realty, Public Storage and Newco Merger Subsidiary, as it may have been amended from time to time, the Unit Adjustment Factor shall be adjusted to become 0.86 (that merger was effective on March 12, 1999).

“Unpaid Distribution Account” means an account maintained with respect to each Limited Partnership Unit to which shall be credited on a quarterly basis, but only to the extent not distributed currently in accordance with clause (ii) of **Section 5.1** hereof, an amount per Limited Partnership Unit equal to the dividend per Share paid by the General Partner for such quarter, and from which shall be debited the amount of any distributions of Available Cash with respect to such Unpaid Distribution Account pursuant to clause (i) of **Section 5.1**.

“Unrealized Gain” attributable to any item of Partnership property means, as of any date of determination, the excess, if any, of (a) the fair market value of such property (as determined under **Section 4.4** hereof) as of such date, over (b) the Carrying Value of such property (prior to any adjustment to be made pursuant to **Section 4.4** hereof) as of such date.

“Unrealized Loss” attributable to any item of Partnership property means, as of any date of determination, the excess, if any, of (a) the Carrying Value of such property (prior to any adjustment to be made pursuant to **Section 4.4** hereof) as of such date, over (b) the fair market value of such property (as determined under **Section 4.4** hereof) as of such date.

“Valuation Date” means the date of receipt by the General Partner of a Notice of Conversion or, if such date is not a Business Day, the first Business Day thereafter.

“Value” means, with respect to a Common Share, the average of the daily market price for the ten (10) consecutive trading days immediately preceding the Valuation Date. The market price for each such trading day shall be: (a) if the Common Shares are listed or admitted to trading on any securities exchange or the NASDAQ-National Market System, the closing price, regular way, on such day, or if no such sale takes place on such day, the average of the closing bid and asked prices on such day; (b) if the Common Shares are not listed or admitted to trading on any securities exchange or the NASDAQ-National Market System, the last reported sale price on such day or, if no sale takes place on such day, the average of the closing bid and asked prices on such day, as reported by a reliable quotation source designated by the General Partner; or (c) if the Common Shares are not listed or admitted to trading on any securities exchange or the NASDAQ-National Market System and no such last reported sale price or closing bid and asked prices are available, the average of the reported high bid and low asked prices on such day, as reported by a reliable quotation source designated by the General Partner, or if there shall be no bid and asked prices on such day, the average of the high bid and low asked prices, as so reported, on the most recent day (not more than 10 days prior to the date in question) for which prices have been so reported; provided that if there are no bid and asked prices reported during the 10 days prior to the date in question, the Value of the Common Shares shall be determined by the General Partner acting in good faith on the basis of such quotations and other information as it considers, in its reasonable judgment, appropriate. In the event a holder of Common Shares would be entitled to receive Common Share Rights, then the Value of such Common Share Rights shall be determined by the General Partner acting in good faith on the basis of such quotations and other information as it considers, in its reasonable judgment, appropriate.

Article II
ORGANIZATIONAL MATTERS

Section 2.1 Organization and Continuation; Application of Act.

(a) **Organization and Continuation of Partnership.** The General Partner and the Limited Partners do hereby continue, and ratify the formation of, the Partnership as a limited partnership according to all of the terms and provisions of this Agreement and otherwise in accordance with the Act. The General Partner is the sole general partner of the Partnership.

(b) **Application of Act.** The Partnership is a limited partnership subject to the provisions of the Act and the terms and conditions set forth in this Agreement. Except as expressly provided herein to the contrary, the rights and obligations of the Partners and the administration and termination of the Partnership shall be governed by the Act. No Partner has any interest in any Partnership property, and the Partnership Interest of each Partner shall be personal property for all purposes.

Section 2.2 Name. The name of the Partnership is Storage Trust Properties, L.P. The Partnership's business may be conducted under any other name or names deemed advisable by the General Partner, including the name of the General Partner or any Affiliate thereof. The words "Limited Partnership," "L.P.," "Ltd." or similar words or letters shall be included in the Partnership's name where necessary for the purposes of complying with the laws of any jurisdiction that so requires. The General Partner in its sole and absolute discretion may change the name of the Partnership at any time and from time to time and shall notify the Limited Partners of such change in the next regular communication to the Limited Partners; **provided** that the name of the Partnership may not be changed to include the name of any Limited Partner without the written consent of that Limited Partner.

Section 2.3 Registered Office and Agent; Principal Office. The address of the registered office of the Partnership in the State of Delaware is located at 1209 Orange Street, City of Wilmington, County of New Castle, and the registered agent for service of process on the Partnership in the State of Delaware at such registered office is the Corporation Trust Company. The principal office of the Partnership is located at 701 Western Avenue, Glendale, California, 91201, or such other place as the General Partner may from time to time designate by notice to the Limited Partners. The Partnership may maintain offices at such other place or places within or outside the State of Illinois as the General Partner deems advisable.

Section 2.4 Withdrawal. The Initial Limited Partner hereby withdraws from the Partnership.

Section 2.5 Term. The term of the Partnership commenced, and shall continue until December 31, 2094, unless it is dissolved sooner pursuant to the provisions of Article XIII or as otherwise provided by law.

Article III
PURPOSE

Section 3.1 Purpose and Business. The purpose and nature of the business to be conducted by the Partnership is (a) to conduct any business that may be lawfully conducted by a limited partnership organized pursuant to the Act, (b) to enter into any partnership, joint venture or other similar arrangement to engage in any of the foregoing or the ownership of interests in any entity engaged in any of the foregoing and (c) to do anything necessary or incidental to the foregoing; **provided, however**, that each of the foregoing clauses (a), (b) and (c) shall be limited and conducted in such a manner as to permit Public Storage, Inc. at all times to be classified as a REIT, unless the General Partner provides notice to the Partnership that Public Storage, Inc. intends to cease or has ceased to qualify as a REIT.

Section 3.2 Powers. The Partnership is empowered to do any and all acts and things necessary, appropriate, proper, advisable, incidental to or convenient for the furtherance and accomplishment of the purposes and business described herein and for the protection and benefit of the Partnership; **provided** that the Partnership shall not take, or refrain from taking, any action which, in the judgment of the General Partner, in its sole and

absolute discretion, (a) could adversely affect the ability of Public Storage, Inc. to continue to qualify as a REIT, (b) could subject Public Storage, Inc. or the General Partner to any additional taxes under Section 857 or Section 4981 of the Code, or (c) could violate any law or regulation of any governmental body or agency having jurisdiction over Public Storage, Inc., the General Partner or their securities, unless such action (or inaction) shall have been specifically consented to by the General Partner in writing.

Article IV
CAPITAL CONTRIBUTIONS; ISSUANCE OF UNITS;
CAPITAL ACCOUNTS

Section 4.1 Capital Contributions of the Partners.

(a) **Initial Capital Contributions.** At the time of the execution of the Original Agreement, the Partners made specified Capital Contributions to the Partnership and the Initial Limited Partner at that time withdrew as the Initial Limited Partner. The Partners shall own Partnership Units in the amounts set forth in Exhibit A and shall have a Percentage Interest in the Partnership as set forth in Exhibit A, which Percentage Interest shall be adjusted in Exhibit A from time to time by the General Partner to the extent necessary to reflect accurately redemptions, conversions, Capital Contributions, the issuance of additional Partnership Units, or similar events having an effect on a Partner's Percentage Interest. The Partnership Units held by the General Partner shall be deemed to be the General Partnership Interest.

(b) **Additional Capital Contributions.** No Partner shall be assessed or, except as provided for in **Section 13.3(b)** below and except for any such amounts which a Limited Partner may be obligated to repay under **Section 10.5**, be required to contribute additional funds or other property to the Partnership. Any additional funds or other property required by the Partnership, as determined by the General Partner in its sole discretion, may, at the option of the General Partner and without an obligation to do so (except as provided for in **Section 13.3(b)** below), be contributed by the General Partner as additional Capital Contributions. If and as the General Partner or any other Partner makes additional Capital Contributions to the Partnership, each such Partner shall receive additional Partnership Units as provided for in **Section 4.2**.

(c) **Return of Capital Contributions.** Except as otherwise expressly provided herein, the Capital Contribution of each Limited Partner will be returned to that Partner only in the manner and to the extent provided in Article V and Article XIII hereof, and no Partner may withdraw from the Partnership or otherwise have any right to demand or receive the return of its Capital Contribution to the Partnership (as such), except as specifically provided herein. Under circumstances requiring a return of any Capital Contribution, no Partner shall have the right to receive property other than cash, except as specifically provided herein. No Partner shall be entitled to interest on any Capital Contribution or Capital Account notwithstanding any disproportion therein as between the Partners. Except as specifically provided herein, the General Partner shall not be liable for the return of any portion of the Capital Contribution of any Limited Partner, and the return of such Capital Contributions shall be made solely from Partnership assets.

(d) **Liability of Limited Partners.** No Limited Partner shall have any further personal liability to contribute money to, or in respect of, the liabilities or the obligations of the Partnership, nor shall any Limited Partner be personally liable for any obligations of the Partnership, except as otherwise provided in this Article IV or in the Act. No Limited Partner shall be required to make any contributions to the capital of the Partnership other than its Capital Contribution.

Section 4.2 Issuances of Additional Partnership Interests.

(a) **Issuance of Partnership Units.** The General Partner is hereby authorized to cause the Partnership to issue such additional Partnership Interests in the form of Partnership Units for any Partnership purpose at any time or from time to time, to the Partners or to other Persons for such

consideration and on such terms and conditions as shall be established by the General Partner in its sole and absolute discretion, all without the approval of any Limited Partners except to the extent provided herein.

(b) [deleted]

(c) **Issuance of Additional Common Shares.** The General Partner is explicitly authorized to issue additional Common Shares or preferred Shares of Beneficial Interest of the General Partner, or rights, options, warrants or convertible or exchangeable securities containing the right to subscribe for or purchase Common Shares (“**New Securities**”) and in connection therewith (i) the General Partner may, but shall not be obligated to, cause the Partnership to issue to the General Partner Partnership Interests or rights, options, warrants or convertible or exchangeable securities of the Partnership having designations, preferences and other rights, all such that the economic interests are substantially similar to those of the New Securities, and (ii) in such event, the General Partner shall contribute the net proceeds from the issuance of such New Securities and from the exercise of rights contained in such New Securities to the Partnership. In connection with the issuance of Partnership interests which are substantially similar to New Securities, the General Partner is authorized to modify or amend the distributions or allocations hereunder solely to the extent necessary to give effect to the designations, preferences and other rights pertaining to such Partnership Interests.

(d) **Issuance Pursuant to Option Plans.**

(1) [deleted]

(2) The General Partner shall cause the Partnership to issue Partnership Units to employees of the Partnership upon the exercise by any such employees of an option to acquire Partnership Units granted by the Partnership pursuant to the Option Plans in accordance with the terms of the Option Plans. Partnership Units so issued shall represent Limited Partnership Interests.

(3) The General Partner shall cause the Partnership to issue Partnership Units to any Subsidiary upon the exercise by an employee of such Subsidiary of an option to acquire Partnership Units granted by such Subsidiary pursuant to the Option Plans, and such Subsidiary shall transfer to the Partnership the price per Partnership Unit required by the Option Plans to be paid by Subsidiaries. Partnership Units issued to any such Subsidiary shall represent Limited Partnership Interests.

(e) **Conversion of Units.**

(1) Subject to the further provisions of this **Section 4.2(e)** and the provisions of **Sections 8.6** and **11.7**, beginning two years after the Effective Date or earlier with the written consent of the General Partner (except as otherwise contractually restricted), the General Partner hereby grants to each Limited Partner the right (the “**Conversion Right**”) to exchange any or all of the Partnership Units held by that Partner for Common Shares, with one Partnership Unit being exchangeable for one Common Share; **provided** that in the event the General Partner issues to all holders of Common Shares rights, options, warrants or convertible or exchangeable securities entitling the shareholders to subscribe for or purchase Common Shares, or any other securities or property (collectively, the “**Common Share Rights**”) then (except to the extent such rights have already been reflected in an adjustment to the Unit Adjustment Factor as provided in **Section 4.2(e)(2)** below) the Converting Partner shall also be entitled to receive such Common Share Rights that a holder of that number of Common Shares would be entitled to receive. The Conversion Right may be exercised by a Limited Partner (a “**Converting Partner**”) at any time beginning two years after the Effective Date (or upon the written consent of the General Partner) and from time to time by delivering a Notice of Conversion to the General Partner not less than ten (10) days prior to such exchange. Public Storage, Inc. shall at all times reserve and keep available out of its authorized but unissued Common Shares, solely for the purpose of effecting

the exchange of Partnership Units for Common Shares, such number of Common Shares as shall from time to time be sufficient to effect the conversion of all outstanding Partnership Units not owned by the General Partner. No Limited Partner shall, solely by virtue of being the holder of one or more Partnership Units, be deemed to be a shareholder of or have any other interest in Public Storage, Inc. or the General Partner.

(2) In the event of any change in the Unit Adjustment Factor, the number of Partnership Units held by each Partner shall be proportionately adjusted by multiplying the number of Partnership Units held by such Partner immediately prior to the change in the Unit Adjustment Factor by the new Unit Adjustment Factor; the intent of this provision is that one Partnership Unit remains exchangeable for one Common Share without dilution. In the event the General Partner issues any Common Shares in exchange for Partnership Units pursuant to this **Section 4.2(e)**, any such Partnership Units so acquired by the General Partner shall immediately thereafter be cancelled by the Partnership and the Partnership shall issue to the General Partner new Partnership Units pursuant to **Section 4.2(c)** hereof. Each Converting Partner agrees to execute such documents as the General Partner may reasonably require in connection with the issuance of Common Shares upon exercise of the Conversion Right. Notwithstanding the foregoing provisions of this **Section 4.2(e)**, a Limited Partner shall not have the right to exchange Partnership Units for Common Shares if (i) in the opinion of counsel for the General Partner, the General Partner would, as a result thereof, no longer qualify (or it would be more likely than not that the General Partner no longer would qualify) as a REIT; or (ii) such exchange would in the opinion of counsel for the General Partner, constitute or be more likely than not to constitute a violation of applicable securities laws.

