UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2010

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 No. 000-49604

ManTech International Corporation

(Exact name of registrant as specified in its charter)

Delaware	**22-1852179**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
12015 Lee Jackson Highway, Fairfax, VA	**22033**
(Address of principal executive offices)	**(Zip Code)**

(703) 218-6000

(Registrant s telephone number, including area code)

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. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

As of July 28, 2010 there were outstanding 23,054,744 shares of our Class A common stock and 13,277,345 shares of our Class B common stock.

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MANTECH INTERNATIONAL CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED June 30, 2010

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

MANTECH INTERNATIONAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands Except Per Share Amounts)

	(unaudited) June 30, 2010	December 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 162,274	$ 86,190
Receivables net	466,092	399,239
Prepaid expenses and other	11,304	11,182
Total Current Assets	639,670	496,611
Property and equipment net	15,591	14,498
Goodwill	631,989	488,217
Other intangibles net	157,554	73,684
Employee supplemental savings plan assets	20,152	21,065
Other assets	11,203	6,672
TOTAL ASSETS	$ 1,476,159	$ 1,100,747
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 235,398	$ 157,358
Accrued salaries and related expenses	79,140	55,429
Deferred income taxes current	734	0
Billings in excess of revenue earned	8,841	7,737
Total Current Liabilities	324,113	220,524
Debt	200,000	0
Accrued retirement	20,873	22,033
Other long-term liabilities	6,717	6,877
Deferred income taxes non-current	34,725	33,848
TOTAL LIABILITIES	586,428	283,282
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
Common stock, Class A $0.01 par value; 150,000,000 shares authorized; 23,235,371 and 22,602,110 shares issued at June 30, 2010 and December 31, 2009; 22,992,331 and 22,359,070 shares outstanding at June 30, 2010 and December 31, 2009	232	226
Common stock, Class B $0.01 par value; 50,000,000 shares authorized; 13,277,345 and 13,605,345 shares issued and outstanding at June 30, 2010 and December 31, 2009	133	136

Additional paid-in capital	375,303	362,730
Treasury stock, 243,040 shares at cost at June 30, 2010 and December 31, 2009	(9,114)	(9,114)
Retained earnings	524,450	464,742
Accumulated other comprehensive loss	(190)	(172)
Unearned Employee Stock Ownership Plan Shares	(1,083)	(1,083)
TOTAL STOCKHOLDERS EQUITY	$ 889,731	$ 817,465
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,476,159	$ 1,100,747

See notes to condensed consolidated financial statements.

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MANTECH INTERNATIONAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In Thousands Except Per Share Amounts)

	(unaudited) Three months ended June 30, 2010	(unaudited) Three months ended June 30, 2009	(unaudited) Six months ended June 30, 2010	(unaudited) Six months ended June 30, 2009
REVENUES	$ 661,611	$ 514,068	$ 1,249,168	$ 963,638
Cost of services	562,306	422,242	1,061,872	792,546
General and administrative expenses	42,776	46,953	85,535	85,861
OPERATING INCOME	56,529	44,873	101,761	85,231
Interest expense	(3,598)	(404)	(4,595)	(707)
Interest income	57	47	185	116
Other (expense) income, net	(270)	111	(332)	108
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	52,718	44,627	97,019	84,748
Provision for income taxes	(20,551)	(16,095)	(37,311)	(31,738)
NET INCOME	$ 32,167	$ 28,532	$ 59,708	$ 53,010
BASIC EARNINGS PER SHARE:				
Class A basic earnings per share	$ 0.89	$ 0.80	$ 1.65	$ 1.49
Weighted average common shares outstanding	22,872	21,909	22,645	21,752
Class B basic earnings per share	$ 0.89	$ 0.80	$ 1.65	$ 1.49
Weighted average common shares outstanding	13,317	13,678	13,460	13,795
DILUTED EARNINGS PER SHARE:				
Class A diluted earnings per share	$ 0.88	$ 0.80	$ 1.64	$ 1.48
Weighted average common shares outstanding	23,126	22,146	22,925	22,055
Class B diluted earnings per share	$ 0.88	$ 0.80	$ 1.64	$ 1.48
Weighted average common shares outstanding	13,317	13,678	13,460	13,795

See notes to condensed consolidated financial statements.

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MANTECH INTERNATIONAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in Thousands)

	(unaudited) Three months ended June 30,		(unaudited) Six months ended June 30,	
	2010	**2009**	**2010**	**2009**
NET INCOME	$ 32,167	$ 28,532	$ 59,708	$ 53,010
OTHER COMPREHENSIVE INCOME:				
Translation adjustment	(10)	4	(32)	(1)
Acturial gain (loss) on defined benefit pension plans, net of tax	0	0	14	0
Total other comprehensive income	(10)	4	(18)	(1)
COMPREHENSIVE INCOME	$ 32,157	$ 28,536	$ 59,690	$ 53,009

See notes to condensed consolidated financial statements.

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MANTECH INTERNATIONAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

	(unaudited) Six months ended June 30, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 59,708	$ 53,010
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	3,251	3,572
Excess tax benefits from the exercise of stock options	(502)	(243)
Deferred income taxes	4,674	1,224
Depreciation and amortization	14,176	8,839
Change in assets and liabilities net of effects from acquired businesses:		
Receivables net	3,017	29,858
Prepaid expenses and other	(2,177)	2,871
Accounts payable and accrued expenses	9,194	(27,311)
Accrued salaries and related expenses	20,624	(5,420)
Billings in excess of revenue earned	1,104	19
Accrued retirement	(1,160)	(173)
Other	840	639
Net cash flow from operating activities	112,749	66,885
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(3,346)	(1,553)
Investment in capitalized software for internal use	(1,835)	(1,353)
Acquisition of businesses net of cash acquired	(236,052)	(13,645)
Net cash flow from investing activities	(241,233)	(16,551)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	8,986	2,589
Excess tax benefits from the exercise of stock options	502	243
Net borrowings (repayment) under the revolving credit facility	0	(24,100)
Issuance of senior unsecured notes	200,000	0
Debt issuance costs	(4,920)	0
Net cash flow from financing activities	204,568	(21,268)
NET INCREASE IN CASH AND CASH EQUIVALENTS	76,084	29,066
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	86,190	4,375
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 162,274	$ 33,441
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for income taxes	$ 28,633	$ 32,280

Cash paid for interest	$ 1,221	$ 528
Noncash financing activities:		
Employee Stock Ownership Plan Contributions	$ 0	$ 1,691

See notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010

UNAUDITED

1. Introduction and Overview

ManTech International Corporation (depending on the circumstances, ManTech Company we our ours or us) is a leading provider of inno technologies and solutions for mission-critical national security programs for the Intelligence Community; the departments of Defense, State, Homeland Security and Justice; and other U.S. federal government organizations. Our expertise includes systems engineering and integration, enterprise architecture, cyber security, information assurance, intelligence operations and analysis support, network and critical infrastructure protection, information operations and information warfare support, information technology, communications integration, global logistics and supply chain management and service oriented architectures. At June 30, 2010, we have approximately 9,100 highly qualified employees operating in approximately 40 countries worldwide.

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and note disclosures normally included in the annual financial statements, prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to those rules and regulations. We recommend that you read these unaudited condensed consolidated financial statements in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, previously filed with the SEC. We believe that the unaudited condensed consolidated financial statements in this Form 10-Q reflect all adjustments that are necessary to fairly present the financial position, results of operations and cash flows for the interim periods presented. The results of operations for such interim periods are not necessarily indicative of the results that can be expected for the full year.

3. Acquisitions

Our acquisitions have been accounted for using the acquisition method of accounting under the Accounting Standards Codification (ASC) 805, *Business Combination*. Additional information related to our acquisitions can be found in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, previously filed with the SEC.

Sensor Technologies Inc.-On January 15, 2010, we completed the acquisition of all outstanding equity interest of Sensor Technologies Inc. (STI), a privately-held company. The results of STI s operations have been included in our consolidated financial statements since that date. The acquisition was consummated pursuant to a stock purchase agreement (STI Purchase Agreement), dated December 18, 2009, by and among ManTech, STI, certain shareholders of STI and certain persons acting as a representative for the shareholders of STI.

STI was a leading provider of mission-critical systems engineering and Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) services and solutions to the Department of Defense. STI s largest customer was the U.S. Army through its prime position on the Strategic Services Sourcing (S3) Indefinite Delivery/Indefinite Quantity contract. At January 15, 2010, STI had 252 employees of which nearly 100% held security clearances. In 2009, STI produced approximately $336.8 million in revenues. STI contributed revenues of $219.3 million and net income of $3.1 million for the period from January 15, 2010 to June 30, 2010.

The acquisition of STI is consistent with our long-term strategy to broaden our footprint in the high-end defense and intelligence market and will expand our work with the Department of Defense and our direct support of the U.S. Army as it continues its overseas operations.

ManTech funded the acquisition through a combination of cash on hand and borrowings under our senior facility. The purchase price was $241.4 million, which included a favorable $0.6 million working capital adjustment. The STI Purchase Agreement did not contain provisions for contingent consideration. Pursuant to the STI Purchase Agreement, $24.2 million was placed into an escrow account to satisfy potential indemnification liabilities of STI and its shareholders. The escrow claim period will expire 18 months after the purchase closing date. At June 30, 2010, the balance in the escrow account was $23.2 million.

In 2010 and 2009, the Company incurred $0.3 million and $0.6 million of acquisition related expenses, respectively. These expenses are included in general and administrative expense in the Company s statement of income for the related periods.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2010

UNAUDITED

Purchase Price Allocation

The purchase price was allocated to underlying assets and liabilities based on their estimated fair values at the date of acquisition. The purchase price allocation included goodwill and other intangible assets. Recognition of goodwill was largely attributed to the highly skilled employees of STI, their presence in the high-end defense and intelligence market place and the value paid for companies in this business. Assuming adequate levels of taxable income, the goodwill is deductible for tax purposes over 15 years. The following table represents the purchase price allocation (in thousands):

Cash and cash equivalents	$ 5,310
Receivables-net of a $340 allowance	69,870
Prepaid expenses and other	1,033
Property and equipment	357
Other intangibles	93,289
Other assets	65
Goodwill	143,772
Accounts payable and accrued expenses	(69,185)
Accrued salaries and related expenses	(3,087)
Other long-term liabilities	(62)
Purchase price	$ 241,362

Indemnification Assets

Pursuant to the STI Purchase Agreement, the seller has agreed to indemnify the buyer for tax liabilities arising in connection with the operation of STI s business on or before January 15, 2010 or owing by any person for which STI may be liable as a result of the transactions or circumstances occurring or existing on or before January 15, 2010. As of January 15, 2010, STI s tax liabilities were estimated to be approximately $0.8 million, resulting in related indemnification assets of $0.8 million. We collected $0.4 million from the escrow account for these indemnification assets.

Intangible Assets

In allocating the purchase price, we considered, among other factors, analyses of historical financial performance and estimates of future performance of STI s contracts. The components of other intangible assets associated with the acquisition were backlog, customer relationships and non-compete agreements valued preliminary at $7.8 million, $85.2 million and $0.3 million, respectively. Customer contracts and related relationships represent the underlying relationships and agreements with STI s existing customers. Non-compete agreements represent the estimated value of the seller not competing with the Company for 4 years. Backlog, customer relationships and non-compete agreements are amortized over their estimated useful lives of 1 year, 20 years and 4 years, respectively, using the pattern of benefits method. The weighted-average amortization period for the intangible assets is 18.4 years.

Pro Forma Financial Information

The following unaudited pro forma summary presents consolidated information of the Company as if the acquisition had occurred at the beginning of the periods presented. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition and borrowings under our senior credit facility had occurred at the beginning of the period presented. The amounts have been calculated after applying the Company s accounting policies and adjusting the results of STI to reflect the additional amortization expense resulting from recognizing intangible assets, the interest expense effect of the financing necessary to complete the acquisition and the consequential tax effects (in thousands).