(3) On the date of any exchange pursuant to **Section 4.2(e)(1)**, the General Partner shall pay to any Converting Partner the then unreturned balances in the Unpaid Distribution Accounts maintained for the Partnership Units that are the subject of the Notice of Conversion and are exchanged pursuant to that provision.

Section 4.3 No Preemptive Rights. Except as specifically provided in this Agreement, no Person shall have any preemptive, preferential or other similar right with respect to (a) additional Capital Contributions or loans to the Partnership, or (b) issuance or sale of any Partnership Units.

Section 4.4 Capital Accounts of the Partners.

(a) **General.** The Partnership shall maintain for each Partner a separate Capital Account in accordance with the rules of Regulations Section 1.704-1(b)(2)(iv). Such Capital Account shall be increased by (a) the amount of all Capital Contributions made by such Partner to the Partnership pursuant to this Agreement and (b) all items of Partnership income and gain (including income and gain exempt from tax) computed in accordance with **Section 4.4(b)** hereof and allocated to such Partner pursuant to **Sections 6.1** and **6.2** of the Agreement, and decreased by (i) the amount of cash or Agreed Value of all actual and deemed distributions of cash or property made to such Partner pursuant to this Agreement and (ii) all items of Partnership deduction and loss computed in accordance with **Section 4.4(b)** hereof and allocated to such Partner pursuant to **Sections 6.1** and **6.2** of the Agreement.

(b) **Income, Gains, Deductions and Losses.** For purposes of computing the amount of any item of income, gain, loss or deduction to be reflected in the Partners' Capital Accounts, unless otherwise specified in this Agreement, the determination, recognition and classification of any such item shall be the same as its determination, recognition and classification for Federal income tax purposes determined in accordance with Section 703(a) of the Code (for this purpose all items of income, gain, loss or deduction required to be stated separately pursuant to Section 703(a)(1) of the Code shall be included in taxable income or loss), with the following adjustments:

(1) Except as otherwise provided in Regulations Section 1.704-1(b)(2)(iv)(m), the computation of all items of income, gain, loss and deduction shall be made without regard to any

election under Section 754 of the Code which may be made by the Partnership; **provided** that the amounts of any adjustments to the adjusted bases of the assets of the Partnership made pursuant to Section 734 of the Code as a result of the distribution of property by the Partnership to a Partner (to the extent that such adjustments have not previously been reflected in the Partners' Capital Accounts) shall be reflected in the Capital Accounts of the Partners in the manner and subject to the limitations prescribed in Regulations Section 1.704-1(b)(2)(iv)(m).

(2) The computation of all items of income, gain, loss and deduction shall be made without regard to the fact that items described in Sections 705(a)(1)(B) or 705(a)(2)(B) of the Code are not includable in gross income or are neither currently deductible nor capitalized for Federal income tax purposes.

(3) Any income, gain or loss attributable to the taxable disposition of any Partnership property shall be determined as if the adjusted basis of such property as of such date of disposition were equal in amount to the Partnership's Carrying Value with respect to such property as of such date.

(4) In lieu of the depreciation, amortization, and other cash recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such fiscal year.

(5) In the event the Carrying Value of any Partnership Asset is adjusted pursuant to **Section 4.4(d)** hereof, the amount of any such adjustment shall be taken into account as gain or loss from the disposition of such asset.

(6) Any items specially allocated under **Section 6.3** hereof shall not be taken into account.

(c) **Transfers of Partnership Units.** A transferee of a Partnership Unit shall succeed to a pro rata portion of the Capital Account of the transferor; **provided, however,** that, if the transfer causes a termination of the Partnership under Section 708(b)(1)(B) of the Code, the Partnership's properties shall be deemed to have been distributed in liquidation of the Partnership to the Partners (including the transferee of Partnership Units) and recontributed by such Partners in reconstitution of the Partnership. In such event, the Carrying Values of the Partnership properties shall be adjusted immediately prior to such deemed distribution pursuant to **Section 4.4(d)(2)** hereof. The Capital Accounts of such reconstituted Partnership shall be maintained in accordance with the principles of this **Section 4.4.**

(d) **Unrealized Gains and Losses.**

(1) Consistent with the provisions of Regulations Section 1.704-1(b)(2)(iv)(f), and as provided in **Section 4.4(d)(2)**, the Carrying Values of all Partnership assets shall be adjusted upward or downward to reflect any Unrealized Gain or Unrealized Loss attributable to such Partnership property, as of the times of the adjustments provided in **Section 4.4(d)(2)** hereof, as if such Unrealized Gain or Unrealized Loss had been recognized on an actual sale of each such property and allocated pursuant to **Section 6.1** of the Agreement.

(2) Such adjustments shall be made as of the following times: (i) immediately prior to the acquisition of an additional interest in the Partnership by any new or existing Partner in exchange for more than a **de minimis** Capital Contribution; (ii) immediately prior to the distribution by the Partnership to a Partner of more than a **de minimis** amount of Property as consideration for an interest in the Partnership; and (iii) immediately prior to the liquidation of the Partnership or the General Partner's interest in the Partnership within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g); **provided, however,** that adjustments pursuant to clauses (i) and (ii) above shall be made only if the General Partner reasonably determines that such adjustments are

necessary or appropriate to reflect the relative economic interests of the Partners in the Partnership.

(3) In accordance with Regulations Section 1.704-1(b)(2)(iv)(e), the Carrying Values of Partnership assets distributed in kind shall be adjusted upward or downward to reflect any Unrealized Gain or Unrealized Loss attributable to such Partnership property, as of the time any such asset is distributed.

(4) In determining such Unrealized Gain or Unrealized Loss the aggregate cash amount and fair market value of all Partnership assets (including cash or cash equivalents) shall be determined by the General Partner using such reasonable method of valuation as it may adopt, or in the case of a liquidating distribution pursuant to Article XIII of this Agreement, be determined and allocated by the Liquidator using such reasonable methods of valuation as it may adopt. The General Partner, or the Liquidator, as the case may be, shall allocate such aggregate value among the assets of the Partnership (in such manner as it determines in its sole and absolute discretion to arrive at a fair market value for individual properties).

(e) **Modification by General Partner.** The provisions of this Agreement relating to the maintenance of Capital Accounts are intended to comply with Regulations Section 1.704-1(b), and shall be interpreted and applied in a manner consistent with such Regulations. In the event the General Partner shall determine that it is prudent to modify the manner in which the Capital Accounts, or any debits or credits thereto (including, without limitation, debits or credits relating to liabilities which are secured by contributed or distributed property or which are assumed by the Partnership, the General Partner, or any Limited Partners) are computed in order to comply with such Regulations, the General Partner may make such modification; **provided** that it will not have a material effect on the amounts distributable to any Person pursuant to Article XIII of this Agreement upon the liquidation of the Partnership. The General Partner also shall (a) make any adjustments that are necessary or appropriate to maintain equality between the Capital Accounts of the Partners and the amount of Partnership capital reflected on the Partnership's balance sheet, as computed for book purposes, in accordance with Regulations Section 1.704-1(b)(2)(iv)(q), and (b) make any appropriate modifications in the event unanticipated events might otherwise cause this Agreement not to comply with Regulations Section 1.704-1(b).

Article V DISTRIBUTIONS

Section 5.1 Requirement and Characterization of Distributions. Subject to **Sections 5.2** and **5.3** hereof, the General Partner shall distribute quarterly an amount equal to one hundred percent (100%) of Available Cash generated by the Partnership during such quarter to the Partners who are Partners on the Partnership Record Date with respect to such quarter in the following order of priority and to the extent of such Available Cash: (i) first, to each Limited Partner to the extent of and in proportion to the then unreturned balance of the Unpaid Distribution Account maintained with respect to each Partnership Unit held by such Limited Partner, (ii) second, to each Limited Partner to the extent of and in proportion to an amount per Partnership Unit held by such Limited Partner equal to the dividend per Common Share paid by Public Storage, Inc. for such quarter and (iii) third, the balance, if any, of the Available Cash for such quarter shall be distributed to the General Partner in respect of its Partnership Units. No distribution shall be made for any distribution period in respect of Partnership Units held by the General Partner unless all distributions due the Limited Partners in accordance with clauses (i) and (ii) of this **Section 5.1** shall have been paid for all prior periods. Notwithstanding anything to the contrary contained herein, in no event may a Partner receive a distribution of Available Cash with respect to a Unit if such Partner is entitled to receive a dividend for such quarter with respect to a Common Share for which such Unit has been redeemed or exchanged (it being understood that such Partner will in any event be entitled to receive the full amount payable in respect of such Units and/or Common Shares for such period).

Section 5.2 Amounts Withheld. All amounts withheld pursuant to the Code or any provisions of any state or local tax law and **Section 10.5** hereof with respect to any allocation, payment or distribution to the General

Partner, or any Limited Partners or Assignees shall be treated as amounts distributed to the General Partner or such Limited Partners, or Assignees pursuant to **Section 5.1** for all purposes under this Agreement.

Section 5.3 Distributions Upon Liquidation. Proceeds from a Liquidating Transaction shall be distributed to the Partners in accordance with **Section 13.2**.

Article VI ALLOCATIONS

Section 6.1 Allocations For Capital Account Purposes. For purposes of maintaining the Capital Accounts and in determining the rights of the Partners among themselves, the Partnership's items of income, gain, loss and deduction (computed in accordance with **Section 4.4** hereof) shall be allocated among the Partners for each taxable year (or portion thereof) as provided herein below.

(a) **Net Income.** After giving effect to the special allocations set forth in **Section 6.2** below, Net Income shall be allocated (i) first, to the General Partner to the extent that, on a cumulative basis, Net Losses previously allocated to the General Partner pursuant to the last sentence of **Section 6.1(b)** exceed Net Income previously allocated to the General Partner pursuant to this clause (i) of **Section 6.1(a)**, (ii) second, to the Partners to the extent and in the reverse order and in the same proportion that, on a cumulative basis, Net Losses previously allocated to the Partners pursuant to the first sentence of **Section 6.1(b)** exceed Net Income previously allocated to the Partners pursuant to this clause (ii) of **Section 6.1(a)**, (iii) third, to each Limited Partner until each Limited Partner has been allocated, on a cumulative basis, Net Income equal to the sum of the distributions paid to such Limited Partner and the unreturned balances in the Unpaid Distribution Accounts maintained with respect to the Partnership Units held by such Limited Partner, and (iv) thereafter, to the General Partner.

(b) **Net Losses.** After giving effect to the special allocations set forth in **Section 6.2** below, Net Losses shall be allocated to the Partners in accordance with their respective Percentage Interests; **provided** that Net Losses shall not be allocated to any Limited Partner pursuant to this **Section 6.1(b)** to the extent that such allocation would cause such Limited Partner to have an Adjusted Capital Account Deficit at the end of such taxable year (or increase any existing Adjusted Capital Account Deficit). All Net Losses in excess of the limitations set forth in the preceding sentence of this **Section 6.1(b)** shall be allocated to the General Partner.

(c) **Gains.** Any gain allocated to the Partners upon the sale or other taxable disposition of any Partnership asset shall to the extent possible, after taking into account other required allocations of gain pursuant to **Section 6.2** below, be characterized as Recapture Income in the same proportions and to the same extent as such Partners have been allocated any deductions directly or indirectly giving rise to the treatment of such gains as Recapture Income.

Section 6.2 Special Allocation Rules. Notwithstanding any other provision of this Agreement, the following special allocations shall be made in the following order:

(a) **Minimum Gain Chargeback.** Notwithstanding any other provisions of Article VI, if there is a net decrease in Partnership Minimum Gain during any Partnership Year, each Partner shall be specially allocated items of Partnership income and gain for such year (and, if necessary, subsequent years) in an amount equal to such Partner's share of the net decrease in Partnership Minimum Gain, as determined under Regulations Section 1.704-2(g). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Partner pursuant thereto. The items to be so allocated shall be determined in accordance with Regulations Section 1.704-2(f)(6). This **Section 6.2(a)** is intended to comply with the minimum gain chargeback requirements in Regulations Section 1.704-2(f) and for purposes of this **Section 6.2(a)** only, each Partner's Adjusted Capital Account Deficit shall be determined prior to any other allocations pursuant to **Section 6.1** of the Agreement with respect to such fiscal year and without regard to any decrease in Partner Minimum Gain during such fiscal year.

(b) **Partner Minimum Gain Chargeback.** Notwithstanding any other provision of Article VI (except **Section 6.2(a)** hereof), if there is a net decrease in Partner Minimum Gain attributable to a Partner Nonrecourse Debt during any Partnership fiscal year, each Partner who has a share of the Partner Minimum Gain attributable to such Partner Nonrecourse Debt, determined in accordance with Regulations Section 1.704-2(i)(5), shall be specially allocated items of Partnership income and gain for such year (and, if necessary, subsequent years) in an amount equal to such Partner's share of the net decrease in Partner Minimum Gain attributable to such Partner Nonrecourse Debt, determined in accordance with Regulations Section 1.704-2(i)(5). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Partner pursuant thereto. The items to be so allocated shall be determined in accordance with Regulations Section 1.704-2(i)(4). This **Section 6.2(b)** is intended to comply with the minimum gain chargeback requirement in such Section of the Regulations and shall be interpreted consistently therewith. Solely for purposes of this **Section 6.2(b)**, each Partner's Adjusted Capital Account Deficit shall be determined prior to any other allocations pursuant to Article VI of this Agreement with respect to such fiscal year, other than allocations pursuant to **Section 6.2(a)** hereof.

(c) **Qualified Income Offset.** In the event any Partner unexpectedly receives any adjustments, allocations or distributions described in Regulations Sections 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5), or 1.704-1(b)(2)(ii)(d)(6), and after giving effect to the allocations required under **Sections 6.2(a)** and **6.2(b)** hereof, such Partner has an Adjusted Capital Account Deficit, items of Partnership income and gain shall be specially allocated to such Partner in an amount and manner sufficient to eliminate, to the extent required by the Regulations, its Adjusted Capital Account Deficit created by such adjustments, allocations or distributions as quickly as possible.

(d) **Nonrecourse Deductions.** Nonrecourse Deductions for any taxable period shall be allocated to the Partners in accordance with their respective Percentage Interests. If the General Partner determines in its good faith discretion that the Partnership's Nonrecourse Deductions must be allocated in a different ratio to satisfy the safe harbor requirements of the Regulations promulgated under Section 704(b) of the Code, the General Partner is authorized, upon notice to the Limited Partners, to revise the prescribed ratio to the numerically closest ratio which does satisfy such requirements.

(e) **Partner Nonrecourse Deductions.** Any Partner Nonrecourse Deductions for any fiscal year shall be specially allocated to the Partner who bears the economic risk of loss with respect to the Partner Nonrecourse Debt to which such Partner Nonrecourse Deductions are attributable in accordance with Regulations Section 1.704-2(i)(2).

(f) **Code Section 754 Adjustments.** To the extent an adjustment to the adjusted tax basis of any Partnership asset pursuant to Section 734(b) or 743(b) of the Code is required, pursuant to Regulations Section 1.704-1(b)(2)(iv)(m), to be taken into account in determining Capital Accounts, the amount of such adjustment to the Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis), and such item of gain or loss shall be specially allocated to the Partners in a manner consistent with the manner in which their Capital Accounts are required to be adjusted pursuant to such Section of the Regulations.

Section 6.3 Allocations for Tax Purposes.

(a) **General.** Except as otherwise provided in this **Section 6.3**, for Federal income tax purposes, each item of income, gain, loss and deduction shall be allocated among the Partners in the same manner as its correlative item of “book” income, gain, loss or deduction is allocated pursuant to **Sections 6.1** and **6.2** of this Agreement.

(b) **To Eliminate Book-Tax Disparities.** In an attempt to eliminate Book-Tax Disparities attributable to a Contributed Property or Adjusted Property, items of income, gain, loss, and deduction shall be allocated for Federal income tax purposes among the Partners as follows:

(1) In the case of a Contributed Property, such items attributable thereto shall be allocated among the Partners consistent with the principles of Section 704(c) of the Code that takes into account the variation between the 704(c) Value of such property and its adjusted basis at the time of contribution, and (ii) any item of Residual Gain or Residual Loss attributable to a Contributed Property shall be allocated among the Partners in the same manner as its correlative item of “book” gain or loss is allocated pursuant to **Sections 6.1** and **6.2** of this Agreement.

(2) In the case of an Adjusted Property, such items shall (A) first, be allocated among the Partners in a manner consistent with the principles of Section 704(c) of the Code to take into account the Unrealized Gain or Unrealized Loss attributable to such property and the allocations thereof pursuant to **Section 4.4** and (B) second, in the event such property was originally a Contributed Property, be allocated among the Partners in a manner consistent with **Section 6.3(b)(1)(i)**, and (ii) any item of Residual Gain or Residual Loss attributable to an Adjusted Property shall be allocated among the Partners in the same manner as its correlative item of “book” gain or loss is allocated pursuant to **Sections 6.1** and **6.2** of this Agreement.

(3) All other items of income, gain, loss and deduction shall be allocated among the Partners in the same manner as their correlative item of “book” gain or loss is allocated pursuant to **Sections 6.1** and **6.2** of this Agreement.

(c) **Power of General Partner to Elect Method.** To the extent Treasury Regulations promulgated pursuant to Section 704(c) of the Code permit a partnership to utilize alternative methods to eliminate the disparities between the agreed value of property and its adjusted basis, the General Partner shall have the authority to elect the method to be used by the Partnership and such election shall be binding on all Partners.

Article VII MANAGEMENT AND OPERATIONS OF BUSINESS

Section 7.1 Management.

(a) **Powers of General Partner.** Except as otherwise expressly provided in this Agreement, all management powers over the business and affairs of the Partnership are exclusively vested in the General Partner, and no Limited Partner shall have any right to participate in or exercise control or management power over the business and affairs of the Partnership. Notwithstanding anything to the contrary in this Agreement, the General Partner may not be removed by the Limited Partners with or without cause. In addition to the powers now or hereafter granted a general partner of a limited partnership under applicable law or which are granted to the General Partner under any other provision of this Agreement, the General Partner, subject to **Section 7.3** hereof, shall have full power and authority to do all things deemed necessary or desirable by it to conduct the business of the Partnership, to exercise all powers set forth in **Section 3.2** hereof and to effectuate the purposes set forth in **Section 3.1** hereof, including, without limitation:

(1) the making of any expenditures, the lending or borrowing of money (including, without limitation, making prepayments on loans and borrowing money to permit the Partnership to make distributions to its Partners in such amounts as will permit Public Storage, Inc. (so long as Public Storage, Inc. qualifies as a REIT) to avoid the payment of any Federal income tax (including, for this purpose, any excise tax pursuant to Section 4981 of the Code) and to make distributions to its shareholders sufficient to permit Public Storage, Inc. to maintain REIT status), the assumption or guarantee of, or other contracting for, indebtedness and other liabilities, the issuance of evidences of indebtedness (including the securing of same by mortgage, deed of trust or other lien or encumbrance on the Partnership's assets) and the incurring of any obligations it deems necessary for the conduct of the activities of the Partnership;

(2) the making of tax, regulatory and other filings, or rendering of periodic or other reports to governmental or other agencies having jurisdiction over the business or assets of the Partnership;

(3) the acquisition, disposition, sale, conveyance, mortgage, pledge, encumbrance, hypothecation, contribution or exchange of any assets of the Partnership or the merger or other combination of the Partnership with or into another entity on such terms as the General Partner deems proper, which powers shall include, without limitation, the power to pledge any or all of the assets of the Partnership to secure a loan or other financing to the General Partner or Public Storage (the proceeds of which are not required to be contributed or loaned to this Partnership), provided, however, that in the event of any such pledge the General Partner shall indemnify the Limited Partners to the extent any foreclosure on such pledge results in a loss in the value of the Limited Partnership Interests and shall indemnify the Partnership and the Limited Partners to the extent that any such pledge (or foreclosure thereon) results in a decrease in Available Cash for distribution pursuant to **Article V** hereof;

(4) the use of the assets of the Partnership (including, without limitation, cash on hand) for any purpose consistent with the terms of this Agreement and on any terms it sees fit, including, without limitation, the financing of the conduct of the operations of the General Partner, the Partnership or any of the Partnership's Subsidiaries, the lending of funds to other Persons (including the Partnership's Subsidiaries) and the repayment of obligations of the Partnership and its Subsidiaries and any other Person in which it has an equity investment and the making of capital contributions to its Subsidiaries, the holding of any real, personal and mixed property of the Partnership in the name of the Partnership or in the name of a nominee or trustee (subject to **Section 7.10**), the creation, by grant or otherwise, of easements or servitudes, and the performance of any and all acts necessary or appropriate to the operation of the Partnership assets including, but not limited to, applications for rezoning, objections to rezoning, constructing, altering, improving, repairing, renovating, rehabilitating, razing, demolishing or condemning any improvements or property of the Partnership;

(5) the negotiation, execution, and performance of any contracts, conveyances or other instruments (including with Affiliates of the Partnership to the extent provided in **Section 7.6**) that the General Partner considers useful or necessary to the conduct of the Partnership's operations or the implementation of the General Partner's powers under this Agreement, including, without limitation, the execution and delivery of leases on behalf of or in the name of the Partnership (including the lease of Partnership property for any purpose and without limit as to the term thereof, whether or not such term (including renewal terms) shall extend beyond the date of termination of the Partnership and whether or not the portion so leased is to be occupied by the lessee or, in turn, subleased in whole or in part to others);

(6) the opening and closing of bank accounts, the investment of Partnership funds in securities, certificates of deposit and other instruments, and the distribution of Partnership cash or other Partnership assets in accordance with this Agreement;

(7) the selection and dismissal of employees of the Partnership or the General Partner (including, without limitation, employees having titles such as “president”, “vice president”, “secretary” and “treasurer”), and the engagement and dismissal of agents, outside attorneys, accountants, engineers, appraisers, consultants, contractors and other professionals on behalf of the General Partner or the Partnership and the determination of their compensation and other terms of employment or hiring;

(8) the maintenance of such insurance for the benefit of the Partnership and the Partners as it deems necessary or appropriate;

(9) the formation of, or acquisition of an interest in, and the contribution of property to, any further limited or general partnerships, joint ventures or other relationships that it deems desirable (including, without limitation, the acquisition of interests in, and the contribution of property to, its Subsidiaries and any other Person in which it has an equity investment from time to time);

(10) the control of any matters affecting the rights and obligations of the Partnership, including the conduct of litigation and the incurring of legal expense and the settlement of claims and litigation, and the indemnification of any Person against liabilities and contingencies to the extent permitted by law;

(11) the undertaking of any action in connection with the Partnership’s direct or indirect investment in its Subsidiaries or any other Person (including, without limitation, the contribution or loan of funds by the Partnership to such Persons);

(12) the determination of the fair market value of any Partnership property distributed in kind using such reasonable method of valuation as it may adopt;

(13) the execution, acknowledgement and delivery of any and all documents and instruments to effectuate any or all of the foregoing; and

(14) the issuance of Partnership Units to any Subsidiary which may be necessary for such Subsidiary to satisfy such Subsidiary’s obligations under the Option Plans, in exchange for the transfer to the Partnership by such Subsidiary of the price per Partnership Unit required by the Option Plans to be paid by Subsidiaries.

(b) No Approval Required for Above Powers. Each of the Limited Partners agrees that the General Partner is authorized to execute, deliver and perform the above-mentioned agreements and transactions on behalf of the Partnership without any further act, approval or vote of the Partners, notwithstanding any other provision of this Agreement, the Act or any applicable law, rule or regulation. The execution, delivery or performance by the General Partner or the Partnership of any agreement authorized or permitted under this Agreement shall not constitute a breach by the General Partner of any duty that the General Partner may owe the Partnership or the Limited Partners or any other Persons under this Agreement or of any duty stated or implied by law or equity.

(c) Insurance. At all times from and after the date hereof, the General Partner may cause the Partnership to obtain and maintain casualty, liability and other insurance on the properties of the Partnership and liability insurance for the Indemnitees hereunder.

(d) Working Capital Reserves. At all times from and after the date hereof, the General Partner may cause the Partnership to establish and maintain working capital reserves in such amounts as the General Partner, in its sole and absolute discretion, deems appropriate and reasonable from time to time.

(e) **No Obligation to Consider Tax Consequences to Limited Partners.** In exercising its authority under this Agreement, the General Partner may, but shall be under no obligation to, take into account the tax consequences to any Partner of any action taken by it. The General Partner and the Partnership shall not have liability to a Limited Partner under any circumstances as a result of an income tax liability incurred by such Limited Partner as a result of an action (or inaction) by the General Partner pursuant to its authority under this Agreement.

Section 7.2 Certificate of Limited Partnership. To the extent that such action is determined by the General Partner to be reasonable and necessary or appropriate, the General Partner shall file amendments to and restatements of the Certificate and do all the things to maintain the Partnership as a limited partnership (or a partnership in which the limited partners have limited liability) under the laws of the State of Delaware and each other jurisdiction in which the Partnership may elect to do business or own property. Subject to the terms of **Section 8.5(a)(4)** hereof, the General Partner shall not be required, before or after filing, to deliver or mail a copy of the Certificate, as it may be amended or restated from time to time, to any Limited Partner. The General Partner shall use all reasonable efforts to cause to be filed such other certificates or documents as may be reasonable and necessary or appropriate for the formation, continuation, qualification and operation of a limited partnership (or a partnership in which the Limited Partners have limited liability) in the State of Delaware and any other jurisdiction in which the Partnership may elect to do business or own property.

Section 7.3 Restrictions on General Partner's Authority. The General Partner may not, without the written Consent of all of the Limited Partners, take any action in contravention of this Agreement, including, without limitation:

- (a) take any action that would make it impossible to carry on the ordinary business of the Partnership, except as otherwise provided in this Agreement;
- (b) possess Partnership property, or assign any rights in specific Partnership property, for other than a Partnership purpose except as otherwise provided in this Agreement;
- (c) admit a Person as a Partner, except as otherwise provided in this Agreement; or
- (d) perform any act that would subject a Limited Partner to liability as a general partner in any jurisdiction or any other liability except as provided herein or under the Act.

Section 7.4 Responsibility for Expenses.

(a) **No Compensation.** Except as provided in this **Section 7.4** and elsewhere in this Agreement (including the provisions of Articles V and VI regarding distributions, payments and allocations to which it may be entitled), the General Partner shall not be compensated for its services as general partner of the Partnership.

(b) **Responsibility for Ownership and Operation Expenses.** The Partnership shall be responsible for and shall pay all expenses relating to the Partnership's ownership of its assets, and the operation of, or for the benefit of, the Partnership, and the General Partner shall be reimbursed on a monthly basis, or such other basis as the General Partner may determine in its sole and absolute discretion, for all expenses it incurs relating to the Partnership's ownership of its assets and the operation of, or for the benefit of, the Partnership; **provided** that the amount of any such reimbursement shall be reduced by any interest earned by the General Partner with respect to bank accounts or other instruments held by it as permitted in **Section 7.5(a)**. Such reimbursements shall be in addition to any reimbursement to the General Partner as a result of indemnification pursuant to **Section 7.7** hereof.

(c) **Responsibility for Organization Expenses.** The Partnership shall be responsible for and shall pay all expenses incurred relating to the organization of the Partnership (including expenses relating to the issuance of Units, but not including any expenses with respect to the issuance of Common Shares).

Section 7.5 Outside Activities of the General Partner. The General Partner may engage in or possess an interest in other business ventures of every nature and description, independently or with others, including, but not limited to, the ownership, financing, leasing, management, syndication, investment, brokerage and development of real property of any kind whatsoever (including self-storage facilities), and neither the Partnership nor any of the Partners shall have any right by virtue of this Agreement in and to such independent ventures or to the income or profits derived therefrom.

Section 7.6 Contracts with Affiliates.