	Six months ended June 30, 2010	Six months ended June 30, 2009
Revenues	$ 1,262,838	$ 1,108,435
Net income	$ 59,869	$ 55,382

DDK Technology Group Acquisition-On March 13, 2009, we completed the acquisition of all outstanding equity interests of DDK Technology Group (DDK). The results of DDK s operations have been included in our condensed consolidated financial statements since that date. The acquisition was consummated pursuant to stock purchase agreement (DDK Purchase Agreement), dated March 13, 2009, by and among ManTech, DDK and the shareholders of DDK. DDK was a privately held company, providing information technology and cyber security for several Department of Defense agencies.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2010

UNAUDITED

The final purchase price was $14.0 million. The DDK Purchase Agreement does not contain provisions for contingent consideration. We primarily utilized borrowings under our credit agreement to finance the acquisition.

The purchase price was allocated to the underlying assets and liabilities based on their fair values at the date of acquisition. Total assets were $14.5 million, including goodwill and intangible assets recognized in connection with the acquisition, and total liabilities were $0.5 million. Included in total assets were $4.2 million in acquired intangible assets. We have recorded goodwill of $8.9 million, which will be deductible for tax purposes over 15 years, assuming adequate levels of taxable income. Recognition of goodwill is largely attributed to the highly skilled employees and the value paid for companies supporting high-end defense, intelligence and homeland security markets. The assets, liabilities and results of operations of DDK were not significant to the Company s condensed consolidated financial position or results of operations.

The components of intangible assets associated with the acquisition were backlog valued at $0.3 million and customer relationships valued at $3.9 million. Customer contracts and related relationships represent the underlying relationships and agreements with DDK s existing customers. Backlog and customers relationships are amortized over their estimated useful lives of 1 year and 20 years, respectively, using the pattern of benefits method. The weighted-average amortization period for the intangible assets is 18.8 years.

4. Earnings Per Share

In ASC 260, *Earnings per Share*, the two-class method is an earnings allocation formula that determines earnings per share for each class of common stock according to dividends declared (or accumulated) and participation rights in undistributed earnings. Under that method, basic and diluted earnings per share data are presented for each class of common stock.

In applying the two-class method, we determined that undistributed earnings should be allocated equally on a per share basis between Class A and Class B common stock. Under the Company s Certificate of Incorporation, the holders of the common stock are entitled to participate ratably, on a share-for-share basis as if all shares of common stock were of a single class, in such dividends, as may be declared by the Board of Directors.

Basic earnings per share has been computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding during each period. Shares issued during the period and shares reacquired during the period are weighted for the portion of the period in which the shares were outstanding. Diluted earnings per share has been computed in a manner consistent with that of basic earnings per share while giving effect to all potentially dilutive common shares that were outstanding during each period.

The weighted average number of common shares outstanding is computed as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2010	**2009**	**2010**	**2009**
Numerator for net income per Class A and Class B common stock:				
Net income	$ 32,167	$ 28,532	$ 59,708	$ 53,010
Numerator for basic net income Class A common stock	$ 20,330	$ 17,566	$ 37,448	$ 32,439
Numerator for basic net income Class B common stock	$ 11,837	$ 10,966	$ 22,260	$ 20,571
Numerator for diluted net income Class A common stock	$ 20,413	$ 17,638	$ 37,619	$ 32,613
Numerator for diluted net income Class B common stock	$ 11,754	$ 10,894	$ 22,089	$ 20,397
Basic weighted average common shares outstanding				
Class A common stock	22,872	21,909	22,645	21,752

Class B common stock	13,317	13,678	13,460	13,795
Effect of potential exercise of stock options				
Class A common stock	254	237	280	303
Class B common stock	0	0	0	0
Diluted weighted average common shares outstanding - Class A	23,126	22,146	22,925	22,055
Diluted weighted average common shares outstanding - Class B	13,317	13,678	13,460	13,795

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2010

UNAUDITED

For the three months ended June 30, 2010 and 2009, options to purchase 1.9 million and 1.6 million shares, respectively, weighted for the portion of the period for which they were outstanding, were outstanding but not included in the computation of diluted earnings per share because the options effect would have been anti-dilutive. For the six months ended June 30, 2010 and 2009, options to purchase 1.7 million and 1.3 million shares, respectively, weighted for the portion of the period for which they were outstanding, were outstanding but not included in the computation of diluted earnings per share because the options effect would have been anti-dilutive. For the six months ended June 30, 2010 and 2009, shares issued from the exercise of stock options were 0.3 million and 0.1 million, respectively.

5. Receivables

We deliver a broad array of information technology and technical services solutions under contracts with the U.S. government, state and local governments and commercial customers. The components of contract receivables are as follows (in thousands):

	June 30, 2010	December 31, 2009
Billed receivables	$ 379,325	$ 346,984
Unbilled receivables:		
Amounts billable	81,141	42,968
Revenues recorded in excess of funding	10,068	13,311
Revenues recorded in excess of milestone billings on fixed price contracts	0	141
Retainage	4,045	3,955
Allowance for doubtful accounts	(8,487)	(8,120)
Total receivables, net	$ 466,092	$ 399,239

Amounts billable consist principally of amounts to be billed within the next month. Revenues recorded in excess of funding are billable upon receipt of contractual amendments or other modifications. Revenues recorded in excess of milestone billings on fixed price contracts consist of amounts not expected to be billed within the next month. The retainage is billable upon completion of the contract performance and approval of final indirect expense rates by the government. Accounts receivable at June 30, 2010, are expected to be substantially collected within one year except for approximately $2.3 million.

6. Property and Equipment

Major classes of property and equipment are summarized as follows (in thousands):

	June 30, 2010	December 31, 2009
Furniture and equipment	$ 30,251	$ 28,725
Leasehold improvements	17,792	16,231
	48,043	44,956
Less: Accumulated depreciation and amortization	(32,452)	(30,458)
Total property and equipment, net	$ 15,591	$ 14,498

7. Goodwill and Other Intangibles

Under ASC 350, *Intangibles - Goodwill and Other*, goodwill is to be reviewed at least annually for impairment. We have elected to perform this review annually during the second quarter each calendar year. The 2010 review indicated no impairment and therefore resulted in no adjustments in goodwill.

The changes in the carrying amounts of goodwill during the year ended December 31, 2009 and the period ended June 30, 2010 are as follows (in thousands):

	Goodwill Balance
Net amount at December 31, 2008	$ 479,516
Additional consideration for the acquisition of EWA	(206)
Acquisition-DDK	8,907
Net amount at December 31, 2009	488,217
Acquisition-STI	143,772
Net amount at June 30, 2010	$ 631,989

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2010

UNAUDITED

Intangible assets consisted of the following (in thousands):

	June 30, 2010			December 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:						
Contract and program intangibles	$ 200,630	$ 49,989	$ 150,641	$ 107,430	$ 39,987	$ 67,443
Capitalized software cost for sale	8,348	8,211	137	10,138	9,955	183
Capitalized software cost for internal use	20,293	13,557	6,736	18,258	12,242	6,016
Other	58	18	40	58	16	42
Total other intangibles, net	$ 229,329	$ 71,775	$ 157,554	$ 135,884	$ 62,200	$ 73,684

Aggregate amortization expense relating to intangible assets for the three months ended June 30, 2010 and 2009 was $6.0 million and $3.1 million, respectively. Aggregate amortization expense relating to intangible assets for the six months ended June 30, 2010 and 2009 was $11.4 million and $6.2 million, respectively. We estimate that we will have the following amortization expense for the future periods indicated below (in thousands):

For the remaining six months ending December 31, 2010	$ 11,613
Year ending:	
December 31, 2011	$ 16,982
December 31, 2012	$ 14,756
December 31, 2013	$ 13,215
December 31, 2014	$ 11,534
December 31, 2015	$ 10,014

8. Long-term Debt

Long-term debt consisted of the following:

	June 30, 2010	December 31, 2009
	(in thousands)	
Revolving credit facility	$ 0	$ 0
7.25% senior unsecured notes	200,000	0
Long-term debt	$ 200,000	$ 0

Revolving Credit Facility-We maintain a revolving credit agreement with a syndicate of lenders led by Bank of America, N.A, as administrative agent. On December 18, 2009, we amended our revolving credit agreement to allow for additional flexibility in negative covenants, and specifically to increase the allowable acquisition limitation, the amount of unsecured debt the Company may have and the amount of stock that we may repurchase pursuant to a share repurchase program. The amended credit agreement provides for a revolving credit facility of up to $350.0 million in loan commitments, with a $25.0 million letter of credit sublimit and a $30.0 million swing line loan sublimit. The maturity date for the credit agreement is April 30, 2012.

Borrowings under the amended credit agreement are collateralized by our assets and bear interest at one of the following rates as selected by the Company at the time of borrowing: a London Interbank Offer Rate (LIBOR) based rate plus market-rate spreads that are determined based on the Company s leverage ratio calculation (1.625% to 2.5%), or the lender s base rate (plus spreads of 0.75% up to 1.5%), which is the highest of the Prime Rate, the sum of 0.5% plus the Federal Funds Rate, and, except during a Eurodollar Unavailability Period, 1.00% plus the Eurodollar Rate.

The terms of the credit agreement permit prepayment and termination of the loan commitments at any time, subject to certain conditions. The credit agreement requires the Company to comply with specified financial covenants, including the maintenance of a certain leverage ratio and fixed charge coverage ratio. The credit agreement also contains various covenants, including affirmative covenants with respect to certain reporting requirements and maintaining certain business activities, and negative covenants that, among other things, may limit our ability to incur liens, incur additional indebtedness, make investments, make acquisitions, pay cash dividends and undertake certain additional actions. As of June 30, 2010, we were in compliance with our financial covenants under the credit agreement.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2010

UNAUDITED

We had no outstanding balance on our credit facility at June 30, 2010 and December 31, 2009. The maximum additional available borrowing under the credit facility at June 30, 2010 was $348.6 million. As of June 30, 2010, we were contingently liable under letters of credit totaling $1.4 million, which reduces our availability to borrow under our credit facility.

7.25% Senior Unsecured Notes-Effective April 13, 2010, the Company issued $200.0 million of 7.25% senior unsecured notes in a private placement that were resold inside the United States to qualified institutional buyers in reliance on Rule 144A under the Securities Act of 1933, and outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act of 1933. A portion of the proceeds was used to refinance existing funded debt incurred to pay for the STI acquisition. We intend to use additional proceeds for general corporate purposes, including financing for any future acquisitions.

Pursuant to the terms of a registration rights agreement entered into in connection with the issuance of the 7.25% senior unsecured notes, on July 22, 2010, ManTech commenced an offer to exchange $200.0 million in aggregate principal amount of 7.25% senior unsecured notes due 2018 that are registered under the Securities Act of 1933, as amended, for any and all of the outstanding 7.25% senior unsecured notes due 2018.

The 7.25% senior unsecured notes mature on April 15, 2018 with interest payable semi-annually starting on October 15, 2010. The 7.25% senior unsecured notes were issued at 100% of the aggregate principal amount and are effectively subordinate to the Company s existing and future senior secured debt (to the extent of the value of the assets securing such debt), including debt outstanding under our senior credit facility. The 7.25% senior unsecured notes may be redeemed, in whole or in part, at any time, at the option of the Company subject to certain conditions specified in the indenture governing the 7.25% senior unsecured notes. The 7.25% senior unsecured notes are guaranteed, jointly and severally, on a senior unsecured basis by each of our wholly-owned domestic subsidiaries that also guarantee debt obligations under our senior credit facility.

The fair value of the 7.25% senior unsecured notes as of June 30, 2010 was approximately $204.0 million based on quoted market prices.

The Company incurred approximately $4.9 million in issuance costs, which are being amortized to interest expense over the contractual life of the 7.25% senior unsecured notes, resulting in an effective rate of 7.67%.

The indenture governing the 7.25% senior unsecured notes contains restrictive covenants, which, subject to important exceptions and qualifications specified in such indenture, will, among other things, limit our ability and the ability of our subsidiaries that guarantee the 7.25% senior unsecured notes to: pay dividends or distributions, repurchase equity, prepay subordinated debt or make certain investments; incur additional debt or issue certain disqualified stock and preferred stock; incur liens on assets; merge or consolidate with another company or sell all or substantially all assets; allow to exist certain restrictions on the ability of the guarantor to transfer assets; and enter into sale and lease-back transactions. The indenture also contains certain change of control provisions as well as customary events of default. An event of default under the indenture will allow either the trustee of the notes or the holders of at least 25% in principal amount of the then outstanding notes to accelerate, or in certain cases, will automatically cause the acceleration of, the amounts due under the notes. As of June 30, 2010, the Company was in compliance with all required covenants.