(a) **Loans.** The Partnership may lend or contribute to its Subsidiaries or other Persons in which it has an equity investment, and such Persons may borrow funds from the Partnership, on terms and conditions established in the sole and absolute discretion of the General Partner. The foregoing authority shall not create any right or benefit in favor of any Subsidiary or any other Person.

(b) **Transfers of Assets.** Except as provided in **Section 7.5(a)**, the Partnership may transfer assets to joint ventures, other partnerships, corporations or other business entities in which it is or thereby becomes a participant upon such terms and subject to such conditions consistent with this Agreement and applicable law.

(c) **Contracts With General Partner.** After the Effective Date and except as expressly permitted by this Agreement, neither the General Partner nor any of its Affiliates shall sell, transfer or convey any property to, or purchase any property from, the Partnership, directly or indirectly, except pursuant to transactions that are on terms that are fair and reasonable and no less favorable to the Partnership than would be obtained from an unaffiliated third party in connection therewith. Any transaction undertaken by the General Partner pursuant to the Non-Competition Agreements is expressly authorized hereby.

(d) **Employee Benefit Plans.** The General Partner, in its sole and absolute discretion and without the approval of the Limited Partners, may propose and adopt on behalf of the Partnership employee benefit plans funded by the Partnership for the benefit of employees of the General Partner, the Partnership, Subsidiaries of the Partnership or any Affiliate of any of them in respect of services performed, directly or indirectly, for the benefit of the Partnership, the General Partner, or any of the Partnership's Subsidiaries, including any such plan which requires the Partnership, the General Partner or any of the Partnership's Subsidiaries to issue or transfer Partnership Units to employees.

(e) **Conflict Avoidance Arrangements.** The General Partner is expressly authorized to enter into, in the name and on behalf of the Partnership, a right of first opportunity arrangement and other conflict avoidance agreements with various Affiliates of the Partnership and the General Partner, on such terms as the General Partner, in its sole and absolute discretion, believes are advisable in connection therewith. Any transaction undertaken by the General Partner pursuant to the Non-Competition Agreements is expressly authorized hereby.

Section 7.7 Indemnification.

(a) **General.** The Partnership shall indemnify an Indemnitee from and against any and all losses, claims, damages, liabilities, joint or several, expenses (including legal fees and expenses), judgments, fines, settlements, and other amounts arising from any and all claims, demands, actions, suits or proceedings, civil, criminal, administrative or investigative, that relate to the operations of the Partnership as set forth in this Agreement in which any Indemnitee may be involved, or is threatened to be involved, as a party or otherwise, unless it is established that: (i) the act or omission of the Indemnitee was material to the matter giving rise to the proceeding and either was committed in bad faith or was the result of active and deliberate dishonesty; (ii) the Indemnitee actually received an improper personal benefit in money, property or services; or (iii) in the case of any criminal proceeding, the Indemnitee had reasonable cause to believe that the act or omission was unlawful. The termination of any proceeding by judgment, order or settlement does not create a presumption that the Indemnitee did not meet the requisite standard of conduct set forth in this **Section 7.7(a)**. The termination of any proceeding by conviction or upon a plea of nolo contendere or its equivalent, or an entry of an order of probation prior to judgment, creates a rebuttable presumption that the Indemnitee acted in a manner contrary to that specified in this **Section 7.7(a)**. Any indemnification pursuant to this **Section 7.7** shall be made only out of the assets of the Partnership.

(b) **In Advance of Final Disposition.** Reasonable expenses incurred by an Indemnitee who is a party to a proceeding may be paid or reimbursed by the Partnership in advance of the final disposition of the proceeding upon receipt by the Partnership of (a) a written affirmation by the Indemnitee of the Indemnitee's good faith belief that the standard of conduct necessary for indemnification by the Partnership as authorized in this **Section 7.7** has been met, and (b) a written undertaking by or on behalf of the Indemnitee to repay the amount if it shall ultimately be determined that the standard of conduct has not been met.

(c) **Other Than by This Section.** The indemnification provided by this **Section 7.7** shall be in addition to any other rights to which an Indemnitee or any other Person may be entitled under any agreement, pursuant to any vote of the Partners, as a matter of law or otherwise, and shall continue as to an Indemnitee who has ceased to serve in such capacity.

(d) **Insurance.** The Partnership may purchase and maintain insurance, on behalf of the Indemnitees and such other Persons as the General Partner shall determine, against any liability that may be asserted against or expenses that may be incurred by such Person in connection with the Partnership's activities, regardless of whether the Partnership would have the power to indemnify such Person against such liability under the provisions of this Agreement.

(e) **Employee Benefit Plans.** For purposes of this **Section 7.7**, the Partnership shall be deemed to have requested an Indemnitee to serve as fiduciary of an employee benefit plan whenever the performance by it of its duties to the Partnership also imposes duties on, or otherwise involves services by, it to the plan or participants or beneficiaries of the plan; excise taxes assessed on an Indemnitee with respect to an employee benefit plan pursuant to applicable law shall constitute fines within the meaning of **Section 7.7(a)**; and actions taken or omitted by the Indemnitee with respect to an employee benefit plan in the performance of its duties for a purpose reasonably believed by it to be in the interest of the participants and beneficiaries of the plan shall be deemed to be for a purpose which is not opposed to the best interests of the Partnership.

(f) **No Personal Liability for Limited Partners.** In no event may an Indemnitee subject the Limited Partners to personal liability by reason of the indemnification provisions set forth in this Agreement.

(g) **Interested Transactions.** An Indemnitee shall not be denied indemnification in whole or in part under this **Section 7.7** because the Indemnitee had an interest in the transaction with respect to which the indemnification applies if the transaction was otherwise permitted by the terms of this Agreement.

(h) **Binding Effect.** The provisions of this **Section 7.7** are for the benefit of the Indemnitees, their heirs, successors, assigns and administrators and shall not be deemed to create any rights for the benefit of any other Persons.

Section 7.8 Liability of the General Partner.

(a) **General.** Notwithstanding anything to the contrary set forth in this Agreement, the General Partner shall not be liable for monetary damages to the Partnership, any Partners or any Assignees for losses sustained or liabilities incurred as a result of errors in judgment or of any act or omission, unless (i) the General Partner actually received an improper benefit in money, property or services (in which case, such liability shall be for the amount of the benefit in money, property or services actually received), or (ii) the General Partner's action or failure to act was the result of active and deliberate dishonesty and was material to the cause of action being adjudicated.

(b) **No Obligation to Consider Interests of Limited Partners.** The Limited Partners expressly acknowledge that the General Partner is acting on behalf of the Partnership and the General Partner's shareholders collectively, that the General Partner is under no obligation to consider the separate interests of the Limited Partners (including, without limitation, the tax consequences to Limited Partners or Assignees) in deciding whether to cause the Partnership to take (or decline to take) any actions which the General Partner has undertaken in good faith on behalf of the Partnership, and that the General Partner shall not be liable for monetary damages for losses sustained,

liabilities incurred, or benefits not derived by Limited Partners in connection with such decisions, unless (i) the General Partner actually received an improper benefit in money, property or services (in which case, such liability shall be for the amount of the benefit in money, property or services actually received), or (ii) the General Partner's action or failure to act was the result of active and deliberate dishonesty and was material to the cause of action being adjudicated.

(c) **Acts of Agents.** Subject to its obligations and duties as General Partner set forth in **Section 7.1(a)** hereof, the General Partner may exercise any of the powers granted to it by this Agreement and perform any of the duties imposed upon it hereunder either directly or by or through its agents. The General Partner shall not be responsible for any misconduct or negligence on the part of any such agent appointed by it in good faith.

(d) **Effect of Amendment.** Any amendment, modification or repeal of this **Section 7.8** or any provision hereof shall be prospective only and shall not in any way affect the limitations on the General Partner's liability to the Partnership and the Limited Partners under this **Section 7.8** as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

(e) **Limitation of Liability of Shareholders and Officers of the General Partner.** ANY OBLIGATION OR LIABILITY WHATSOEVER OF THE GENERAL PARTNER WHICH MAY ARISE AT ANY TIME UNDER THIS AGREEMENT OR ANY OBLIGATION OR LIABILITY WHICH MAY BE INCURRED BY IT PURSUANT TO ANY OTHER INSTRUMENT, TRANSACTION OR UNDERTAKING CONTEMPLATED HEREBY SHALL BE SATISFIED, IF AT ALL, OUT OF THE GENERAL PARTNER'S ASSETS ONLY. NO SUCH OBLIGATION OR LIABILITY SHALL BE PERSONALLY BINDING UPON, NOR SHALL RESORT FOR THE ENFORCEMENT THEREOF BE HAD TO, THE PROPERTY OF ANY OF ITS SHAREHOLDERS, TRUSTEES, OFFICERS, EMPLOYEES OR AGENTS, REGARDLESS OF WHETHER SUCH OBLIGATION OR LIABILITY IS IN THE NATURE OF CONTRACT, TORT OR OTHERWISE.

Section 7.9 Other Matters Concerning the General Partner.

(a) **Reliance on Documents.** The General Partner may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, debenture, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) **Reliance on Consultants and Advisers.** The General Partner may consult with legal counsel, accountants, appraisers, management consultants, investment bankers and other consultants and advisers selected by it, and any act taken or omitted to be taken in reliance upon the opinion of such Persons as to matters which such General Partner reasonably believes to be within such Person's professional or expert competence shall be conclusively presumed to have been done or omitted in good faith and in accordance with such opinion.

(c) **Action Through Officers and Attorneys.** The General Partner shall have the right, in respect of any of its powers or obligations hereunder, to act through any of its duly authorized officers and a duly appointed attorney or attorneys-in-fact. Each such attorney shall, to the extent provided by the General Partner in the power of attorney, have full power and authority to do and perform all and every act and duty which is permitted or required to be done by the General Partner hereunder.

(d) **Actions to Maintain REIT Status or Avoid Taxation of General Partner.** Notwithstanding any other provisions of this Agreement or the Act, any action of the General Partner on behalf of the Partnership or any decision of the General Partner to refrain from acting on behalf of the Partnership, undertaken in the good faith belief that such action or omission is necessary or advisable in order (i) to protect the ability of Public Storage, Inc. to continue to qualify as a REIT or (ii) to avoid Public Storage, Inc. or the General Partner incurring any taxes under Section 857 or Section 4981 of the Code, is expressly authorized under this Agreement and is deemed approved by all of the Limited Partners.

Section 7.10 Title to Partnership Assets. Title to Partnership assets, whether real, personal or mixed and whether tangible or intangible, shall be deemed to be owned by the Partnership as an entity, and no Partner, individually or collectively, shall have any ownership interest in such Partnership assets or any portion thereof. Title to any or all of the Partnership assets may be held in the name of the Partnership, the General Partner or one or more nominees, as the General Partner may determine, including Affiliates of the General Partner. The General Partner hereby declares and warrants that any Partnership assets for which legal title is held in the name of the General Partner or any nominee or Affiliate of the General Partner shall be held by the General Partner for the use and benefit of the Partnership in accordance with the provisions of this Agreement; **provided, however**, that the General Partner shall use its best efforts to cause beneficial and record title to such assets to be vested in the Partnership as soon as reasonably practicable. All Partnership assets shall be recorded as the property of the Partnership in its books and records, irrespective of the name in which legal title to such Partnership assets is held.

Section 7.11 Reliance by Third Parties. Notwithstanding anything to the contrary in this Agreement, any Person dealing with the Partnership shall be entitled to assume that the General Partner has full power and authority to encumber, sell or otherwise use in any manner any and all assets of the Partnership and to enter into any contracts on behalf of the Partnership, and such Person shall be entitled to deal with the General Partner as if it were the Partnership's sole party in interest, both legally and beneficially. Each Limited Partner hereby waives any and all defenses or other remedies which may be available against such Person to contest, negate or disaffirm any action of the General Partner in connection with any such dealing. In no event shall any Person dealing with the General Partner or its representatives be obligated to ascertain that the terms of this Agreement have been complied with or to inquire into the necessity or expedience of any act or action of the General Partner or its representatives. Each and every certificate, document or other instrument executed on behalf of the Partnership by the General Partner or its representatives shall be conclusive evidence in favor of any and every Person relying thereon or claiming thereunder that (a) at the time of the execution and delivery of such certificate, document or instrument, this Agreement was in full force and effect, (b) the Person executing and delivering such certificate, document or instrument was duly authorized and empowered to do so for and on behalf of the Partnership and (c) such certificate, document or instrument was duly executed and delivered in accordance with the terms and provisions of this Agreement and is binding upon the Partnership.

Article VIII RIGHTS AND OBLIGATIONS OF LIMITED PARTNERS

Section 8.1 Limitation of Liability. The Limited Partners shall have no liability under this Agreement except as expressly provided in this Agreement, including **Section 10.5** hereof, or under the Act.

Section 8.2 Management of Business. No Limited Partner or Assignee (other than the General Partner, any of its Affiliates or any officer, director, employee, partner, agent or trustee of the General Partner, the Partnership or any of their Affiliates, in their capacity as such) shall take part in the operation, management or control (within the meaning of the Act) of the Partnership's business, transact any business in the Partnership's name or have the power to sign documents for or otherwise bind the Partnership. The transaction of any such business by the General Partner, any of its Affiliates or any officer, director, employee, partner, agent or trustee of the General Partner, the Partnership or any of their Affiliates, in their capacity as such, shall not affect, impair or eliminate the limitations on the liability of the Limited Partners or Assignees under this Agreement.

Section 8.3 Outside Activities of Limited Partners. Subject to any agreements entered into pursuant to **Section 7.6(e)** hereof and subject to any other agreements entered into by a Limited Partner or its Affiliates with the General Partner (including, without limitation, the Non-Competition Agreements), the Partnership or a Subsidiary, the following rights shall govern outside activities of Limited Partners: (a) any Limited Partner (other than the General Partner) and any officer, director, employee, agent, trustee, Affiliate or shareholder of any Limited Partner shall be entitled to and may have business interests and engage in business activities in addition to those relating to the Partnership, including business interests and activities in direct competition with the Partnership; (b) neither the Partnership nor any Partners shall have any rights by virtue of this Agreement in any business ventures of any Limited Partner or Assignee; (c) none of the Limited Partners nor any other Person shall have any rights by virtue of this Agreement or the partnership relationship established hereby in any business ventures of any other Person, other than the General Partner, and such Person shall have no obligation pursuant to this Agreement to offer

any interest in any such business ventures to the Partnership, any Limited Partner or any such other Person, even if such opportunity is of a character which, if presented to the Partnership, any Limited Partner or such other Person, could be taken by such Person; (d) the fact that a Limited Partner may encounter opportunities to purchase, otherwise acquire, lease, sell or otherwise dispose of real or personal property and may take advantage of such opportunities himself or introduce such opportunities to entities in which it has or has not any interest, shall not subject such Partner to liability to the Partnership or any of the other Partners on account of the lost opportunity; and (e) except as otherwise specifically provided herein, nothing contained in this Agreement shall be deemed to prohibit a Limited Partner or any Affiliate of a Limited Partner from dealing, or otherwise engaging in business, with Persons transacting business with the Partnership or from providing services relating to the purchase, sale, rental, management or operation of real or personal property (including real estate brokerage services) and receiving compensation therefor, from any Persons who have transacted business with the Partnership or other third parties.

Section 8.4 Priority Among Limited Partners. No Partner (Limited or General) or Assignee shall have priority over any other Partner (Limited or General) or Assignee either as to the return of Capital Contributions or, except to the extent provided by **Sections 6.2** or **6.3** hereof or as permitted by **Section 4.2(b)**, or otherwise expressly provided in this Agreement, as to profits, losses or distributions.

Section 8.5 Rights of Limited Partners Relating to the Partnership.

(a) **Copies of Business Records.** In addition to other rights provided by this Agreement or by the Act, and except as limited by **Section 8.5(c)** hereof, each Limited Partner shall have the right, for a purpose reasonably related to such Limited Partner's interest as a limited partner in the Partnership, upon written demand with a statement of the purpose of such demand and at such Limited Partner's own expense:

(1) to obtain a copy of the most recent annual and quarterly reports filed with the Securities and Exchange Commission by the General Partner pursuant to the Securities Exchange Act of 1934, as amended;

(2) to obtain a copy of the Partnership's Federal, state and local income tax returns for each Partnership Year;

(3) to obtain a current list of the name and last known business, residence or mailing address of each Partner;

(4) to obtain a copy of this Agreement and the Certificate and all amendments thereto, together with executed copies of all powers of attorney pursuant to which this Agreement, the Certificate and all amendments thereto have been executed; and

(5) to obtain true and full information regarding the amount of cash and a description and statement of any other property or services contributed by each Partner and which each Partner has agreed to contribute in the future, and the date on which each became a partner.

(b) **Notification of Changes in Unit Adjustment Factor.** The Partnership shall notify each Limited Partner in writing of any change made to the Unit Adjustment Factor within 10 Business Days of the date such change becomes effective.

(c) **Confidential Information.** Notwithstanding any other provision of this **Section 8.5**, the General Partner may keep confidential from the Limited Partners, for such period of time as the General Partner determines in its sole and absolute discretion to be reasonable, any Partnership information that (i) the General Partner believes to be in the nature of trade secrets or other information the disclosure of which the General Partner in good faith believes is not in the best interests of the Partnership or (ii) the Partnership is required by law or by agreements with unaffiliated third parties to keep confidential.

Section 8.6 Redemption Right.

(a) **General.** Notwithstanding the provisions of **Section 4.2(e)**, the General Partner may satisfy the Conversion Right exercised by a Converting Partner set forth in a Notice of Conversion by paying to such Converting Partner the Redemption Amount on the Specified Conversion Date, whereupon the General Partner shall acquire the Partnership Units to be exchanged by such Converting Partner and shall be treated for all purposes of this Agreement as the owner of such Partnership Units. The General Partner may elect to pay the Redemption Amount for Partnership Units only upon a receipt of a Notice of Conversion. In the event the General Partner shall exercise its right to satisfy the Conversion Right in the manner described in this **Section 8.6(a)**, the Partnership shall have no obligation to pay any amount to the Converting Partner with respect to such Converting Partner's exercise of the Conversion Right, and each of the Converting Partner, the Partnership, and the General Partner shall treat the transaction between the General Partner and the Converting Partner as a sale of the Converting Partner's Partnership Units to the General Partner for Federal income tax purposes; each Converting Partner which the General Partner has elected to pay the Redemption Amount agrees to execute such documents as the General Partner may reasonably require in connection with the payment of the Redemption Amount.

(b) **Where Delivery of Common Shares Prohibited.** Notwithstanding the provisions of **Section 4.2(e)** and **Section 8.6(a)**, a Partner shall not be entitled to exercise the Conversion Right pursuant to **Section 4.2(e)** if the delivery of Common Shares to such Partner on the Specified Conversion Date would be prohibited under the Articles.

Article IX BOOKS, RECORDS, ACCOUNTING AND REPORTS

Section 9.1 Records and Accounting. The General Partner shall keep or cause to be kept at the principal office of the Partnership appropriate books and records with respect to the Partnership's business, including, without limitation, all books and records necessary to provide to the Limited Partners any information, lists and copies of documents required to be provided pursuant to **Section 9.3** hereof. Any records maintained by or on behalf of the Partnership in the regular course of its business may be kept on, or be in the form of, punch cards, magnetic tape, photographs, micrographics or any other information storage device; **provided** that the records so maintained are convertible into clearly legible written form within a reasonable period of time. The books of the Partnership shall be maintained for financial purposes on an accrual basis in accordance with generally accepted accounting principles and for tax reporting purposes on the accrual basis.

Section 9.2 Fiscal Year. The fiscal year of the Partnership shall be the calendar year.

Section 9.3 Reports.

(a) **Annual Reports.** As soon as practicable, but in no event later than 120 days after the close of each Partnership Year, the General Partner shall cause to be mailed to each Limited Partner as of the close of the Partnership Year, an annual report containing financial statements of the Partnership, or of the General Partner if such statements are prepared solely on a consolidated basis with the General Partner, for such Partnership Year, presented in accordance with generally accepted accounting principles, such statements to be audited by a nationally recognized firm of independent public accountants selected by the General Partner.

(b) **Quarterly Reports.** As soon as practicable, but in no event later than 60 days after the close of each calendar quarter (except the last calendar quarter of each year), the General Partner shall cause to be mailed to each Limited Partner as of the last day of the calendar quarter, a report containing unaudited financial statements of the Partnership, or of the General Partner, if such statements are prepared solely on a consolidated basis with the General Partner, and such other information as may be required by applicable law or regulation, or as the General Partner determines to be appropriate.

Article X
TAX MATTERS

Section 10.1 Preparation of Tax Returns. The General Partner shall arrange for the preparation and timely filing of all returns of Partnership income, gains, deductions, losses and other items required of the Partnership for Federal and state income tax purposes and shall use all reasonable efforts to furnish, within 90 days of the close of each taxable year, the tax information reasonably required by the General Partner and the Limited Partners for Federal and state income tax reporting purposes.

Section 10.2 Tax Elections. Except as otherwise provided herein, the General Partner shall, in its sole and absolute discretion, determine whether to make any available election pursuant to the Code; **provided, however,** that the General Partner shall make the election under Section 754 of the Code in accordance with applicable regulations thereunder. The General Partner shall have the right to seek to revoke any such election (including, without limitation, the election under Section 754 of the Code) upon the General Partner's determination in its sole and absolute discretion that such revocation is in the best interests of the Partners.

Section 10.3 Tax Matters Partner.

(a) **General.** The General Partner shall be the "tax matters partner" of the Partnership for Federal income tax purposes. Pursuant to Section 6223(c) of the Code, upon receipt of notice from the IRS of the beginning of an administrative proceeding with respect to the Partnership, the tax matters partner shall furnish the IRS with the name, address and profit interest of each of the Limited Partners; **provided, however,** that such information is provided to the Partnership by the Limited Partners. The Limited Partners shall provide such information to the Partnership as the General Partner shall reasonably request.

(b) **Powers.** The tax matters partner is authorized, but not required:

(1) to enter into any settlement with the IRS with respect to any administrative or judicial proceedings for the adjustment of Partnership items required to be taken into account by a Partner for income tax purposes (such administrative proceedings being referred to as a "tax audit" and such judicial proceedings being referred to as "judicial review"), and in the settlement agreement the tax matters partner may expressly state that such agreement shall bind all Partners, except that such settlement agreement shall not bind any Partner (a) who (within the time prescribed pursuant to the Code and Regulations) files a statement with the IRS providing that the tax matters partner shall not have the authority to enter into a settlement agreement on behalf of such Partner or (b) who is a "notice partner" (as defined in Section 6231 of the Code) or a member of a "notice group" (as defined in Section 6223(b)(2) of the Code);

(2) in the event that a notice of a final administrative adjustment at the Partnership level of any item required to be taken into account by a partner for tax purposes (a "final adjustment") is mailed or otherwise given to the tax matters partner, to seek judicial review of such final adjustment, including the filing of a petition for readjustment with the Tax Court or the United States Claims Court, or the filing of a complaint for refund with the District Court of the United States for the district in which the Partnership's principal place of business is located;

(3) to intervene in any action brought by any other Partner for judicial review of a final adjustment;

(4) to file a request for an administrative adjustment with the IRS at any time and, if any part of such request is not allowed by the IRS, to file an appropriate pleading (petition, complaint or other document) for judicial review with respect to such request;

(5) to enter into an agreement with the IRS to extend the period for assessing any tax which is attributable to any item required to be taken into account by a Partner for tax purposes, or an item affected by such item; and

(6) to take any other action on behalf of the Partners of the Partnership in connection with any tax audit or judicial review proceeding to the extent permitted by applicable law or regulations.

The taking of any action and the incurring of any expense by the tax matters partner in connection with any such proceeding, except to the extent required by law, is a matter in the sole and absolute discretion of the tax matters partner, and the provisions relating to indemnification of the General Partner set forth in **Section 7.7** of this Agreement shall be fully applicable to the tax matters partner in its capacity as such.

(c) **Reimbursement.** The tax matters partner shall receive no compensation for its services. All third-party costs and expenses incurred by the tax matters partner in performing its duties as such (including legal and accounting fees) shall be borne by the Partnership. Nothing herein shall be construed to restrict the Partnership from engaging an accounting firm and a law firm to assist the tax matters partner in discharging his duties hereunder, so long as the compensation paid by the Partnership for such services is reasonable.

Section 10.4 Organizational Expenses. The Partnership shall elect to deduct expenses, if any, incurred by it in organizing the Partnership ratably over a 60-month period as provided in Section 709 of the Code.

Section 10.5 Withholding. Each Limited Partner hereby authorizes the Partnership to withhold from or pay on behalf of or with respect to such Limited Partner any amount of Federal, state, local, or foreign taxes that the General Partner determines that the Partnership is required to withhold or pay with respect to any amount distributable or allocable to such Limited Partner pursuant to this Agreement, including, without limitation, any taxes required to be withheld or paid by the Partnership pursuant to Section 1441, 1442, 1445 or 1446 of the Code. Any amount paid on behalf of or with respect to a Limited Partner shall constitute a loan by the Partnership to such Limited Partner, which loan shall be repaid by such Limited Partner within 15 days after notice from the General Partner that such payment must be made unless (a) the Partnership withholds such payment from a distribution which would otherwise be made to the Limited Partner or (b) the General Partner determines, in its sole and absolute discretion, that such payment may be satisfied out of the available funds of the Partnership which would, but for such payment, be distributed to the Limited Partner. Any amounts withheld pursuant to the foregoing clauses (a) or (b) shall be treated as having been distributed to such Limited Partner. Each Limited Partner hereby unconditionally and irrevocably grants to the Partnership a security interest in such Limited Partner's Partnership Interest to secure such Limited Partner's obligation to pay to the Partnership any amounts required to be paid pursuant to this **Section 10.5**. In the event that a Limited Partner fails to pay any amounts owed to the Partnership pursuant to this **Section 10.5** when due, the General Partner may, in its sole and absolute discretion, elect to make the payment to the Partnership on behalf of such defaulting Limited Partner, and in such event shall be deemed to have loaned such amount to such defaulting Limited Partner and shall succeed to all rights and remedies of the Partnership as against such defaulting Limited Partner (including, without limitation, the right to receive distributions). Any amounts payable by a Limited Partner hereunder shall bear interest at the base rate on corporate loans at large United States money center commercial banks, as published from time to time in the **Wall Street Journal**, plus four percentage points (but not higher than the maximum lawful rate) from the date such amount is due (i.e., 15 days after demand) until such amount is paid in full. Each Limited Partner shall take such actions as the Partnership or the General Partner shall request in order to perfect or enforce the security interest created hereunder.

Article XI TRANSFERS AND WITHDRAWALS

Section 11.1 Transfer.

(a) **Definition.** The term "transfer," when used in this Article XI with respect to a Partnership Unit, shall be deemed to refer to a transaction by which the General Partner purports to assign its General

Partnership Interest to another Person or by which a Limited Partner purports to assign its Limited Partnership Interest to another Person, and includes a sale, assignment, gift, pledge, encumbrance, hypothecation, mortgage, exchange or any other disposition by law or otherwise. The term “transfer” when used in this Article XI does not include any Conversion of Partnership Units by a Limited Partner pursuant to **Section 4.2(e)** or acquisition of Partnership Units from a Limited Partner by the General Partner pursuant to **Section 8.6(a)**.

(b) **Requirements.** No Partnership Interest shall be transferred, in whole or in part, except in accordance with the terms and conditions set forth in this Article XI. Any transfer or purported transfer of a Partnership Interest not made in accordance with this Article XI shall be null and void.

Section 11.2 Transfer of General Partner’s Partnership Interest.

(a) **General.** The General Partner may not transfer any of its General Partnership Interest or withdraw as General Partner except as provided in **Section 11.2(b)** or in connection with a transaction described in **Section 11.2(c)**.