9. Commitments and Contingencies

Payments to us on cost-reimbursable contracts with the U.S. government are provisional payments subject to adjustment upon audit by the Defense Contract Audit Agency (DCAA). The majority of audits for 2002, 2003 and 2004 have been completed and resulted in no material adjustments. The remaining audits for 2002 through 2009 are not expected to have a material effect on our financial position, results of operations or cash flow.

In the normal course of business, we are involved in certain governmental and legal proceedings, claims and disputes and have litigation pending under several suits. We believe that the ultimate resolution of these matters will not have a material effect on our financial position, results of operations or cash flows.

10. Stock-Based Compensation

In June 2006, the Company s stockholders approved our 2006 Management Incentive Plan (the Plan), which was designed to enable us to attract, retain and motive key employees. Awards granted under the Plan are settled in shares of Class A common stock. At the beginning of each year, the Plan provides that the number of shares available for issuance automatically increases by an amount equal to one and one-half percent of the total number of shares of Class A and Class B common stock outstanding on December 31st of the previous year. On January 4, 2010, 539,466 additional shares were made available for issuance under the Plan. Through June 30, 2010, the remaining aggregate number of shares of our common stock authorized for issuance under the Plan was 1,493,120. Through June 30, 2010, 3,993,193 shares of our Class A common stock have been issued as a result of the awards granted under the Plan. The Plan expires in June 2016.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2010

UNAUDITED

The Plan is administered by the compensation committee of our Board of Directors, along with its delegates. Subject to the express provisions of the Plan, the committee has the Board of Directors authority to administer and interpret the Plan, including the discretion to determine the exercise price, vesting schedule, contractual life and the number of shares to be issued.

Stock Compensation Expense-For the three months ended June 30, 2010 and 2009, we recorded $0.6 million and $1.8 million of stock-based compensation cost, respectively. For the six months ended June 30, 2010 and 2009, we recorded $3.3 million and $3.6 million of stock-based compensation cost, respectively. No compensation expense of employees with stock awards, including stock-based compensation expense, was capitalized during the periods. For the six months ended June 30, 2010 and 2009, the total recognized tax benefit from the exercise of stock options was $0.3 million and $0.2 million, respectively.

Stock Options-We typically issue options that vest in three equal installments, beginning on the first anniversary of the date of grant. Under the terms of the Plan, the contractual life of the option grants may not exceed eight years. During the six months ended June 30, 2010 and 2009, we issued options that expire five years from the date of grant.

Stock Option Fair Value Determination-We have used the Black-Scholes-Merton option pricing model to determine fair value of our awards on date of grant. We will reconsider the use of the Black-Scholes-Merton model if additional information becomes available in the future that indicates another model would be more appropriate or if grants issued in future periods have characteristics that cannot be reasonably estimated under this model.

The following weighted-average assumptions were used for option grants during the six months ended June 30, 2010 and 2009:

Volatility. The expected volatility of the options granted was estimated based upon historical volatility of the Company s share price through weekly observations of the Company s trading history. For the six months ended June 30, 2010 and 2009, we used a volatility of 39.2% and 40.3%, respectively.

Expected Term. The expected term of options granted to employees during the six months ended June 30, 2010 and 2009 was determined from historical exercise of the grantee population. For all grants valued during the six months ended June 30, 2010 and 2009, the options had graded vesting over 3 years (33.3% of the options in each grant vest annually) and the contractual term was 5 years. For the six months ended June 30, 2010 and 2009, the options had a weighted-average expected term of 2.95 years and 2.85 years, respectively.

Risk-free Interest Rate. The yield on zero-coupon U.S. Treasury strips was used to extrapolate a forward-yield curve. This term structure of future interest rates was then input into numeric model to provide the equivalent risk-free rate to be used in the Black-Scholes-Merton model based on expected term of the underlying grants. For the six months ended June 30, 2010 and 2009, the weighted-average risk-free interest rate used was 1.5% and 1.3%, respectively.

Dividend Yield. The Black-Scholes-Merton valuation model requires an expected dividend yield as an input. We have not issued dividends in the past nor do we expect to issue dividends in the future. As such, the dividend yield used in our valuations for the six months ended June 30, 2010 and 2009 was zero.

Stock Option Activity-During the six months ended June 30, 2010, we granted stock options to purchase 622,000 shares of Class A common stock at a weighted-average exercise price of $49.77 per share, which reflects the fair market value of the shares on the date of grant. The weighted-average fair value of options granted during the six months ended June 30, 2010 and 2009, as determined under the Black-Scholes-Merton valuation model, was $13.93 and $12.19, respectively. These options vest in 3 equal installments over 3 years and have a contractual term of 5 years. Option grants that vested during the six months ended June 30, 2010 and 2009 had a combined fair value of $5.0 million and $4.7 million, respectively.

Information with respect to stock option activity and stock options outstanding for the year ended December 31, 2009 and the six months ended June 30, 2010.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2010

UNAUDITED

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Shares under option, December 31, 2008	1,961,149	$ 35.75	
Options granted	1,359,500	$ 47.65	
Options exercised	(394,949)	$ 31.81	$ 6,529
Options cancelled and expired	(207,517)	$ 42.34	
Shares under option, December 31, 2009	2,718,183	$ 41.85	$ 17,643
Options granted	622,000	$ 49.77	
Options exercised	(254,261)	$ 35.34	$ 3,464
Forfeitures	(238,914)	$ 47.19	
Shares under option, June 30, 2010	2,847,008	$ 43.96	$ 9,209

The following table summarizes nonvested stock options for the six months ended June 30, 2010:

	Number of Shares	Weighted Average Fair Value
Nonvested stock options at December 31, 2009	1,871,749	$ 13.05
Options granted	622,000	$ 13.93
Vested during period	(429,917)	$ 11.55
Options forfeited (non-vested)	(222,580)	$ 11.28
Nonvested shares under option, June 30, 2010	1,841,252	$ 13.81

Information concerning stock options outstanding and stock options expected to vest at June 30, 2010:

	Options Exercisable and Expected to Vest	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Stock options exercisable	1,005,756	2.4	$ 34.90	$ 8,661
Stock options expected to vest	1,265,406	3.7	$ 47.37	$ 529
Options exercisable and expected to vest	2,271,162			

Unrecognized compensation expense related to outstanding stock options expected to vest as of June 30, 2010 was $13.2 million. The expense is expected to be recognized over a weighted-average period of 2.0 years and will be adjusted for any future changes in estimated forfeitures.

Restricted Stock-Under the Plan, we have issued Restricted Stock. A restricted stock award is an issuance of shares that cannot be sold or transferred by the recipient until the vesting period lapses. Restricted shares issued to employees vest over three years in one-third increments on the first, second and third anniversaries of the grant date, contingent upon employment with the Company on the vesting dates. Restricted shares issued to our Board of Directors vest in one year. The related compensation expense is recognized over the service period and is based on the grant date fair value of the stock and the number of shares expected to vest.

Restricted Stock Activity-During the six months ended June 30, 2010, we granted 51,000 shares of restricted stock. The following table summarizes the restricted stock activity during the six months ended June 30, 2010:

	Number of Shares	Grant Date Fair Value (in thousands)
Nonvested, December 31, 2009	0	
Granted	51,000	$ 2,447
Vested	0	
Forfeited	0	
Nonvested, June 30, 2010	51,000	

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2010

UNAUDITED

11. Business Segment and Geographic Area Information

We have one reportable segment. We deliver a broad array of information technology and technical services solutions under contracts with the U.S. government, state and local governments and commercial customers. Our federal government customers typically exercise independent contracting authority, and even offices or divisions within an agency or department may directly, or through a prime contractor, use our services as a separate customer so long as that customer has independent decision-making and contracting authority within its organization. Revenues from the U.S. government under prime contracts and subcontracts were approximately 98.7% and 98.1% of our total revenue for the six months ended June 30, 2010 and 2009, respectively. There were no sales to any customers within a single country (except for the United States) where the sales accounted for 10% or more of total revenue. We treat sales to U.S. government customers as sales within the United States regardless of where the services are performed. Substantially all assets of continuing operations were held in the United States for the periods ended June 30, 2010 and December 31, 2009. Revenues by geographic customer and the related percentages of total revenues for the three and six months ended June 30, 2010 and 2009 were as follows (in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2010		2009		2010		2009	
United States	$ 656,274	99.2%	$ 509,022	99.0%	$ 1,238,995	99.2%	$ 953,361	98.9%
International	5,337	0.8%	5,046	1.0%	10,173	0.8%	10,277	1.1%
	$ 661,611	100.0%	$ 514,068	100.0%	$ 1,249,168	100.0%	$ 963,638	100.0%

During the three and six months ended June 30, 2010 and 2009, our U.S. Army Tank-Automotive Armaments Command (TACOM) contract exceeded 10% of our revenue from external customers.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2010	%	2009	%	2010	%	2009	%
	(dollars in thousands)							
Revenues from external customers:								
U.S. Army TACOM	$ 77,830	12%	$ 107,130	21%	$ 166,346	13%	$ 160,989	17%
All other contracts	583,781	88%	406,938	79%	1,082,822	87%	802,649	83%
ManTech Consolidated	$ 661,611	100%	$ 514,068	100%	$ 1,249,168	100%	$ 963,638	100%
Operating Income:								
U.S. Army TACOM	$ 5,321	9%	$ 5,042	11%	$ 10,379	10%	$ 9,111	11%
All other contracts	51,208	91%	39,831	89%	91,382	90%	76,120	89%
ManTech Consolidated	$ 56,529	100%	$ 44,873	100%	$ 101,761	100%	$ 85,231	100%

	June 30, 2010	%	December 31, 2009	%

	(dollars in thousands)			
Receivables:				
U.S. Army TACOM	$ 29,324	6%	$ 57,230	14%
All other contracts	436,768	94%	342,009	86%
ManTech Consolidated	$ 466,092	100%	$ 399,239	100%

Disclosure items required under ASC 280, *Segment Reporting*, including interest income, interest expense, depreciation and amortization expense, costs for stock-based compensation programs, certain unallowable costs as determined under Federal Acquisition Regulations and expenditures for segment assets are not applicable as we review those items on a consolidated basis.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements that involve substantial risks and uncertainties, many of which are outside of our control. ManTech International Corporation (depending on the circumstances, ManTech, Company, we, our, ours or us) be these statements to be within the definition of the Private Securities Litigation Reform Act of 1995. You can identify these statements by forward-looking words such as may, will, expect, intend, anticipate, believe, estimate, continue and other similar words. You shoul statements that contain these words carefully because they discuss our future expectations, make projections of our future results of operations or financial condition or state other forward-looking information.

Although forward-looking statements in this Quarterly Report reflect the good faith judgment of management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties, and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. We believe that it is important to communicate our future expectations to our investors. However, there may be events in the future that we are not able to predict accurately or control. Factors that could cause actual results to differ materially from the results we anticipate include, but are not limited to, the following:

- adverse changes in U.S. government spending priorities;
- failure to retain existing U.S. government contracts, win new contracts or win recompetes;
- risks associated with complex U.S. government procurement laws and regulations;
- adverse results of U.S. government audits of our government contracts;
- risk of contracts performance, modification or termination;
- curtailment of the U.S. Government s outsourcing of certain services that we provide;
- failure to obtain option awards, task orders or funding under contracts;
- adverse changes in our mix of contract types;
- risks of financing, such as increases in interest rates, restrictions imposed by our outstanding indebtedness, including the ability to meet existing financial covenants, and risks related to an inability to obtain new or additional financing;
- failure to successfully integrate recently acquired companies or businesses into our operations or to realized any accretive or synergistic effects from such acquisitions;
- failure to identify, execute or effectively integrate future acquisitions; and

competition.

We urge you not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report. These and other risk factors are more fully described and discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, previously filed with the Securities and Exchange Commission (SEC) and Item 1.A. of Part II of this Quarterly Report, and from time to time, in our other filings with the SEC. We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Quarterly Report. We also suggest that you carefully review and consider the various disclosures made in this Quarterly Report that attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

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Introduction and Overview

ManTech is a leading provider of innovative technologies and solutions for mission-critical national security programs for the Intelligence Community; the departments of Defense, State, Homeland Security and Justice; and other U.S. federal government customers. Our expertise includes systems engineering, systems integration, enterprise architecture, cyber security, information assurance, intelligence operations and analysis support, network and critical infrastructure protection, information operations and information warfare support, information technology, communications integration, global logistics and supply chain management and service oriented architectures. Our commitment to customer mission is one of our key differentiators. We currently have approximately 9,100 highly qualified employees operating in approximately 40 countries worldwide.