(b) **Transfer to Wholly-Owned Entities.** The General Partner may transfer all or any portion of its General Partnership Interests to an entity that is, directly or indirectly, wholly-owned by the General Partner, and such entity may be substituted as General Partner, so long as such transfer does not adversely alter the rights of a Partner to receive distributions pursuant to Article V or the allocations specified in **Article VI** (except as permitted pursuant to **Section 4.2** and **Section 14.1(b)(3)** hereof) or alter or modify the Conversion Right or the Redemption Amount as set forth in **Sections 4.2(e)** and **8.6**, and related definitions hereof.

(c) **Transfer in Connection With Reclassification, Recapitalization, or Business Combination Involving General Partner.** Except as otherwise provided in Section 11.2(d), the General Partner shall not engage in any merger, consolidation or other combination with or into another Person or sale of all or substantially all of its assets, or any reclassification, or recapitalization or change of outstanding Common Shares (other than a change in par value, or from par value to no par value, or as a result of a subdivision or combination as described in the definition of “Unit Adjustment Factor”) (“**Transaction**”), unless (i) under the terms of the Transaction, Limited Partners will not engage in a sale or exchange for Federal income tax purposes of their Partnership Units, or (ii) the Transaction also includes a merger of the Partnership or sale of substantially all of the assets of the Partnership and as a result of which all Limited Partners will receive for each Partnership Unit (after application of the Unit Adjustment Factor and without taking into account any tax considerations) an amount of cash, securities, or other property equal to, without taking into account any tax considerations, the greatest amount of cash, securities or other property paid to a holder of one Common Share in consideration of one Common Share at any time during the period from and after the date on which the Transaction is consummated; **provided** that if, in connection with the Transaction, a purchase, tender or exchange offer shall have been made to and accepted by the holders of more than 50 percent of the outstanding Common Shares, the holders of Partnership Units shall receive the greatest amount of cash, securities, or other property which a Limited Partner would have received had it exercised the Conversion Right and received Common Shares in exchange for its Partnership Units immediately prior to the expiration of such purchase, tender or exchange offer.

(d) **Merger Involving General Partner Where Surviving Entity’s Assets Contributed to Partnership.** Notwithstanding **Section 11.2(c)**, the General Partner may merge with another entity if immediately after such merger substantially all of the assets of the surviving entity, other than Partnership Units held by the General Partner, are contributed to the Partnership as a Capital Contribution in exchange for Partnership Units with a fair market value equal to the 704(c) Value of the assets so contributed.

Section 11.3 Limited Partners’ Rights to Transfer.

(a) **General.** Subject to the provisions of **Sections 11.4** and **11.7**, a Limited Partner may transfer all or any portion of his Partnership Interest, or any of such Limited Partner’s rights as a Limited Partner,

without the prior written consent of the General Partner. In order to effect such transfer, the Limited Partner must deliver to the General Partner a duly executed copy of the instrument making such transfer and such instrument must evidence the written acceptance by the assignee of all of the terms and conditions of this Agreement and represent that such assignment was made in accordance with all applicable laws and regulations.

(b) **Incapacitated Limited Partners.** If a Limited Partner is subject to Incapacity, the executor, administrator, trustee, committee, guardian, conservator or receiver of such Limited Partner's estate shall have all the rights of a Limited Partner, but not more rights than those enjoyed by other Limited Partners for the purpose of settling or managing the estate and such power as the Incapacitated Limited Partner possessed to transfer all or any part of his or its interest in the Partnership. The Incapacity of a Limited Partner, in and of itself, shall not dissolve or terminate the Partnership.

(c) **Transfers Contrary to Securities Laws.** The General Partner may prohibit any transfer otherwise permitted under **Section 11.3** by a Limited Partner of its Partnership Units if, in the opinion of legal counsel to the Partnership, such transfer would require filing of a registration statement under the Securities Act of 1933, as amended, or would otherwise violate any Federal or state securities laws or regulations applicable to the Partnership or the Partnership Units.

(d) **Transfers Resulting in Corporation Status; Transfers Through Established Securities or Secondary Markets.** No transfer by a Limited Partner of his Partnership Units (or any economic or other interest, right or attribute therein) may be made to any Person if (i) in the opinion of legal counsel for the Partnership, it would result in the Partnership being treated as an association taxable as a corporation, or (ii) such transfer is effectuated through an "established securities market" or a "secondary market (or the substantial equivalent thereof)" within the meaning of Section 7704 of the Code. Notwithstanding anything to the contrary in this Agreement, (x) no interests in the Partnership shall be issued in a transaction that is (or transactions that are) registered or required to be registered under the Securities Act of 1933, (y) any admission (or purported admission) of a Partner and any transfer or assignment (or purported transfer or assignment) of all or part of a Partner's interest (or any interest or right or attribute therein) in the Partnership, whether to another Partner or to a third party, shall not be effective, and no person shall otherwise become a Partner, if the Partnership would or may have more than 500 partners (as determined in accordance with the immediately succeeding sentence). For purposes of determining the number of partners under the foregoing clause (y), each Person indirectly owning an interest through a partnership, a grantor trust or an S corporation shall be treated as a partner.

(e) **Transfers to Holders of Nonrecourse Liabilities.** No transfer or pledge of any Partnership Units may be made to a lender to the Partnership or any Person who is related (within the meaning of Section 1.752-4(b) of the Regulations) to any lender to the Partnership whose loan constitutes a Nonrecourse Liability without the consent of the General Partner, in its sole and absolute discretion, provided that as a condition to such consent the lender will be required to enter into an arrangement with the Partnership and the General Partner to exchange or redeem for the Redemption Amount any Partnership Units in which a security interest is held simultaneously with the time at which such lender would be deemed to be a partner in the Partnership for purposes of allocating liabilities to such lender under Section 752 of the Code.

Section 11.4 Substituted Limited Partners.

(a) **Consent of General Partner Required.** The Limited Partner shall have the right to substitute a transferee as a Limited Partner in his place but only if such transferee is an Affiliate of the Limited Partner or a member of the Immediate Family of the Limited Partner, in which event such substitution shall occur if the Limited Partner so provides. With respect to any other transfers, the General Partner shall, however, have the right to consent to the admission of a transferee of the interest of a Limited Partner pursuant to this **Section 11.4** as a Substituted Limited Partner, which consent may be given or withheld by the General Partner in its sole and absolute discretion. The General Partner's failure or refusal

to permit a transferee of any such interests to become a Substituted Limited Partner shall not give rise to any cause of action against the Partnership or any Partner.

(b) Rights and Duties of Substituted Limited Partners. A transferee who has been admitted as a Substituted Limited Partner in accordance with this Article XI shall have all the rights and powers and be subject to all the restrictions and liabilities of a Limited Partner under this Agreement.

(c) Amendment of Exhibit A. Upon the admission of a Substituted Limited Partner, the General Partner shall amend Exhibit A to reflect the name, address, number of Partnership Units, and Percentage Interest of such Substituted Limited Partner and to eliminate or adjust, if necessary, the name, address and interest of the predecessor of such Substituted Limited Partner.

Section 11.5 Assignees. If the General Partner, in its sole and absolute discretion, does not consent to the admission of any permitted transferee under **Section 11.4(a)** as a Substituted Limited Partner, as described in **Section 11.4**, such transferee shall be considered an Assignee for purposes of this Agreement. An Assignee shall be entitled to all the rights of an assignee of a limited partnership interest under the Act, including the right to receive distributions from the Partnership and the share of Net Income, Net Losses, gain, loss and Recapture Income attributable to the Partnership Units assigned to such transferee, but shall not be deemed to be a holder of Partnership Units for any other purpose under this Agreement, and shall not be entitled to vote such Partnership Units in any matter presented to the Limited Partners for a vote (such Partnership Units being deemed to have been voted on such matter in the same proportion as all Partnership Units held by Limited Partners are voted). In the event any such transferee desires to make a further assignment of any such Partnership Units, such transferee shall be subject to all the provisions of this Article XI to the same extent and in the same manner as any Limited Partner desiring to make an assignment of Partnership Units.

Section 11.6 General Provisions.

(a) Withdrawal of Limited Partner. No Limited Partner may withdraw from the Partnership other than as a result of a permitted transfer of all of such Limited Partner's Partnership Units in accordance with this Article XI or pursuant to Conversion of all of its Partnership Units under **Section 4.2(e)** or the redemption of its Partnership Units under **Section 8.6(a)**.

(b) Transfer of All Partnership Units by Limited Partner. Any Limited Partner who shall transfer all of his Partnership Units in a transfer permitted pursuant to this Article XI or pursuant to the Conversion Rights of all of its Partnership Units under **Section 4.2(e)** or pursuant to redemption of all of its Partnership Units under **Section 8.6(a)** shall cease to be a Limited Partner.

(c) Timing of Transfers. Transfers pursuant to this Article XI may only be made on the first day of a fiscal quarter of the Partnership, unless the General Partner otherwise agrees.

(d) Allocation When Transfer Occurs. If any Partnership Interest is transferred during any quarterly segment of the Partnership's fiscal year in compliance with the provisions of this Article XI or converted pursuant to **Section 4.2(e)** or redeemed pursuant to **Section 8.6(a)**, Net Income, Net Losses, each item thereof and all other items attributable to such interest for such fiscal year shall be divided and allocated between the transferor Partner and the transferee Partner by taking into account their varying interests during the fiscal year in accordance with Section 706(d) of the Code, based on the portion of the year for which the transferor Partner and the transferee Partner were Partners. Solely for purposes of making such allocations, each of such items for the calendar month in which the transfer or redemption occurs shall be allocated to the Person who is a Partner as of midnight on the last day of said month. All distributions of Available Cash with respect to which the Partnership Record Date is before the date of such transfer or redemption shall be made to the transferor Partner, and all distributions of Available Cash with Partnership Record Dates thereafter shall be made to the transferee Partner.

Section 11.7 [deleted]

Article XII ADMISSION OF PARTNERS

Section 12.1 Admission of Successor General Partner. A successor to all of the General Partner's General Partnership Interest pursuant to **Section 11.2** hereof who is proposed to be admitted as a successor General Partner shall be admitted to the Partnership as the General Partner, effective upon such transfer. Any such transferee shall carry on the business of the Partnership without dissolution. In each case, the admission shall be subject to the successor General Partner executing and delivering to the Partnership an acceptance of all of the terms and conditions of this Agreement and such other documents or instruments as may be required to effect the admission.

Section 12.2 Admission of Additional Limited Partners.

(a) **General.** A Person who makes a Capital Contribution to the Partnership in accordance with this Agreement or who exercises an option to receive Partnership Units shall be admitted to the Partnership as an Additional Limited Partner only upon furnishing to the General Partner (i) evidence of acceptance in form satisfactory to the General Partner of all of the terms and conditions of this Agreement, including, without limitation, the power of attorney granted in Article XVI hereof and (ii) such other documents or instruments as may be required in the discretion of the General Partner in order to effect such Person's admission as an Additional Limited Partner.

(b) **Consent of General Partner Required.** Notwithstanding anything to the contrary in this **Section 12.2**, no Person shall be admitted as an Additional Limited Partner without the consent of the General Partner, which consent may be given or withheld in the General Partner's sole and absolute discretion. The admission of any Person as an Additional Limited Partner shall become effective on the date upon which the name of such Person is recorded on the books and records of the Partnership, following the consent of the General Partner to such admission.

Section 12.3 Amendment of Agreement and Certificate. For the admission to the Partnership of any Partner, the General Partner shall take all steps necessary and appropriate under the Act to amend the records of the Partnership and, if necessary, to prepare as soon as practical an amendment of this Agreement (including an amendment of Exhibit A) and, if required by law, shall prepare and file an amendment to the Certificate and may for this purpose exercise the power of attorney granted pursuant to Article XVI hereof.

Article XIII DISSOLUTION AND LIQUIDATION

Section 13.1 Dissolution. The Partnership shall not be dissolved by the admission of Substituted Limited Partners or Additional Limited Partners or by the admission of a successor General Partner in accordance with the terms of this Agreement. The Partnership shall dissolve, and its affairs shall be wound up, upon the first to occur of any of the following ("**Events of Dissolution**"):

(a) **Expiration of Term**--the expiration of its term as provided in **Section 2.5** hereof;

(b) **Withdrawal of General Partner**--an event of withdrawal of the General Partner, as defined in the Act, unless, within 90 days after the withdrawal all the remaining Partners agree in writing to continue the business of the Partnership and to the appointment, effective as of the date of withdrawal, of a substitute General Partner;

(c) **Dissolution Prior to 2094**--from and after the date of this Agreement through December 31, 2094, an election to dissolve the Partnership made by the General Partner, in its sole and absolute discretion;

(d) **Judicial Dissolution Decree**--entry of a decree of judicial dissolution of the Partnership pursuant to the provisions of the Act;

(e) **Sale of Partnership's Assets**--the sale of all or substantially all of the assets and properties of the Partnership;

(f) **Merger**--the merger or other combination of the Partnership with or into another entity;

(g) **Vote**--a vote of the Partners holding a majority of the Percentage Interests of the Partners;

(h) **Bankruptcy or Insolvency of General Partner**--the General Partner

(1) makes an assignment for the benefit of creditors;

(2) files a voluntary petition in bankruptcy;

(3) is adjudged a bankrupt or insolvent, or has entered against it an order for relief in any bankruptcy or insolvency proceeding;

(4) files a petition or answer seeking for itself any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any statute, law or regulation;

(5) files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against it in any proceeding of this nature; or

(6) seeks, consents to or acquiesces in the appointment of a trustee, receiver or liquidator of the General Partner or of all or any substantial part of its properties; or

(i) **Readjustment, etc.** One hundred and twenty (120) days after the commencement of any proceeding against the General Partner seeking reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any statute, law or regulation, the proceeding has not been dismissed, or if within 90 days after the appointment without the General Partner's consent or acquiescence of a trustee, receiver or liquidator of the General Partner or of all or any substantial part of its properties, the appointment is not vacated or stayed, or within 90 days after the expiration of any such stay, the appointment is not vacated.

Section 13.2 Winding Up.

(a) **General.** Upon the occurrence of an Event of Dissolution, the Partnership shall continue solely for the purposes of winding up its affairs in an orderly manner, liquidating its assets, and satisfying the claims of its creditors and Partners. No Partner shall take any action that is inconsistent with, or not necessary to or appropriate for, the winding up of the Partnership's business and affairs. The General Partner (or, in the event there is no remaining General Partner, any Person elected by a majority in interest of the Limited Partners (the "**Liquidator**")) shall be responsible for overseeing the winding up and dissolution of the Partnership and shall take full account of the Partnership's liabilities and property and the Partnership property shall be liquidated as promptly as is consistent with obtaining the fair value thereof, and the proceeds therefrom shall be applied and distributed in the following order:

(1) First, to the payment and discharge of all of the Partnership's debts and liabilities to creditors other than the Partners;

(2) Second, to the payment and discharge of all of the Partnership's debts and liabilities to the Partners, pro rata in accordance with amounts owed to each such Partner; and

(3) The balance, if any, to the General Partner and Limited Partners in accordance with their Capital Accounts, after giving effect to all contributions, distributions, and allocations for all periods.

The General Partner shall not receive any additional compensation for any services performed pursuant to this Article XIII.

(b) **Where Immediate Sale of Partnership's Assets Impractical.** Notwithstanding the provisions of **Section 13.2(a)** hereof which require liquidation of the assets of the Partnership, but subject to the order of priorities set forth therein, if prior to or upon dissolution of the Partnership the Liquidator determines that an immediate sale of part or all of the Partnership's assets would be impractical or would cause undue loss to the Partners, the Liquidator may, in its sole and absolute discretion, defer for a reasonable time the liquidation of any assets except those necessary to satisfy liabilities of the Partnership (including to those Partners as creditors) or, with the Consent of the Partners holding a majority of the Partnership Units, distribute to the Partners, in lieu of cash, as tenants in common and in accordance with the provisions of **Section 13.2(a)** hereof, undivided interests in such Partnership assets as the Liquidator deems not suitable for liquidation. Any such distributions in kind shall be made only if, in the good faith judgment of the Liquidator, such distributions in kind are in the best interest of the Partners, and shall be subject to such conditions relating to the disposition and management of such properties as the Liquidator deems reasonable and equitable and to any agreements governing the operation of such properties at such time. The Liquidator shall determine the fair market value of any property distributed in kind using such reasonable method of valuation as it may adopt.

Section 13.3 Compliance with Timing Requirements of Regulations; Allowance for Contingent or Unforeseen Liabilities or Obligations.

(a) **Liquidation.** Notwithstanding anything to the contrary in this Agreement, in the event the Partnership is "liquidated" within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g), distributions shall be made pursuant to this Article XIII to the General Partner and Limited Partners who have positive Capital Accounts in compliance with Regulations Section 1.704-1(b)(2)(ii)(b)(2) (including any timing requirements therein). In the discretion of the General Partner, a pro rata portion of the distributions that would otherwise be made to the General Partner and Limited Partners pursuant to this Article XIII may be: (i) distributed to a liquidating trust established for the benefit of the General Partner and Limited Partners for the purposes of liquidating Partnership assets, collecting amounts owed to the Partnership, and paying any contingent or unforeseen liabilities or obligations of the Partnership or of the General Partner arising out of or in connection with the Partnership (the assets of any such trust shall be distributed to the General Partner and Limited Partners from time to time, in the reasonable discretion of the General Partner, in the same proportions as the amount distributed to such trust by the Partnership would otherwise have been distributed to the General Partner and Limited Partners pursuant to this Agreement); or (ii) withheld to provide a reasonable reserve for Partnership liabilities (contingent or otherwise) and to reflect the unrealized portion of any installment obligations owed to the Partnership, provided that such withheld amounts shall be distributed to the General Partner and Limited Partners as soon as practicable.

(b) **Deficit Balance of General Partner.** Notwithstanding anything to the contrary in this Agreement, (i) if the General Partner has a deficit balance in its Capital Account following the liquidation (within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g)) of its interest in the Partnership, as determined after taking into account all Capital Account adjustments for the Partnership taxable year during which such liquidation occurs (other than any adjustment for a capital contribution of the General Partner made pursuant to this sentence), the General Partner shall make a capital contribution to the Partnership in an amount equal to such deficit balance by the end of the Partnership taxable year during which such liquidation occurs (or, if later, within 90 days after date of such liquidation); and (ii) such capital contribution made pursuant to clause (i) of this **Section 13.3(b)** shall be distributed or utilized as provided in **Section 13.3** or **13.4**.

Section 13.4 Deemed Distribution and Recontribution. Notwithstanding any other provision of this Article XIII (but subject to **Section 13.3(b)**), in the event the Partnership is liquidated within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g) but no Event of Dissolution has occurred, the Partnership's property shall not be liquidated, the Partnership's liabilities shall not be paid or discharged, and the Partnership's affairs shall not be wound up. Instead, the Partnership shall be deemed to have distributed the Property in kind to the General Partner and Limited Partners, who shall be deemed to have assumed and taken such property subject to all Partnership liabilities, all in accordance with their respective Capital Accounts. Immediately thereafter, the General Partner and Limited Partners shall be deemed to have recontributed the Partnership property in kind to the Partnership, which shall be deemed to have assumed and taken such property subject to all such liabilities.

Section 13.5 Rights of Limited Partners. Except as specifically provided in this Agreement, each Limited Partner shall look solely to the assets of the Partnership for the return of his Capital Contribution and shall have no right or power to demand or receive property other than cash from the Partnership. Except as specifically provided in this Agreement, no Limited Partner shall have priority over any other Limited Partner as to the return of his Capital Contributions, distributions, or allocations.

Section 13.6 Notice of Dissolution. In the event an Event of Dissolution or an event occurs that would, but for provisions of **Section 13.1**, result in a dissolution of the Partnership, the General Partner shall, within 30 days thereafter, provide written notice thereof to each of the Partners and to all other parties with whom the Partnership regularly conducts business (as determined in the discretion of the General Partner) and shall publish notice thereof in a newspaper of general circulation in each place in which the Partnership regularly conducts business (as determined in the discretion of the General Partner).

Section 13.7 Cancellation of Certificate of Limited Partnership. Upon the completion of the liquidation of the Partnership as provided in **Section 13.2** hereof, the Partnership shall be terminated and the Certificate and all qualifications of the Partnership as a foreign limited partnership in jurisdictions other than the State of Delaware shall be canceled and such other actions as may be necessary to terminate the Partnership shall be taken.

Section 13.8 Reasonable Time for Winding-Up. A reasonable time shall be allowed for the orderly winding-up of the business and affairs of the Partnership and the liquidation of its assets pursuant to **Section 13.2** hereof, in order to minimize any losses otherwise attendant upon such winding-up, and the provisions of this Agreement shall remain in effect between the Partners during the period of liquidation.

Article XIV AMENDMENT OF PARTNERSHIP AGREEMENT; MEETINGS

Section 14.1 Amendments.

(a) **General.** Amendments to this Agreement may be proposed by the General Partner or by any Limited Partners holding 25 percent or more of the Partnership Interests. Following such proposal, the General Partner shall submit any proposed amendment to the Limited Partners. The General Partner shall seek the written vote of the Partners on the proposed amendment or shall call a meeting to vote thereon and to transact any other business that it may deem appropriate. For purposes of obtaining a written vote, the General Partner may require a response within a reasonable specified time, but not less than 15 days, and failure to respond in such time period shall constitute a vote which is consistent with the General Partner's recommendation with respect to the proposal. Except as provided in **Section 14.1(b)**, **14.1(c)** or **14.1(d)**, a proposed amendment shall be adopted and be effective as an amendment hereto if it is approved by the General Partner and it receives the Consent of Limited Partners holding a majority of the Percentage Interests of the Limited Partners.

(b) **General Partner's Power to Amend.** Notwithstanding **Section 14.1(a)**, the General Partner shall have the power, without the consent of the Limited Partners, to amend this Agreement as may be required to facilitate or implement any of the following purposes:

(1) to add to the obligations of the General Partner or surrender any right or power granted to the General Partner or any Affiliate of the General Partner for the benefit of the Limited Partners;

(2) to reflect the admission, substitution, termination, or withdrawal of Partners in accordance with this Agreement;

(3) to set forth the rights, powers, duties, and preferences of the holders of any additional Partnership Interests issued pursuant to **Section 4.2(b)** hereof;

(4) to reflect a change that is of an inconsequential nature and does not adversely affect the Limited Partners in any material respect, or to cure any ambiguity, correct or supplement any provision in this Agreement not inconsistent with law or with other provisions, or make other changes with respect to matters arising under this Agreement that will not be inconsistent with law or with the provisions of this Agreement; and

(5) to satisfy any requirements, conditions, or guidelines contained in any order, directive, opinion, ruling or regulation of a Federal or state agency or contained in Federal or state law.

The General Partner will provide notice to the Limited Partners when any action under this **Section 14.1(b)** is taken.

(c) **Consent of Adversely Affected Partner Required.** Notwithstanding **Section 14.1(a)** hereof, this Agreement shall not be amended without the Consent of each Partner adversely affected if such amendment would (i) convert a Limited Partner's interest in the Partnership into a general partner's interest, (ii) modify the limited liability of a Limited Partner, (iii) alter rights of the Partner to receive distributions pursuant to Article V, or the allocations specified in Article VI (except as permitted pursuant to **Section 4.2** and **Section 14.1(b)(3)** hereof), (iv) alter or modify the Conversion Right or the Redemption Amount as set forth in **Sections 4.2(e)**, **8.6** and **11.2(b)**, and related definitions hereof, (v) cause the termination of the Partnership prior to the time set forth in **Sections 2.5** or **13.1**, or (vi) amend this **Section 14.1(c)**. Further, no amendment may alter the restrictions on the General Partner's authority set forth in **Section 7.3** without the Consent specified in that section.

(d) **When Consent of Majority of Limited Partnership Interests Required.** Notwithstanding **Section 14.1(a)** hereof, the General Partner shall not amend **Sections 4.2(b)**, **7.5**, **7.6**, **11.2** or **14.2** without the Consent of a majority of the Percentage Interests of the Limited Partners.

Section 14.2 Meetings of the Partners.

(a) **General.** Meetings of the Partners may be called by the General Partner and shall be called upon the receipt by the General Partner of a written request by Limited Partners holding 25 percent or more of the Partnership Interests. The call shall state the nature of the business to be transacted. Notice of any such meeting shall be given to all Partners not less than seven days nor more than 30 days prior to the date of such meeting. Partners may vote in person or by proxy at such meeting. Whenever the vote or Consent of Partners is permitted or required under this Agreement, such vote or Consent may be given at a meeting of Partners or may be given in accordance with the procedure prescribed in **Section 14.1** hereof. Except as otherwise expressly provided in this Agreement, the Consent of holders of a majority of the Percentage Interests shall control.

(b) **Informal Action.** Any action required or permitted to be taken at a meeting of the Partners may be taken without a meeting if a written Consent setting forth the action so taken is signed by a majority of the Percentage Interests of the Partners (or such other percentage as is expressly required by this Agreement). Such Consent may be in one instrument or in several instruments, and shall have the same force and effect as a vote of a majority of the Percentage Interests of the Partners (or such other percentage

as is expressly required by this Agreement). Such Consent shall be filed with the General Partner. An action so taken shall be deemed to have been taken at a meeting held on the effective date so certified.

(c) **Proxies.** Each Limited Partner may authorize any Person or Persons to act for him by proxy on all matters in which a Limited Partner is entitled to participate, including waiving notice of any meeting, or voting or participating at a meeting. Every proxy must be signed by the Limited Partner or his attorney-in-fact. No proxy shall be valid after the expiration of 11 months from the date thereof unless otherwise provided in the proxy. Every proxy shall be revocable at the pleasure of the Limited Partner executing it.

(d) **Conduct of Meeting.** Each meeting of Partners shall be conducted by the General Partner or such other Person as the General Partner may appoint pursuant to such rules for the conduct of the meeting as the General Partner or such other Person deems appropriate.

Article XV GENERAL PROVISIONS

Section 15.1 Addresses and Notice. All notices and demands under this Agreement shall be in writing, and may be either delivered personally (which shall include deliveries by courier), by telefax, telex or other wire transmission (with request for assurance of receipt in a manner appropriate with respect to communications of that type, provided that a confirmation copy is concurrently sent by a nationally recognized express courier for overnight delivery) or mailed, postage prepaid, by certified or registered mail, return receipt requested, directed to the parties at their respective addresses set forth on Exhibit A attached hereto, as it may be amended from time to time, and, if to the Partnership, such notices and demands sent in the aforesaid manner must be delivered at its principal place of business set forth above. Unless delivered personally or by telefax, telex or other wire transmission as above (which shall be effective on the date of such delivery or transmission), any notice shall be deemed to have been made three (3) days following the date so mailed. Any party hereto may designate a different address to which notices and demands shall thereafter be directed by written notice given in the same manner and directed to the Partnership at its office hereinabove set forth.

Section 15.2 Titles and Captions. All article or section titles or captions in this Agreement are for convenience only. They shall not be deemed part of this Agreement and in no way define, limit, extend or describe the scope or intent of any provisions hereof. Except as specifically provided otherwise, references to "Articles" and "Sections" are to Articles and Sections of this Agreement.

Section 15.3 Pronouns and Plurals. Whenever the context may require, any pronoun used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns, pronouns and verbs shall include the plural and vice versa.

Section 15.4 Further Action. The parties shall execute and deliver all documents, provide all information and take or refrain from taking action as may be necessary or appropriate to achieve the purposes of this Agreement.

Section 15.5 Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their heirs, executors, administrators, successors, legal representatives and permitted assigns.

Section 15.6 Waiver of Partition. The Partners hereby agree that the Partnership properties are not and will not be suitable for partition. Accordingly, each of the Partners hereby irrevocably waives any and all rights (if any) that it may have to maintain any action for partition of any of the Partnership properties.

Section 15.7 Entire Agreement. This Agreement constitutes the entire agreement among the parties with respect to the matters contained herein; it supersedes any prior agreements or understandings among them and it may not be modified or amended in any manner other than pursuant to Article XIV.