We derive revenue primarily from contracts with U.S. government agencies that are focused on national security, and as a result, funding for our programs is generally linked to trends in U.S. government spending in the areas of defense, intelligence, homeland security and other federal government agencies. Related to the evolving terrorist threats and world events, the U.S. government has continued to increase its overall defense, intelligence and homeland security budgets.

We recommend that you read this discussion and analysis in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, previously filed with the SEC as well as the quarterly financial statements and notes contained within this Form 10-Q filing.

Three Months Ended June 30, 2010 Compared to the Three Months Ended June 30, 2009

	Three Months Ended June 30,				Period-to-Period Change	
	2010	2009	2010	2009	2009 to 2010	
	Dollars		Percentages		Dollars	Percent
	(dollars in thousands)					
REVENUES	$ 661,611	$ 514,068	100.0%	100.0%	$ 147,543	28.7%
Cost of services	562,306	422,242	85.0%	82.1%	140,064	33.2%
General and administrative expenses	42,776	46,953	6.5%	9.1%	(4,177)	-8.9%
OPERATING INCOME	56,529	44,873	8.5%	8.8%	11,656	26.0%
Interest expense	(3,598)	(404)	0.5%	0.1%	(3,194)	790.6%
Interest income	57	47	0.0%	0.0%	10	21.3%
Other expense, net	(270)	111	0.0%	0.0%	(381)	-343.2%
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	52,718	44,627	8.0%	8.7%	8,091	18.1%
Provision for income taxes	(20,551)	(16,095)	3.1%	3.1%	(4,456)	27.7%
NET INCOME	$ 32,167	$ 28,532	4.9%	5.6%	$ 3,635	12.7%

Revenues

Revenues increased 28.7% to $661.6 million for the three months ended June 30, 2010, compared to $514.1 million for the same period in 2009. The increase was primarily due to our acquisition of Sensor Technologies Inc. (STI) on January 15, 2010. Intelligence, Surveillance and Reconnaissance (ISR) system infrastructure services contributed revenue growth of $146.8 million, including $129.8 million from contracts obtained through the acquisition of STI. Revenue growth of $13.4 million came from our cyber security related contracts. These increases were partially offset by a decrease due to lower procurement of materials on our contracts for the installation, sustainment and repair of communication systems and heavily armored vehicles designed to counter or clear mines and improvised explosive devices (IED), such as the Route Clearance family of vehicles supporting the U.S. Army Tank-Automotive Armaments Command (TACOM).

Cost of services

Cost of services increased 33.2% to $562.3 million for the three months ended June 30, 2010, compared to $422.2 million for the same period in 2009. The increase in cost of services is primarily due to our acquisition of STI. As a percentage of revenues, cost of services increased 2.9% to 85.0% for the three months ended June 30, 2010 as compared to 82.1% for the same period in 2009. Direct labor costs, which include applicable fringe benefits and overhead, increased by 14.8% over the same period in 2009 primarily due to growth in staff supporting global logistics, supply chain management and ISR programs, as well as the acquisition of STI. As a percentage of revenue, direct labor costs decreased 4.1% to 34.4% for the three months ended June 30, 2010, compared to 38.5% for the same period in 2009. The decrease in direct labor as a percentage of revenues is primarily due to the relative mix of direct labor and other direct costs. Other direct costs, which include subcontractors and third party equipment and materials used in the performance of our contracts, increased by 49.4% over the same period in 2009. The increase in other direct costs was primarily due to subcontractors related to STI contracts. As a percentage of revenues, other direct costs increased by 7.0% from 43.6% for the three months ended June 30, 2009 to 50.6% for the same period in 2010.

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General and administrative expenses

General and administrative expenses decreased 8.9% to $42.8 million for the three months ended June 30, 2010, compared to $47.0 million for the same period in 2009. The decrease is primarily due to various expense cutting efforts by management and the final consolidation of SRS Technologies back office function into our centralized functions in late 2009. The Company also experienced lower expenses for legal services and for services related to the compliance area due to new process efficiencies, as well as reduced stock based compensation expenses due to higher forfeiture estimates. These decreases were partially offset by increases in amortization of intangible assets from the acquisition of STI. As a percentage of revenues, general and administrative expenses decreased to 6.5% from 9.1% for the three months ended June 30, 2010 and 2009, respectively, due to a reduction in overall expenses and the leveraging of our general and administrative costs over a larger base.

Interest expense

Interest expense increased $3.2 million to $3.6 million for the three months ended June 30, 2010, compared to $0.4 million for the same period in 2009. The increase in interest expense is due to an increased level of indebtedness related to the acquisition of STI in January 2010 and a higher interest rate on our new debt. We incurred $3.2 million of interest expense related to our 7.25% senior unsecured notes issued in April 2010. We utilized proceeds from the note issuance to pay off all outstanding borrowings under our credit facility. Borrowings under our credit facility were used to finance the acquisition of STI. The interest rate on the notes is higher than the interest currently available to us under our credit facility. We expect to incur $3.8 million in interest expense each quarter related to the notes until they are retired.

Net income

Net income increased 12.7% to $32.2 million for the three months ended June 30, 2010, compared to $28.5 million for the same period in 2009. The increase in net income was primarily driven by the acquisition of STI and an overall reduction in general and administrative expenses offset by an increase in interest expense as well as an increase in our effective tax rate. Our effective tax rates for the three months ended June 30, 2010 and 2009 were 39.0% and 36.1%, respectively. The increase in our effective tax rate is largely attributable to losses within our deferred compensation plan.

Six Months Ended June 30, 2010 Compared to the Six Months Ended June 30, 2009

	Six Months Ended June 30,				Period-to-Period Change
	2010	2009	2010	2009	2009 to 2010
	Dollars		Percentages		Dollars
	(dollars in thousands)				
UES	$ 1,249,168	$ 963,638	100.0%	100.0%	As described in Note 2 to the consolidated financial statements, the Company adopted FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities*, in 2004. *Internal control over financial reporting* Also, in our opinion, based on our audit, management s assessment, included in the accompanying Management Report on Internal Control over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, based on our audit, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control Integrated Framework issued by the COSO. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management s assessment and on the effectiveness of the Company s internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance

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about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Seattle, Washington

March 20, 2006, except with respect to our opinions on the consolidated financial statements and financial statement schedule insofar as they relate to the effects of the discontinued operations as discussed in Note 25, as to which the date is May 23, 2006.

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SHURGARD STORAGE CENTERS, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands except share and per share data)

	As of December 31, 2005	2004
ASSETS		
Storage centers:		
Operating storage centers	$ 3,244,258	$ 3,143,488
Less accumulated depreciation	(552,171)	(479,531)
Operating storage centers, net	2,692,087	2,663,957
Construction in progress	67,073	58,431
Properties held for sale	6,774	8,328
Total storage centers	2,765,934	2,730,716
Cash and cash equivalents	39,778	50,277
Restricted cash	4,972	7,181
Goodwill	27,440	24,206
Other assets	119,248	128,204
Total assets	$ 2,957,372	$ 2,940,584
LIABILITIES AND SHAREHOLDERS EQUITY		
Accounts payable and other liabilities	$ 181,435	$ 180,652
Lines of credit	583,500	397,300
Notes payable	1,275,720	1,287,202
Total liabilities	2,040,655	1,865,154
Minority interest	116,365	169,232
Commitments and contingencies (Note 22)		
Shareholders equity:		
Series C Cumulative Redeemable Preferred Stock; $0.001 par value; 2,000,000 shares authorized; 2,000,000 shares issued and outstanding; liquidation preference of $50,000	48,115	48,115
Series D Cumulative Redeemable Preferred Stock; $0.001 par value; 3,450,000 shares authorized; 3,450,000 shares issued and outstanding; liquidation preference of $86,250	83,068	83,068
Class A Common Stock, $0.001 par value; 120,000,000 authorized; 47,041,680 and 46,624,900 shares issued and outstanding, respectively	47	47
Additional paid-in capital	1,142,288	1,127,138
Accumulated deficit	(459,586)	(354,985)
Accumulated other comprehensive (loss) income	(13,580)	2,815
Total shareholders equity	800,352	906,198
Total liabilities and shareholders equity	$ 2,957,372	$ 2,940,584

The accompanying notes are an integral part of these statements.

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SHURGARD STORAGE CENTERS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands except share and per share data)

	For the year ended December 31,		
	2005	**2004**	**2003**
Revenue			
Storage center operations	$ 478,970	$ 419,187	$ 291,085
Other	4,922	5,101	6,877
Total revenue	483,892	424,288	297,962
Expenses			
Operating	233,006	211,380	125,880
Real estate development	10,042	4,991	23
Depreciation and amortization	95,722	87,503	55,537
Impairment and abandoned project expense	3,354	2,856	13,889
General, administrative and other	35,318	32,961	18,012
Total storage center expenses	377,442	339,691	213,341
Income from operations	106,450	84,597	84,621
Other Income (Expense)			
Costs related to takeover proposal and exploration of strategic alternatives (Note 22)	(13,775)		
Interest expense	(105,584)	(82,876)	(51,182)
Amortization of participation rights discount		1,123	5,529
Loss on derivatives, net	(2,122)	(615)	(2,194)
Foreign exchange (loss) gain	(9,665)	6,247	(431)
Interest income and other, net	3,746	4,361	4,887
Other expense, net	(127,400)	(71,760)	(43,391)
(Loss) income before minority interest, equity in earnings of other real estate investments, net and income tax expense	(20,950)	12,837	41,230
Minority interest	20,936	16,608	(1,206)
Equity in earnings (losses) of other real estate investments, net	60	93	(3,099)
Income tax expense	(636)	(72)	(1,611)
(Loss) income from continuing operations	(590)	29,466	35,314
Discontinued operations			
Income from discontinued operations	418	1,942	2,324
Gain on sale of discontinued operations	11,831	16,226	
Total discontinued operations	12,249	18,168	2,324
Cumulative effect of change in accounting principle		(2,339)	
Net Income	**11,659**	**45,295**	**37,638**
Net Income Allocation			
Preferred stock dividends and other	(12,153)	(12,193)	(12,082)

Net (loss) income available to common shareholders	$	(494)	$	33,102	$	25,556
Basic per share amounts:						
(Loss) income from continuing operations available to common shareholders	$	(0.27)	$	0.37	$	0.57
Discontinued operations		0.26		0.40		0.06
Cumulative effect of change in accounting principle				(0.05)		
Net (loss) income available to common shareholders per share	$	(0.01)	$	0.72	$	0.63
Diluted per share amounts:						
(Loss) income from continuing operations available to common shareholders	$	(0.27)	$	0.37	$	0.56
Discontinued operations		0.26		0.39		0.06
Cumulative effect of change in accounting principle				(0.05)		
Net (loss) income available to common shareholders per share	$	(0.01)	$	0.71	$	0.62
Distributions per common share	$	2.23	$	2.19	$	2.15

The accompanying notes are an integral part of these statements.

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SHURGARD STORAGE CENTERS, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(in thousands)

	Preferred Stock		Class A Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount				
Balance, January 1, 2003	5,450	$ 131,183	35,934	$ 36	$ 804,582	$ (225,811)	$ (2,734)	$ 707,256
Comprehensive income (1)						37,638	12,492	50,130
Issuance of common stock			9,814	10	296,367			296,377
Distributions:								
Preferred						(11,896)		(11,896)
Common						(87,447)		(87,447)
Balance, December 31, 2003	5,450	131,183	45,748	46	1,100,949	(287,516)	9,758	954,420
Comprehensive income (loss) (1)						45,295	(6,943)	38,352
Issuance of common stock			877	1	26,189			26,190
Distributions:								
Preferred						(11,897)		(11,897)
Common						(100,867)		(100,867)
Balance, December 31, 2004	5,450	131,183	46,625	47	1,127,138	(354,985)	2,815	906,198
Comprehensive income (loss) (1)						11,659	(16,395)	(4,736)
Issuance of common stock			417		15,150			15,150
Distributions:								
Preferred						(11,897)		(11,897)
Common						(104,363)		(104,363)
Balance, December 31, 2005	5,450	$ 131,183	47,042	$ 47	$ 1,142,288	$ (459,586)	$ (13,580)	$ 800,352

(1) See Note 2 for components of other comprehensive income (loss).