Section 15.8 Securities Law Provisions. The Partnership Units have not been registered under the Federal or state securities laws of any state and, therefore, may not be resold unless appropriate Federal and state securities laws, as well as the provisions of Article XI hereof, have been complied with.

Section 15.9 Remedies Not Exclusive. Any remedies herein contained for breaches of obligations hereunder shall not be deemed to be exclusive and shall not impair the right of any party to exercise any other right or remedy, whether for damages, injunction or otherwise.

Section 15.10 Time. Time is of the essence of this Agreement.

Section 15.11 Creditors. None of the provisions of this Agreement shall be for the benefit of, or shall be enforceable by, any creditor of the Partnership.

Section 15.12 Waiver. No failure by any party to insist upon the strict performance of any covenant, duty, agreement or condition of this Agreement or to exercise any right or remedy consequent upon a breach thereof shall constitute waiver of any such breach or any other covenant, duty, agreement or condition.

Section 15.13 Execution Counterparts. This Agreement may be executed in counterparts, all of which together shall constitute one agreement binding on all the parties hereto, notwithstanding that all such parties are not signatories to the original or the same counterpart. Each party shall become bound by this Agreement immediately upon affixing its signature hereto.

Section 15.14 Applicable Law. This Agreement shall be construed in accordance with and governed by the laws of the State of Delaware, without regard to the principles of conflicts of law.

Section 15.15 Invalidity of Provisions. If any provision of this Agreement is or becomes invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not be affected thereby.

Article XVI POWER OF ATTORNEY

Section 16.1 Power of Attorney.

(a) **Scope.** Each Limited Partner and each Assignee constitutes and appoints the General Partner, any Liquidator, and authorized officers and attorneys-in-fact of each, and each of those acting singly, in each case with full power of substitution, as its true and lawful agent and attorney-in-fact, with full power and authority in its name, place and stead to:

(1) execute, swear to, acknowledge, deliver, file and record in the appropriate public offices (a) all certificates, documents and other instruments (including, without limitation, this Agreement and the Certificate and all amendments or restatements thereof) that the General Partner or the Liquidator deems appropriate or necessary to form, qualify or continue the existence or qualification of the Partnership as a limited partnership (or a partnership in which the limited partners have limited liability) in the State of Delaware and in all other jurisdictions in which the Partnership may conduct business or own property; (b) all instruments that the General Partner deems appropriate or necessary to reflect any amendment, change, modification or restatement of this Agreement in accordance with its terms; (c) all conveyances and other instruments or documents that the General Partner deems appropriate or necessary to reflect the dissolution and liquidation of the Partnership pursuant to the terms of this Agreement, including, without limitation, a certificate of cancellation; (d) all instruments relating to the admission, withdrawal, removal or substitution of any Partner pursuant to, or other events described in, Article XI, XII or XIII hereof or the Capital Contribution of any Partner; and (e) all certificates, documents and other

instruments relating to the determination of the rights, preferences and privileges of Partnership Interests; and

(2) execute, swear to, acknowledge and file all ballots, consents, approvals, waivers, certificates and other instruments appropriate or necessary, in the sole and absolute discretion of the General Partner, to make, evidence, give, confirm or ratify any vote, consent, approval, agreement or other action which is made or given by the Partners hereunder or is consistent with the terms of this Agreement or appropriate or necessary, in the sole discretion of the General Partner, to effectuate the terms or intent of this Agreement.

Nothing contained herein shall be construed as authorizing the General Partner to amend this Agreement except in accordance with Article XIV hereof or as may be otherwise expressly provided for in this Agreement.

(b) **Irrevocability.** The foregoing power of attorney is hereby declared to be irrevocable and a power coupled with an interest, in recognition of the fact that each of the Partners will be relying upon the power of the General Partner to act as contemplated by this Agreement in any filing or other action by it on behalf of the Partnership, and it shall survive and not be affected by the subsequent Incapacity of any Limited Partner or Assignee and the transfer of all or any portion of such Limited Partner's or Assignee's Partnership Units and shall extend to such Limited Partner's or Assignee's heirs, successors, assigns and personal representatives. Each such Limited Partner or Assignee hereby agrees to be bound by any representation made by the General Partner, acting in good faith pursuant to such power of attorney; and each such Limited Partner or Assignee hereby waives any and all defenses which may be available to contest, negate or disaffirm the action of the General Partner, taken in good faith under such power of attorney. Each Limited Partner or Assignee shall execute and deliver to the General Partner or the Liquidator, within 15 days after receipt of the General Partner's request therefor, such further designation, powers of attorney and other instruments as the General Partner or the Liquidator, as the case may be, deems necessary to effectuate this Agreement and the purposes of the Partnership.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

GENERAL PARTNER:
PS Texas Holdings, Ltd.

By: PS GPT Properties, Inc.,
General Partner

By: /s/ David Goldberg
Name: David Goldberg
Title: Senior Vice President

Those LIMITED PARTNERS set forth on Exhibit A:

By PS Texas Holdings, Ltd.,
their attorney-in-fact

By: PS GPT Properties, Inc.,
General Partner

By: /s/ David Goldberg
Name: David Goldberg
Title: Senior Vice President

PUBLIC STORAGE, INC.
Exhibit 11 - Statement Re: Computation of Earnings Per Share

Earnings Per Share:	For the three months ended June 30,		For the six months ended June 30,	
	1999	1998	1999	1998
	(Amounts in thousands, except per share data)			
Net income	\$73,651	\$57,199	\$ 135,493	\$ 105,563
Less: Preferred Stock dividends:				
10% Cumulative Preferred Stock, Series A	(1,141)	(1,140)	(2,281)	(2,280)
9.20% Cumulative Preferred Stock, Series B.....	(1,372)	(1,372)	(2,744)	(2,744)
Adjustable Rate Preferred Stock, Series C.....	(506)	(506)	(1,012)	(1,012)
9.50% Cumulative Preferred Stock, Series D.....	(713)	(713)	(1,426)	(1,426)
10.0% Cumulative Preferred Stock, Series E.....	(1,372)	(1,372)	(2,744)	(2,744)
9.75% Cumulative Preferred Stock, Series F.....	(1,401)	(1,401)	(2,802)	(2,802)
8.875% Cumulative Preferred Stock, Series G.....	(3,828)	(3,828)	(7,656)	(7,656)
8.45% Cumulative Preferred Stock, Series H.....	(3,565)	(3,565)	(7,130)	(7,130)
8.625% Cumulative Preferred Stock, Series I.....	(2,156)	(2,156)	(4,312)	(4,312)
8.00% Cumulative Preferred Stock, Series J.....	(3,000)	(3,000)	(6,000)	(6,000)
8.25% Cumulative Preferred Stock, Series K.....	(2,372)	-	(4,296)	-
8.25% Cumulative Preferred Stock, Series L.....	(2,398)	-	(2,951)	-
8.25% Convertible Preferred Stock	-	(1,076)	-	(2,163)
Total preferred dividends	(23,824)	(20,129)	(45,354)	(40,269)
Net income allocable to common shareholders.....	\$49,827	\$37,070	\$90,139	\$65,294
Weighted average common shares outstanding:				
Basic - weighted average common shares outstanding.....	128,904	113,970	123,793	111,731
Effect of dilutive stock options - based on treasury stock method using average market price	346	460	340	515
Diluted weighted average common shares outstanding.....	129,250	114,430	124,133	112,246
Basic earnings per common share	\$0.39	\$0.33	\$0.73	\$0.58
Diluted earnings per common share	\$0.39	\$0.32	\$0.73	\$0.58

PUBLIC STORAGE, INC.
Exhibit 11 - Statement Re: Computation of Earnings Per Share

Diluted Earnings per Share, assuming conversion of anti-dilutive securities:	For the three months ended June 30,		For the six months ended June 30,	
	1999	1998	1999	1998
	(Amounts in thousand, except per share data)			
Net income allocable to common shareholders per calculation above	\$49,827	\$37,070	\$90,139	\$65,294
Add back applicable dividends paid to holders of Convertible Preferred Stocks:				
• 8.25% Convertible Preferred Stock	-	1,076	-	2,163
Net income allocable to common shareholders for purposes of determining Diluted Earnings per Share, assuming conversion of anti-dilutive securities	<u>\$49,827</u>	<u>\$38,146</u>	<u>\$90,139</u>	<u>\$67,457</u>
Diluted weighted average common shares outstanding	129,250	114,430	124,133	112,246
Pro forma weighted average common shares assuming conversion of Convertible Preferred Stock:				
• 8.25% Convertible Preferred Stock	-	3,530	-	3,555
Weighted average common shares for purposes of computation of Diluted Earnings per Share, assuming conversion of anti-dilutive securities	<u>129,250</u>	<u>117,960</u>	<u>124,133</u>	<u>115,801</u>
Diluted Earnings per Common Share, assuming conversion of anti-dilutive securities (1)	<u>\$0.39</u>	<u>\$0.32</u>	<u>\$0.73</u>	<u>\$0.58</u>

(1) Such amounts are anti-dilutive and are not presented in the Company's consolidated financial statements.

In addition, the Company has 7,000,000 shares of Class B Common Stock which are convertible into shares of the Company's Common Stock subject to the attainment of certain earnings milestone by the Company. As these earnings milestones have not been met, the conversion has not been assumed.

PUBLIC STORAGE, INC.
EXHIBIT 12 - STATEMENT RE: COMPUTATION OF RATIO OF
EARNINGS TO FIXED CHARGES

	Six Months Ended June30,		For the Year Ended December 31,				
	1999	1998	1998	1997	1996	1995	1994
	(Amounts in thousands, except ratios)						
Net income	\$ 135,493	\$ 105,563	\$ 227,019	\$ 178,649	\$ 153,549	\$ 70,386	\$ 42,118
Add: Minority interest in income	7,657	10,569	20,290	11,684	9,363	7,137	9,481
Less: Minority interests in income which do not have fixed charges	(6,923)	(7,112)	(15,853)	(10,375)	(8,273)	(4,700)	(5,906)
Income from continuing operations	136,227	109,020	231,456	179,958	154,639	72,823	45,693
Interest expense.....	3,734	2,095	4,507	6,792	8,482	8,508	6,893
Total Earnings Available to Cover Fixed Charges.....	<u>\$ 139,961</u>	<u>\$ 111,115</u>	<u>\$ 235,963</u>	<u>\$ 186,750</u>	<u>\$ 163,121</u>	<u>\$ 81,331</u>	<u>\$ 52,586</u>
Total Fixed Charges - Interest expense (including capitalized interest)	<u>\$ 5,680</u>	<u>\$ 4,375</u>	<u>\$ 7,988</u>	<u>\$ 9,220</u>	<u>\$ 10,343</u>	<u>\$ 8,815</u>	<u>\$ 6,893</u>
Total Preferred Stock dividends	<u>\$ 45,354</u>	<u>\$ 40,269</u>	<u>\$ 78,375</u>	<u>\$ 88,393</u>	<u>\$ 68,599</u>	<u>\$ 31,124</u>	<u>\$ 16,846</u>
Total Combined Fixed Charges and Preferred Stock dividends	<u>\$ 51,034</u>	<u>\$ 44,644</u>	<u>\$ 86,363</u>	<u>\$ 97,613</u>	<u>\$ 78,942</u>	<u>\$ 39,939</u>	<u>\$ 23,739</u>
Ratio of Earnings to Fixed Charges	<u>24.64x</u>	<u>25.40x</u>	<u>29.54x</u>	<u>20.25x</u>	<u>15.77x</u>	<u>9.23x</u>	<u>7.63x</u>
Ratio of Earnings to Combined Fixed Charges and Preferred Stock dividends	<u>2.74x</u>	<u>2.49x</u>	<u>2.73x</u>	<u>1.91x</u>	<u>2.07x</u>	<u>2.04x</u>	<u>2.22x</u>

PUBLIC STORAGE, INC.
EXHIBIT 12 - STATEMENT RE: COMPUTATION OF RATIO OF
EARNINGS TO FIXED CHARGES

	Six Months Ended June 30,		For the Year Ended December 31,				
	1999	1998	1998	1997	1996	1995	1994
<u>Supplemental disclosure of Ratio of Funds from Operations</u> <u>("FFO") to fixed charges:</u>							
FFO	\$ 202,745	\$ 158,586	\$ 336,363	\$ 272,234	\$ 224,476	\$ 105,199	\$ 56,143
Interest expense.....	3,734	2,095	4,507	6,792	8,482	8,508	6,893
Adjusted FFO available to cover fixed charges	<u>\$ 206,479</u>	<u>\$ 160,681</u>	<u>\$ 340,870</u>	<u>\$ 279,026</u>	<u>\$ 232,958</u>	<u>\$ 113,707</u>	<u>\$ 63,036</u>
Total Fixed Charges - Interest expense (including capitalized interest)	<u>\$ 5,680</u>	<u>\$ 4,375</u>	<u>\$ 7,988</u>	<u>\$ 9,220</u>	<u>\$ 10,343</u>	<u>\$ 8,815</u>	<u>\$ 6,893</u>
Total Preferred Stock dividends.....	<u>\$ 45,354</u>	<u>\$ 40,269</u>	<u>\$ 78,375</u>	<u>\$ 88,393</u>	<u>\$ 68,599</u>	<u>\$ 31,124</u>	<u>\$ 16,846</u>
Total Combined Fixed Charges and Preferred Stock dividends...	<u>\$ 51,034</u>	<u>\$ 44,644</u>	<u>\$ 86,363</u>	<u>\$ 97,613</u>	<u>\$ 78,942</u>	<u>\$ 39,939</u>	<u>\$ 23,739</u>
Ratio of FFO to Fixed Charges	<u>36.35x</u>	<u>36.73x</u>	<u>42.67x</u>	<u>30.26x</u>	<u>22.52x</u>	<u>12.90x</u>	<u>9.15x</u>
Ratio of FFO to Combined Fixed Charges and Preferred Stock dividends	<u>4.05x</u>	<u>3.60x</u>	<u>3.95x</u>	<u>2.86x</u>	<u>2.95x</u>	<u>2.85x</u>	<u>2.66x</u>

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