The accompanying notes are an integral part of these statements.

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SHURGARD STORAGE CENTERS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	For the year ended December 31, 2005	2004	2003
Operating activities:			
Net income	$ 11,659	$ 45,295	$ 37,638
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sale of assets, including discontinued operations	(12,850)	(16,689)	(2,489)
Cumulative effect of change in accounting principle		2,339	
Depreciation, amortization and impairment losses	96,242	88,209	69,051
Loss on derivatives, net	2,122	615	2,194
Stock-based compensation expense	2,751	3,433	1,150
Equity in earnings of other real estate investments, net	(60)	(93)	3,099
Non-cash interest and other	10,454	7,017	(1,376)
Foreign exchange loss (gain)	9,523	(6,247)	431
Minority interest	(20,936)	(16,608)	1,206
Changes in operating accounts, net of effect of acquisitions:			
Other assets	(2,809)	(3,816)	7,968
Accounts payable, accrued expenses and other liabilities	20,056	19,286	4,826
Net cash provided by operating activities	116,152	122,741	123,698
Investing activities:			
Construction and improvements to storage centers	(166,886)	(209,294)	(97,482)
Acquisitions of storage centers, including associated intangible assets	(35,659)	(20,887)	
Purchase of intangible assets	(5,268)	(3,548)	(379)
Proceeds from sale of assets	26,293	30,071	5,725
Changes in restricted cash, net	1,610	(3,046)	(355)
Increase in notes receivable	(4,429)	(5,617)	(6,315)
Purchase of additional interest in European affiliated partnerships	(97,847)	(5,285)	(309,068)
Increase in cash due to consolidation of Shurgard Europe		32,877	
Purchase of additional interest in affiliated partnerships		(2,457)	(245)
Net cash used in investing activities	(282,186)	(187,186)	(408,119)

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SHURGARD STORAGE CENTERS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(in thousands)

	For the year ended December 31, 2005	2004	2003
Financing activities:			
Proceeds from notes payable	78,718	556,763	237,047
Payments on notes payable	(4,564)	(96,500)	(55,789)
Proceeds from lines of credit	1,056,500	427,000	589,695
Payments on lines of credit	(870,300)	(676,949)	(594,114)
Payment of loan costs	(7,638)	(2,621)	(1,276)
Payments on participation rights		(39,500)	(1,320)
Distributions paid on common and preferred stock	(113,284)	(112,764)	(99,343)
Payments on derivatives	(15,999)		
Proceeds from derivatives	1,114		
Proceeds from issuance of common stock, net			178,236
Proceeds from payments on loans to shareholders			20,000
Proceeds from exercise of stock options and dividend reinvestment plan	7,821	21,491	12,858
Contributions received from minority partners	32,006	29,403	226
Distributions paid to minority partners	(4,634)	(6,956)	(3,097)
Net cash provided by financing activities	159,740	99,367	283,123
Effect of exchange rate changes on cash and cash equivalents	(4,205)	3,685	
(Decrease) increase in cash and cash equivalents	(10,499)	38,607	(1,298)
Cash and cash equivalents at beginning of period	50,277	11,670	12,968
Cash and cash equivalents at end of period	$ 39,778	$ 50,277	$ 11,670
Supplemental schedule of cash flow information:			
Cash paid for interest, net of amounts capitalized	$ 98,412	$ 71,791	$ 47,272
Cash paid for income taxes	$ 1,746	$ (40)	$ 3,358
Supplemental schedule of non-cash investing information:			
Common stock issued in acquisition of storage centers	$ 5,490	$ 1,936	$ 84,134
Notes receivable forgiven in the acquisition of storage centers	$ 6,727	$	$
Contributions from minority interest partners	$	$ 3,635	$ 2,336
Minority interests granted in acquisition of storage centers	$ 4,475	$	$
Supplemental schedule of non-cash financing information:			
Preferred dividends declared but not paid	$ 2,976	$	$

The accompanying notes are an integral part of these statements.

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Description of the Business

Shurgard Storage Centers, Inc. and our subsidiaries (the Company, we, Shurgard or us) are engaged p in investing in, acquiring, developing and operating self-storage centers located in markets throughout the United States and in Western Europe. Our revenues are generated primarily from leasing self-storage space to tenants on a month-to-month basis. We also provide ancillary services at our storage centers consisting primarily of truck rentals and sales of storage products. Prior to January 1, 2004, we did not consolidate Shurgard Self Storage, SCA (Shurgard Europe) and its subsidiaries in our financial statements. Instead, we accounted for our investments in these entities under the equity method of accounting.

Note 2 Summary of Significant Accounting Policies

Basis of presentation: The consolidated financial statements are presented on an accrual basis in accordance with accounting principles generally accepted in the United States of America (GAAP) and include the accounts of Shurgard and our consolidated subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. Any references to the number of properties and square footage in the consolidated financial statement notes are unaudited.

Consolidated and unconsolidated subsidiaries: We consolidate all wholly-owned subsidiaries. We assess whether our subsidiaries are Variable Interest Entities (VIEs) as defined by the Financial Accounting Standards Board s (FASB) Interpretation No. (FIN) 46R, Consolidation of Variable Interest Entities. Since January 1, 20 we consolidate all VIEs of which we are the primary beneficiary. Partially-owned subsidiaries and joint ventures that are not VIEs are consolidated when we control the entity. Through June 30, 2005, we evaluated partially-owned subsidiaries and joint ventures held in partnership form in accordance with the provisions of Statement of Position (SOP) 78-9, Accounting for Investments in Real Estate Ventures, to determine whether t rights held by other investors constitute important rights as defined therein. Since July 1, 2005, we evaluate su rights in accordance with Emerging Issues Task Force (EITF) Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights. For partially-owned subsidiaries or joint ventures held in corporate form (including limited liability companies with governance provisions that are the functional equivalent of regular corporations), we consider the guidance of Statement of Financial Accounting Standard (SFAS) No. 94, Consolidation of All Majority-Owned Subsidiaries and EITF Issue No. 96-16, Investor s Accounting for an Investee When the Investor has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights and, in particular, whether rights held by other investors would be viewe as participating rights as defined therein. To the extent that any minority investor has substantive participating rights, has the ability to dissolve the partnership or remove the general partner without cause in a partnership or participating rights in a corporation, including substantive veto rights, the related entity will generally not be consolidated.

We account for unconsolidated subsidiaries and joint ventures over which we have significant influence using the equity method. In applying the equity method, our proportionate share of intercompany profits is eliminated as a component of equity in earnings of unconsolidated entities.

Foreign operations: The functional currency of each of our European subsidiaries, and their subsidiaries, is the local currency of the country in which the entity has operations (euro for members of the European Union that have adopted the euro, Krona for Sweden, Pound Sterling for the United Kingdom, and Krone for Denmark). Assets and liabilities are translated at the exchange rate in effect as of the end of each period and income statement accounts are re-measured at the average exchange rate for each period. Additionally, Recom SNC (Recom), a consolidated foreign entity with a U.S. dollar functional currency, has transactions that are

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

denominated in currencies other than U.S. dollars. For Recom, non-monetary assets and liabilities are converted to U.S dollars at historical exchange rates, monetary assets and liabilities are re-measured at the exchange rate in effect as of the end of the period and income statement accounts are re-measured at the average exchange rate for the period.

The results of our operations and our financial position are affected by the fluctuations in the value of the euro, and to a lesser extent, other European currencies, against the U.S. dollar. We recognize the effects of foreign currency exchange variances on our European assets, liabilities and equity as a currency translation adjustment in other comprehensive income (loss). We include gains and losses from foreign currency transactions, such as those resulting from the settlement of foreign receivables or payables on intercompany transactions, in net income. Also, we are exposed to foreign currency exchange risk related to intercompany debt with or between our European subsidiaries that are not denominated in the functional currency of the subsidiary or the investee. We recognize the effects of foreign currency on such debt in net income when we expect to settle the debt and in other comprehensive income when the debt is considered to be of a long-term investment nature.

Use of estimates: The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the amounts of revenues and expenses recognized during the reporting period. Significant estimates are inherent in the preparation of our financial statements and include the evaluation of impairment of long-lived assets and goodwill, valuation allowance for deferred tax assets, estimated lives of depreciable and amortizable assets, the allocation of the purchase price of acquired properties and legal liabilities. Actual results could differ from these and other estimates.

Reclassifications: We have reclassified certain prior year amounts to conform to the current presentation with no effect on shareholders equity, net income or net cash-flows from operating, investing and financing activities.

Storage centers: We carry storage centers to be developed or held and used in operations at depreciated cost, reduced for impairment losses where appropriate. We capitalize acquisition, development and construction costs of properties in development in accordance with SFAS No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, and include, where applicable, salaries and related costs, real estate taxes, interest, lease expense and preconstruction costs directly related to the project. The preconstruction stage of development of a storage center (or redevelopment of an existing storage center) includes efforts to secure land control and zoning, to evaluate feasibility and to complete other initial tasks that are essential to development. Costs of preconstruction efforts incurred prior to projects being considered probable to be completed are charged as real estate development expenses as incurred. We record abandonment losses for previously capitalized costs of development projects when we assess that the completion of the project is no longer probable. We capitalize development and construction costs and costs of significant improvements and replacements and renovations at storage centers, while we expense costs of maintenance and repairs as we incur them.

We compute depreciation of each operating storage center using the straight-line method based on the shorter of an estimated useful life of 30 years or the lease term for storage centers built on leased land. We evaluate and if necessary, revise estimates of the useful lives of specific storage centers, when we plan to demolish or replace them. We depreciate equipment and furniture and fixtures based on estimated useful lives of three to six years.

If events or circumstances indicate that the carrying value of an operating storage center may be impaired, we conduct a recoverability analysis based on expected undiscounted cash flows to be generated from the property. If the analysis indicates that we cannot recover the carrying value from estimated future cash flows, we

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

write down the property to its estimated fair value and recognize an impairment loss. We determine fair values based on expected future cash flows using appropriate market discount and capitalization rates.

We carry storage centers held for sale at the lower of their carrying value (i.e., cost less accumulated depreciation and any impairment loss recognized) or estimated fair value less costs to sell. We classify the net carrying values of properties as held for sale when the properties are actively marketed, their sale is considered probable within one year and various other criteria relating to their disposition are met. We discontinue depreciation of the operating storage centers at that time, but we continue to recognize operating revenues, operating expenses and interest expense until the date of sale. In accordance with SFAS No. 144, Accounting fo the Impairment or Disposal of Long-Lived Assets, we report revenues and expense of properties classified as held for sale in discontinued operations for all periods presented if we will sell or have sold the properties on terms where we have no continuing involvement with them after the sale. If active marketing ceases or the properties no longer meet the criteria to be classified as held for sale, we reclassify the properties as held for use, resume depreciation and recognize the loss for the period that we classified the properties as held for sale, and we charge deferred selling costs, if any, to expense.

We recognize gains from sales of properties using the full accrual method provided that the terms of the transactions and any continuing involvement by us with the properties sold meet certain criteria. We defer gains relating to transactions that do not meet the established criteria and recognize them when the criteria are met, or using the installment or cost recovery methods, as appropriate in the circumstances. We account for other sales of interests in properties that are substantially financing arrangements as such.

Acquisitions of businesses and storage centers: We allocate the purchase price of acquired storage centers and businesses to tangible and identified intangible assets based on their fair values. In making estimates of fair values for the purposes of allocating the purchase price, we rely primarily on our extensive knowledge of the market for storage centers and if considered appropriate, will consult with independent appraisers. In estimating the fair value of the tangible and intangible assets acquired, we also consider information obtained about each property as a result of our pre-acquisition due diligence, including independent appraisals that may be obtained in connection with the acquisition or financing of the respective assets.

The fair values of intangible assets include leases to customers with above market rents and in-place lease values. The fair values of these identifiable intangible assets are generally not significant, because substantially all leases in our business are month-to-month, and most customers use our facilities for less than one year. We expense internal costs related to the acquisition of a business, or an operating storage center, as we incur them.

We classify as goodwill any purchase price in excess of the value of acquired net tangible and identified intangible assets acquired in a business combination (including the acquisition of a minority interest in a business) or in the acquisition of a business and assign it to the reporting unit that expects to benefit from the acquisition. We test goodwill for impairment annually and whenever events or circumstances indicate that impairment may have occurred.

We evaluate acquisitions of businesses and storage centers from parties with whom we have a preexisting relationship to determine if a settlement of the preexisting relationship exists and, if so, we account for these acquisitions as multiple element transactions.

Cash and cash equivalents: Cash equivalents consist of money market instruments and securities with original maturities of 90 days or less.

Restricted cash: Restricted cash consists of cash deposits and represents expense reserves required by lenders or contractors and escrow deposits on pending real estate transactions or pending resolution of contingencies on the purchase price of completed real estate acquisitions.

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other assets: Other assets include financing costs, non-compete agreements and computer software costs (see Note 7). We amortize financing costs over the life of the related debt using the effective interest or the straight-line method if it approximates the effective interest method and we include the related expense in interest expense. We amortize non-compete agreements over their estimated useful lives, which range from two to five years. We record internal-use computer software at cost less accumulated amortization and amortize it over the estimated useful life, which ranges from two to seven years. During the software application development stage, capitalized costs include external consulting costs, cost of software licenses, interest expense and internal payroll and payroll-related costs for employees who are directly associated with the software project. We expense software maintenance, training and data conversion costs in the period in which we incur them.

Self insurance: We are self-insured for a portion of the risks associated with medical, dental and workmen s compensation. We recognize liabilities for unpaid claims and claims adjustment expenses that represent our best estimate of the total obligation for reported claims plus those incurred but not reported (IBNR) and the related estimated claim settlement expenses for all claims incurred through December 31 of each year. We determine IBNR reserves for workmen s compensation using actuarial methods that take into account historical loss experience data, industry statistics and additional qualitative factors, as appropriate. Additionally, we recognize a receivable for the estimated insurance reimbursement for any insured portion of the total liabilities.

Income taxes: We have elected to be taxed as a Real Estate Investment Trust (REIT) pursuant to the Internal Revenue Code of 1986, as amended. To qualify as a REIT, we must distribute annually to our shareholders at least 90% of our REIT taxable income and meet certain other requirements relating primarily to the nature of our assets and the sources of our revenues. As a REIT, we are not subject to U.S. Federal income taxes to the extent of distributions. We believe that we met the qualifications for REIT status at December 31, 2005 and intend to meet the qualifications in the future and to distribute at least 90% of our REIT taxable income to shareholders in 2006 and future years. We conduct our domestic non-REIT activities primarily through Shurgard TRS, Inc., a taxable REIT subsidiary. We conduct our foreign non-REIT activities primarily through six European taxable REIT subsidiaries. As a result, we have not provided for U.S. federal income taxes for the REIT in our financial statements. However, we do provide for U.S. federal income taxes for our domestic taxable REIT subsidiaries (TRSs). Additionally, both the REIT and our domestic TRSs are subject to certain state income taxes as well as franchise taxes in some jurisdictions. We also provide for income taxes of our European subsidiaries, which are subject to income taxes in the respective jurisdictions of the countries in which they operate.

We have deferred tax assets arising primarily from cumulative net operating losses arising in certain taxable subsidiaries. We evaluate both the positive and negative evidence that we believe is relevant in assessing whether we will realize the deferred tax assets. When we determine that it is more likely than not that we will not realize the tax asset either in part or in whole, we record a valuation allowance. One significant factor representing negative evidence in the evaluation of whether we will realize deferred tax assets arising from cumulative net operating losses is the historical taxable income or loss of the entity. In cases where a taxable entity has not demonstrated a history of achieving taxable income, this represents significant negative evidence in assessing whether we will realize the amounts and generally requires that we provide a valuation allowance.

Revenue recognition: The majority of our customers rent under month-to-month lease agreements and we recognize revenue at the contracted rate for each month occupied. We recognize revenue related to customers who sign longer period leases ratably over the term of the lease. We recognize management fee revenue each month for which we render services. These contracts are generally cancelable by either party on specified advanced notice. Revenues are presented net of provisions for doubtful accounts of $6.8 million, $6.0 million and $5.0 million in 2005, 2004 and 2003, respectively.

We recognize, in other revenue, revenue on our profit sharing contracts related to our tenant insurance referral program based on the excess of premiums over estimated claims and administrative costs.

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Capitalized interest: We capitalize interest incurred during the construction period of storage centers and during the development period of internally developed computer software. We capitalize interest to the related assets using a weighted-average rate of our credit facilities and senior notes payable. For the years ended December 31, 2005, 2004 and 2003, we capitalized interest of $3.2 million, $2.7 million and $2.3 million, respectively.

Advertising costs: We incur advertising costs primarily attributable to print advertisements in telephone books. We recognize the costs when the related telephone book is first published. We recognized $17.7 million, $17.3 million and $6.0 million in advertising expenses for the years ended December 31, 2005, 2004 and 2003, respectively.

Derivative financial instruments: We use derivative financial instruments to reduce risks associated with movements in interest and foreign currency exchange rates. We may choose to reduce cash flow and earnings volatility associated with interest rate risk exposure on existing variable-rate borrowings or forecasted variable- and fixed-rate borrowings. In some instances, lenders may require us to do so. In order to limit interest rate risk on variable-rate borrowings, we may enter into interest rate swaps or interest rate caps to hedge specific risks. In order to limit interest rate risk on forecasted borrowings, we may enter into interest rate swaps, forward starting swaps, forward rate agreements, interest rate locks and interest rate collars. We may also use derivative financial instruments to reduce foreign currency exchange rate risks to our earnings, cash flows and financial position arising from forecasted intercompany foreign currency denominated transactions and net investments in certain foreign operations. In order to limit foreign currency exchange rate risks associated with forecasted intercompany foreign currency denominated transactions, we may enter into cross-currency interest rate swaps. In order to limit foreign currency exchange rate risks associated with net investments in foreign operations, we may enter into foreign currency forward contracts. We may also use derivative financial instruments to reduce earnings volatility associated with other derivative financial instruments that are not designated as cash flow hedges. We do not use derivative financial instruments for speculative purposes.

Under purchased interest rate cap agreements, we make initial premium payments to the counterparties in exchange for the right to receive payments from them if interest rates exceed specified levels during the agreement period. Under sold interest rate cap agreements, we receive initial premium payments from the counterparties in exchange for the obligation to make payments to them if interest rates exceed specified levels during the agreement period. Under interest rate swap agreements, we and the counterparties agree to exchange the difference between fixed-rate and variable-rate interest amounts calculated by reference to specified notional principal amounts during the agreement period. Notional principal amounts are used to express the volume of these transactions, but the cash requirements and amounts subject to credit risk are substantially less.

Under cross currency interest rate swaps, we and the counterparties agree to exchange fixed amounts of foreign currencies calculated by reference to fixed interest rates and notional principal amounts during the agreement period. We also agree to exchange the notional amounts at the end of the agreement period. Under foreign currency forward contracts, we and the counterparties agree to exchange fixed amounts of foreign currencies at the end of the agreement period.

Parties to interest rate and foreign currency exchange agreements are subject to market risk for changes in interest rates and currency exchange rates and risk of credit loss in the event of nonperformance by the counterparty. We do not require any collateral under these agreements but deal only with highly rated financial institution counterparties (which, in certain cases, are also the lenders on the related debt) and expect that all counterparties will meet their obligations.

We measure derivative financial instruments at fair value and recognize these instruments as assets or liabilities on our balance sheet. We report changes in the values of the effective portions of derivative financial

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

instruments designated as cash flow hedges and changes in the values of derivative financial instruments designated as economic hedges of net investments in foreign subsidiaries as components of other comprehensive income. We recognize changes in the values of the ineffective portions of cash flow hedges and all changes in the values of undesignated derivative financial instruments in earnings. We account for amounts receivable or payable under interest rate cap and swap agreements designated as cash flow hedges as adjustments to interest expense on the related debt. To qualify for hedge accounting, we must formally document the details of the hedging relationship at inception of the arrangement, including the risk management objective, hedging strategy, hedged item, specific risks that are being hedged, the derivative instrument and how we assess effectiveness. The derivative must be highly effective in offsetting either changes in fair value or cash flows, as appropriate, for the risk being hedged. We evaluate effectiveness on a retrospective and prospective basis based on quantitative measures of correlation. When we determine that a derivative has ceased to be highly effective as a hedge, we discontinue hedge accounting prospectively.

We discontinue hedge accounting prospectively when (i) we determine that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item (including hedged items such as firm commitments or forecasted transactions); (ii) the derivative expires or is sold, terminated or exercised; (iii) it is no longer probable that the forecasted transaction will occur; (iv) a hedged firm commitment no longer meets the definition of a firm commitment; or (v) we determine that designating the derivative as a hedging instrument is no longer appropriate.

When we discontinue hedge accounting because we determine that the derivative no longer qualifies as an effective fair-value hedge, we will continue to carry the derivative on the balance sheet at its fair value but cease to adjust the hedged asset or liability for changes in fair value. When we discontinue hedge accounting because the hedged item no longer meets the definition of a firm commitment, we will continue to carry the derivative on the balance sheet at its fair value, removing from the balance sheet any asset or liability that we recorded to recognize the firm commitment and recording it as a gain or loss in current period earnings. When we discontinue hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period, the gain or loss on the derivative remains in accumulated other comprehensive income and we reclassify it into earnings when the forecasted transaction affects earnings. However, if it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within an additional two month period of time thereafter, we immediately recognize in earnings the gains and losses that were accumulated in other comprehensive income. If we discontinue a cash flow hedge because the variability of the probable forecasted transaction has been eliminated, we will reclassify the net accumulated other comprehensive income to income over the term of the designated hedging relationship. Whenever we discontinue hedge accounting and the derivative remains outstanding, we will carry the derivative at its fair value on the balance sheet, recognizing changes in the fair value in current period earnings. Expenses recognized relating to changes in the time value of interest rate cap agreements were insignificant in 2005, 2004 and 2003.

Other comprehensive income: The following tables summarize components of other comprehensive income:

	2005	2004	2003
		(in thousands)	
Net income	$ 11,659	$ 45,295	$ 37,638
Other comprehensive income (loss):			
Derivatives designated as hedges	440	(10,118)	2,058
Currency translation adjustment	(16,835)	3,175	10,434
Total other comprehensive (loss) income	(16,395)	(6,943)	12,492

Total comprehensive (loss) income	$ (4,736)	$ 38,352	$ 50,130

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The currency translation adjustment represents the net currency translation adjustment gains and losses related to our European subsidiaries. Amounts are presented net of minority interest.

Financial instruments: The carrying values reflected on the consolidated balance sheet at December 31, 2005 and 2004 reasonably approximate the fair values of restricted cash, cash and cash equivalents, other assets, accounts payable and other liabilities, lines of credit and variable rate debt.

Based on the borrowing rates currently available to us for bank loans with similar terms and average maturities, we estimate the fair value of our fixed rate long-term debt was $648.8 million compared to a book value of $617.3 million at December 31, 2005. As of December 31, 2004, we estimated the fair value of our fixed rate long-term debt was $667.7 million compared to a book value of $619.5 million.

Financial assets that are exposed to credit risk consist primarily of accounts receivable and notes receivable. As of December 31, 2005 and 2004, notes receivable, which are included in other assets, consisted primarily of notes to finance the construction of certain properties and were secured by the properties. The carrying values of those notes approximate fair value, because the applicable interest rates approximate market rates for these loans. We adjust the value of notes that we consider are not collectible. In 2003, we recognized a $1.6 million impairment expense on the write-down of one note receivable. Accounts receivable from customers are included in other assets (see Note 7), and are not a significant component of total assets. Accounts are deemed past due based on payment terms. The allowance for doubtful accounts represents management s estimate and is based on historic losses, recent collection history of individual customers, foreclosure recovery experience for each storage center and economic conditions. We write-off delinquent accounts to the extent and at the time we deem them to be not recoverable.

Financial instruments with characteristics of both liabilities and equity: We adopted the requirements of SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, in t third quarter of 2003, and there was no impact on our financial position, operating results or cash flows. However, the minority interests associated with certain of our consolidated joint ventures and our European subsidiaries that have finite lives under the terms of the partnership agreements represent mandatorily redeemable interests as defined in SFAS No. 150. As of December 31, 2005 and 2004, the aggregate book value of these minority interests in finite-lived entities on our consolidated balance sheet was $105.3 million and $158.4 million, respectively and we believe that the estimated aggregate settlement value of these interests was approximately $213.2 million and $210.0 million, respectively. This amount is based on the estimated liquidation values of the assets and liabilities and the resulting proceeds that we would distribute to our joint venture partners assuming dissolution as of December 31, 2005. As required under the terms of the respective partnership agreements, subsequent changes to the estimated fair value of the assets and liabilities of the consolidated joint ventures will affect our estimate of the aggregate settlement value. The partnership agreements do not limit the amount to which the minority partners would be entitled in the event of liquidation of the assets and liabilities and dissolution of the respective partnerships.

Stock-based compensation expense. At December 31, 2005, we had stock based employee compensation plans, which are described more fully in Note 16 to the financial statements. We account for stock based compensation under APB Opinion No. 25, Accounting for Stock Issued to Employees. We adopted the disclosure provisions SFAS No, 148, Accounting for Stock Based Compensation Transition and Disclosure, which amends SFAS No. 123, Accounting for Stock Based Compensation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table reflects pro forma net income as if we had recognized stock-based compensation expense using the fair value method in accordance with SFAS No. 123.

	2005	2004	2003
	(in thousands except per share data)		
Net income:			
As reported	$ 11,659	$ 45,295	$ 37,638
Add: Stock based compensation expense	2,751	3,433	1,150
Less: Pro forma stock based compensation expense	(4,315)	(4,502)	(2,132)
Pro forma net income	$ 10,095	$ 44,226	$ 36,656
Basic net (loss) income available to common shareholders per share:			
As reported	$ (0.01)	$ 0.72	$ 0.63
Pro forma	(0.04)	0.70	0.61
Diluted net (loss) income available to common shareholders per share:			
As reported	$ (0.01)	$ 0.71	$ 0.62
Pro forma	(0.04)	0.69	0.60

Recent accounting pronouncements: In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment, a revision of SFAS No. 123. This statement disallows APB Opinion No. 25 s intrinsic value method of accounting for share based compensation awards and generally requires entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the fair value of those awards as of their grant date. We will adopt the provisions of SFAS 123R as of January 1, 2006 using the modified prospective method. Under the modified prospective method, compensation cost is recognized beginning with the effective date for all share-based payments granted after the effective date and for the unamortized portion of all awards granted to employees prior to the effective date of SFAS No. 123R. Under SFAS No. 123R, we will recognize stock-based compensation expenses related to our stock option plans and our Employee Stock Purchase Plan that were previously only subject to disclosure. We are still evaluating the impact of adopting SFAS No. 123R on our financial position and operating results in 2006. We believe that the disclosure of pro-forma results required under SFAS No. 123 approximates our results if we had adopted the provisions of SFAS 123R as of January 1, 2003.

In October 2005, the FASB issued FASB Staff Position (FSP) FAS 13-1 Accounting for Rental Costs Incurred during a Construction Period, which is effective for lease agreements entered into after January 1, 2006. This FSP clarifies that rental costs incurred during the period of construction of an asset on leased property should not be capitalized; rather they should be recognized as rental expense in the same manner as rental costs incurred after the construction period. However, to the extent a lessee accounts for rental of real estate projects under SFAS No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, it should continue capitalizing rental costs. We lease under operating leases certain parcels of land and buildings on which we develop storage centers or perform certain construction improvements. We have historically capitalized rental costs during the construction period on such properties. We account for real estate projects involving our development and construction of self-storage facilities under SFAS No. 67; therefore, we do not believe that the adoption of this FSP will have a material impact on our financial position, operating results or cash flows.

In June 2005, the FASB issued EITF Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights. In light of guidance provided in FIN 46R regarding kick-out rights in the context of evaluating

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

variable interests and consolidation of variable interest entities, EITF 04-5 clarifies when a sole general partner should consolidate a limited partnership. EITF 04-5 provides authoritative guidance for purposes of assessing whether a limited partner s rights are important rights that, under SOP 78-9, might preclude a general partner from consolidating a limited partnership. For general partners of all new limited partnerships formed and for existing limited partnerships for which the partnership agreements are modified, EITF 04-5 is effective after June 29, 2005. For general partners in all other limited partnerships, the guidance in this Issue was effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. We do not believe that the adoption of EITF 04-5 will have a material impact on our financial position, operating results or cash flows.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections a replacement of AP Opinion No. 20 and FASB Statement No. 3. This statement replaces APB Opinion No. 20, Accounting Change and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requiremen for the accounting for and reporting of a voluntary change in accounting principle. It also applies to changes required by an accounting pronouncement in the instance that the pronouncement does not include specific transition provisions. APB Opinion No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period the cumulative effect of changing to the new accounting principle. SFAS No. 154 requires retrospective application of changes in accounting principle to prior periods financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. We will adopt the provisions of SFAS No. 154 as of January 1, 2006 and we do not believe this statement will have a material impact on our financial position, operating results or cash flows.

In March 2005, the FASB issued FASB FIN 47, Accounting for Conditional Asset Retirement Obligations. FIN 47 clarifies that the term conditional asset retirement obligations as used in SFAS No. 143, Accounting for A Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlements are conditional on a future event that may or may not be within the control of the entity. FIN 47 indicates that an entity must record a liability for a conditional asset retirement obligation if the fair value of the obligation can be reasonably estimated and also clarifies when an entity should have sufficient information to reasonably estimate the fair value of an asset retirement obligation. This interpretation was effective October 1, 2005. The adoption of FIN 47 had no material impact on our financial position, operating results or cash flows.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets, an amendment of AP Opinion No. 29, Accounting for Nonmonetary Transactions. This statement eliminates the exception to the measurement at fair value for exchanges of similar productive assets and replaces it with an exception for exchange transactions that lack economic substance. The provisions of this statement were effective for transactions occurring after June 15, 2005 and have been applied prospectively. Accordingly, any exchange of properties or interests in properties needs to be evaluated for economic substance. The adoption of SFAS No. 153 had no material impact on our financial position, operating results or cash flows.

Note 3 Variable Interest Entities and Cumulative Effect of Change in Accounting Principle

Under FIN 46R, a VIE must be consolidated by a company if that company is subject to a majority of the expected losses from the VIE s activities or entitled to receive a majority of the entity s residual returns or both. FIN 46R also requires disclosures about VIEs that a company is not required to consolidate, but in which it has a significant variable interest. We adopted FIN 46R as of January 1, 2004.

Prior to June 30, 2005, we had direct and indirect ownership interests in Shurgard Self Storage SCA (Shurgard Europe) of 87.23%. We assessed Shurgard Europe under the provisions of FIN 46R and concluded that

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

it met the definition of a VIE. We also concluded that we were the primary beneficiary effective as of June 2003. As a result, we began consolidating Shurgard Europe in our financial statements beginning January 1, 2004. On June 30, 2005, we acquired the remaining 12.77% ownership interests in Shurgard Europe at a purchase price of approximately $97.4 million in cash. Accordingly, as of June 30, 2005, Shurgard Europe became a wholly-owned subsidiary and is no longer a VIE.

Shurgard Europe has created two joint venture entities: First Shurgard SPRL (First Shurgard) formed in January 2003 and Second Shurgard SPRL (Second Shurgard) formed in May 2004. Those joint ventures are expected to develop or acquire up to approximately 75 storage facilities in Europe. Shurgard Europe has a 20% interest in each of these ventures. We have also determined that First Shurgard and Second Shurgard are each VIEs, of which Shurgard Europe is the primary beneficiary. Accordingly, First Shurgard has been consolidated in our financial statements since January 1, 2004, and Second Shurgard has been consolidated since inception. At December 31, 2005, First Shurgard and Second Shurgard had aggregate total assets of $330.7 million, total liabilities of $212.5 million, and credit facilities collateralized by assets with net book value of $310.9 million (see Note 9). As of December 31, 2005, First Shurgard s and Second Shurgard s creditors had no recourse to the general credit of Shurgard or Shurgard Europe other than certain loan commitments. Under those commitments, Shurgard could subscribe to up to $20 million and an additional 5.0 million ($5.9 million as of December 31, 2005) in preferred bonds in a potential event of default of First Shurgard in addition to a 2.5 million ($3.0 million as of December 31, 2005) working capital facility. We have an option to put 80% of the bonds issued by First Shurgard to Crescent Euro Self Storage Investments, Shurgard Europe s partner in the joint venture.

In October 2004, Self-Storage Securitisation B.V. (Securitisation BV), a Dutch limited liability entity in which Shurgard and its subsidiaries have no ownership interest, was formed to issue 325 million in floating rate investment grade bonds. This entity receives interest under a note of a similar amount with Shurgard Europe and holds certain derivatives instruments to hedge its interest rate exposure on the bonds. We determined that Securitisation BV is a VIE of which Shurgard Europe is the primary beneficiary based on the activity of this entity and the fact that the notes issued by Securitisation BV are collateralized by assets of Shurgard Europe. We have consolidated this entity since its inception.

Upon adoption of FIN 46R in 2004, we recognized a cumulative effect of change in accounting principle of approximately $2.3 million relating to the consolidation of First Shurgard. This is the result of eliminating all intercompany profits from inception of First Shurgard in 2003 as required under FIN 46R. Prior to adoption of FIN 46R, we eliminated our 20% ownership share of intercompany profits.

We do not believe that any of our other investees in which we do not hold a majority voting interest are VIEs under the provisions of FIN 46R.

Note 4 Storage Centers

The following table summarizes our operating storage centers at December 31, 2005 and 2004:

	As of December 31, 2005	As of December 31, 2004
	(in thousands)	
Land	$ 675,379	$ 662,458
Building	2,487,831	2,405,370
Equipment & Other	81,048	75,660

	$ 3,244,258	$ 3,143,488

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During 2005, we purchased the remaining third party interest in Shurgard Europe, opened sixteen new storage centers, acquired ten storage centers and completed five major redevelopment projects on existing storage centers. We also sold five storage centers, including two that were classified as properties held for sale as of December 31, 2004. As of December 31, 2005, we had two properties and seven parcels of land held for sale with a net carrying value of $6.8 million (see Note 25). Construction in progress at December 31, 2005, consisted primarily of nine storage centers under construction and redevelopment projects for two existing storage centers, compared to five storage centers under construction and six redevelopments as of December 31, 2004.

Acquisitions

We completed the following acquisitions in 2005:

We recorded $47.0 million additions to storage centers related to our acquisition of the remaining third party interest in Shurgard Europe (See Note 5).

We acquired one storage center, for a purchase price of $3.0 million, in North Carolina through Shurgard/Morningstar Storage Centers, LLC, one of our consolidated subsidiaries of which we own 74%. Also, we completed the purchase of six storage centers in North Carolina for an aggregate purchase price of $26.0 million. These storage centers are managed by affiliates of certain members of Shurgard/Morningstar Storage Centers, LLC that are unrelated to Shurgard.

During 2005, we acquired Central Parkway Storage, Inc. (CPI), which owns two storage properties in Florida. We had a preexisting relationship with the shareholders of CPI and as part of the transaction we settled approximately $1.2 million of liabilities due to them. We also settled an option we had to acquire an interest in a property owned by them and recorded a gain on that option of approximately $560,000. The net consideration we issued in these transactions was approximately $10.4 million and consisted of 127,684 shares of common stock ($5.5 million) and cash ($4.9 million). We allocated $9.8 million of the consideration to storage centers and related assets. We also agreed to provide the sellers of CPI, at their request, a line of credit collateralized by the stock issued in the acquisition for up to 50% of the value of such stock for a term not to exceed 13 months with monthly interest payable at prime. No advances have been made under this facility.

We have an agreement with a California developer under which it purchases sites in southern California and constructs storage centers on them according to our specifications. On completion of the rent-up period, we have the option to purchase the storage centers. In 2005, we contributed three storage centers to one of the joint ventures. The development manager of these storage centers contributed an additional storage center in California (subject to a mortgage due to us) to the venture. We cancelled the mortgage on that storage center and received an approximate 85% interest in the venture; our partner received an approximate 15% interest in the venture. We agreed to lend up to $10.0 million to this developer to fund the construction of two properties, secured by the properties developed. As of December 31, 2005, the developer had drawn $9.4 million, which is included in other assets.

In 2005, we recognized assets for acquired non-compete agreements of $3.4 million on the above described acquisitions.

In 2004, we acquired eight storage centers through various acquisition transactions for an aggregate cost of $59.4 million, of which $35.8 million was settled in cash.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Minnesota Mini-Storage

On June 30, 2003, we acquired five entities owning a total of 19 self-storage centers located in Minnesota and operated under the name of Minnesota Mini-Storage in order to establish market presence in that state. We have included the results of Minnesota Mini-Storage in our consolidated financial statements since that date. We accounted for this acquisition as a purchase transaction.

Assuming we had acquired Minnesota Mini-Storage at the beginning 2003, pro forma income for continuing operations and net income would have exceeded reported amounts for 2003 by approximately $3.1 million or $0.05 per share for basic and diluted.

Other storage center activity

In 2005, we completed the sale of five storage centers: one in Arizona, one in California and three in Washington, for aggregate total proceeds of approximately $24.8 million and aggregate gains of $11.8 million.

We determined that the net book value of certain properties exceeded their fair value less costs to sell. Accordingly, we recorded an impairment loss for these properties of $420,000, $80,000 and $9.9 million in 2005, 2004 and 2003, respectively.

Additionally, the closure of warehouses of our containerized storage operations (see Note 11) caused us to evaluate the assets associated with these warehouses. As a result, we recognized equipment impairment losses related to these warehouses of $650,000 in 2003. We also recorded losses from write-offs of development costs on several projects of $2.9 million, $2.8 million and $1.2 million in 2005, 2004 and 2003.

Note 5 Investment in Shurgard Europe

We operate in seven European countries through our subsidiary Shurgard Europe. Through April 2003 our ownership interest in Shurgard Europe was 7.57%. During the period from April 2003 through December 31, 2003 we increased our ownership interest to 85.47% through several acquisition transactions and further increased our ownership interest in 2004 to 87.23%. On June 30, 2005, we acquired the remaining interest in Shurgard Europe for a purchase price of $97.4 million in cash, net of the minority interest partner s share of intercompany debt between Shurgard Europe and Shurgard (approximately $8.1 million). The purchase price and direct acquisition costs exceeded the carrying value of the related minority interest by approximately $50.2 million of which we allocated $47.0 million to the storage centers owned by Shurgard Europe and its subsidiaries based on the properties fair values. We allocated the remaining $3.2 million to goodwill associated with Shurgard Europe s underlying reporting units. We acquired this interest in order to gain full control of Shurgard Europe so that we can direct its future activities. We also expect to consolidate certain functions and, over the longer term, eliminate certain redundant costs.

Shurgard Europe conducts its development growth through two 20% owned consolidated joint ventures First Shurgard and Second Shurgard (see Note 3). These joint ventures had total equity commitments of 100 million ($118.4 million as of December 31, 2005) each, of which 2.4 million and 55.2 million ($2.8 milli and $65.4 million as of December 31, 2005) remained to be drawn for First Shurgard and Second Shurgard, respectively, at December 31, 2005.

As of December 31, 2005, Shurgard Europe and its subsidiaries owned, managed or leased 149 properties containing approximately 7.9 million rentable square feet in seven European countries.

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As discussed in Note 3, upon the adoption of FIN 46R, we started consolidating Shurgard Europe and First Shurgard as of January 1, 2004, and we started consolidating Second Shurgard at its inception in May 2004. We previously accounted for our investments in Shurgard Europe and First Shurgard using the equity method of accounting.

Shurgard Europe financial information

Following are summarized statements of operations for Shurgard Europe and its subsidiaries. We have eliminated in consolidation with Shurgard, interest income related to the preferred bonds of Shurgard Europe (see Note 23) of \$8.7 million, \$8.0 million and \$6.9 million for the years ended December 31, 2005, 2004 and 2003.

Shurgard Self Storage S.C.A. (3)

Consolidated Statements of Operations

	2005	2004 (1)	2003 (1)
		(in thousands)	
Revenue			
Storage center operations	$ 124,928	$ 101,532	$ 70,118
Other revenue	101	219	11,376
Total revenue	125,029	101,751	81,494
Expenses			
Operating	83,793	74,250	50,373
Real estate development	7,396	4,592	8,928
Depreciation and amortization	24,831	21,090	19,433
Impairment and abandoned project losses	2,294	2,226	1,422
General, administrative and other	8,151	6,509	6,181
Total expenses	126,465	108,667	86,337
Loss from operations	(1,436)	(6,916)	(4,843)
Other Income (Expense)			
Interest expense	(44,475)	(36,091)	(36,171)
Loss on derivatives	(4,073)	(1,244)	
Foreign exchange (loss) gain	(8,034)	4,930	9,830
Interest income and other	224	605	1,520
Other expense, net	(56,358)	(31,800)	(24,821)
Loss before minority interest and income taxes	(57,794)	(38,716)	(29,664)
Minority interest (2)	19,832	13,334	
Income tax expense	(253)	(46)	(202)

Net loss before cumulative effect of accounting change	(38,215)	(25,428)	(29,866)
Cumulative effect of a change in accounting principle		(2,339)	
Net loss	$ (38,215)	$ (27,767)	$ (29,866)

(1) Certain prior years amounts have been reclassified to conform to the current presentation with no effect on net loss.

(2) The minority interest represents approximately 80% of the losses attributable to Shurgard Europe s joint ventures.

(3) The financial information is presented as used for consolidation purposes with Shurgard and is not representative of Shurgard Europe s financial information in U.S. GAAP on a stand-alone basis.

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Note 6 Goodwill

In 2005, we recognized $3.2 million of goodwill associated with Shurgard Europe s underlying reporting units upon acquisition of our minority partner s share of Shurgard Europe (see Note 5).

In 2003, we determined that the remaining goodwill on Storage To Go, LLC (STG), a company that held our containerized storage operations, was fully impaired due to the closure of this activity. As a result, we recorded an impairment loss of $490,000 in 2003.

Note 7 Other Assets and Accounts Payable and Other Liabilities

The following table summarizes other assets by category:

	As of December 31, 2005	2004
	(in thousands)	
Financing costs, net of accumulated amortization of $22,852 in 2005 and $19,121 in 2004	$ 34,121	$ 39,976
Trade receivable, net of allowance of $4,681 in 2005 and $3,393 in 2004	14,964	13,206
Prepaid expenses	14,751	15,300
Software costs, net of accumulated amortization of $3,056 in 2005 and $2,134 in 2004	14,638	10,551
Notes receivable	13,868	16,956
Non-competition, trademark and management agreements, net of accumulated amortization of $9,827 in 2005 and $8,464 in 2004	4,186	912
Other accounts receivable	10,958	12,560
Other real estate investments (1)	26	738
Derivatives assets (see Note 14)	4,709	11,234
Other assets, net of accumulated amortization of $1,575 in 2005 and $2,039 in 2004	7,027	6,771
Total other assets	$ 119,248	$ 128,204

(1) We had an investment in one domestic unconsolidated entity accounted for using the equity method as of December 31, 2004. We sold our investment in that subsidiary in July 2005.

The major components of our amortizable intangible balances are software costs and non-compete agreements, trademark and management agreements. Amortizable intangibles are included in other assets as presented above. We recognized amortization expenses on these intangibles of $2.9 million, $1.4 million and $1.3 million in 2005, 2004 and 2003. The following table summarizes our estimated amortization expense for intangible assets over the next five years (in thousands):

2006	$ 4,024
2007	4,161
2008	2,916
2009	2,389
2010	1,836

$ 15,326

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents the components of accounts payable and other liabilities:

	As of December 31, 2005	As of December 31, 2004
	(in thousands)	
Accounts payable	$ 17,937	$ 22,029
Accrued real estate taxes	12,652	11,620
Accrued personnel cost	15,711	13,124
Accrued interest	15,330	14,164
Prepaid revenue and deposits	28,641	27,489
Taxes payable	15,765	18,086
Accrued expense related to exploration of strategic alternatives	11,350	
Derivatives liabilities (see Note 14)	23,997	41,675
Other accrued expenses and liabilities	40,052	32,465
Total accounts payable and other liabilities	$ 181,435	$ 180,652

Note 8 Lines of Credit

The following table summarizes our lines of credit:

	December 31, 2005	December 31, 2004	Weighted Average interest rate at December 31, 2005	Weighted Average interest rate at December 31, 2004
	(in thousands)			
Unsecured domestic line of credit	$ 233,500	$ 297,300	5.46%	3.52%
Unsecured domestic term loan credit facility	350,000	100,000	5.76%	3.53%
	$ 583,500	$ 397,300	5.64%	3.52%

In 2005, we entered into a three-year unsecured domestic credit agreement, which includes a revolving credit facility with a group of banks to borrow up to $350 million and a $350 million term loan facility that matures in February 2008. We borrowed the entire available $350 million on the term loan facility and used the proceeds to fund the acquisition of the remaining interest in Shurgard Europe (See Note 5), to finance other acquisitions (See Note 4) and the development of certain of our properties, and to repay borrowings under the revolving credit facility. The revolving credit facility can be extended for one year at our option for a fee. The revolving credit facility and the term loan require monthly interest payments at LIBOR plus 0.90% and LIBOR plus 1.10%, respectively, at December 31, 2005. Downgrades made by bond rating agencies in July 2005 to our senior unsecured debt rating resulted in an increase of 0.2% (included in above rates) in our interest rate on the domestic line of credit and term loan agreements. As of December 31, 2005, availability under the revolving credit facility was $116.5 million. The domestic credit agreement requires us to maintain quarterly maximum total debt and secured debt to gross asset value ratios and minimum adjusted EBITDA to fixed charges and unencumbered net operating income to unsecured interest expense ratios. The financial covenants also require us to maintain a minimum tangible net worth. A breach of these covenants and other various covenants may result in an acceleration of the maturity of amounts outstanding. The domestic credit agreement restricts our distributions to a maximum of 105% of Adjusted Funds from Operations (Adjusted FFO) for up to four consecutive quarters; after that it must not exceed 95% of Adjusted FFO. Adjusted FFO is defined in the domestic credit agreement as (i) net income (calculated in accordance with GAAP) excluding non-recurring

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gains and losses on or from operating properties; plus (ii) depreciation and amortization; and after adjustments for unconsolidated subsidiaries. Adjusted FFO excludes the effects of charges and costs associated with the takeover proposal and exploration of strategic alternatives. Contributions to Adjusted FFO from unconsolidated subsidiaries are reflected in Adjusted FFO in proportion to borrower s share of such unconsolidated subsidiaries. The quarterly distributions did not reach 95% of the Adjusted FFO in 2005. As of December 31, 2005, we were in compliance with these financial covenants.

As of December 31, 2004, we had an unsecured domestic line of credit to borrow up to $360 million, an unsecured term loan agreement for an additional $100 million and an unused line of credit for the Storage Center Trust available for the financing of the properties under our tax retention operating leases. These facilities required monthly interest payments at LIBOR plus 1.25%. Both facilities matured on February 26, 2005 and we refinanced them with borrowings on our new credit facilities discussed above.

Note 9 Notes Payable

Notes payable consisted of the following:

	As of December 31,	
	2005	**2004**
	(in thousands)	
Domestic Notes payable (1)		
5.875% senior unsecured notes due in 2013	$ 200,000	$ 200,000
7.75% senior unsecured notes due in 2011	200,000	200,000
7.625% senior unsecured notes due in 2007	50,000	50,000
Fixed rate mortgage notes payable	167,331	169,510
Maturity dates range from 2006 to 2015		
Interest rates range from 4.95% to 8.9%		
Variable rate mortgage notes payable	81,410	75,231
Maturity dates range from 2006 to 2010		
Interest rates range from 6.29% to 7.25%		
European Notes payable (1)		
Collateralized 325 million notes payable due in 2011	384,889	443,299
Interest rate of 2.68% (EURIBOR + 0.51%)		
First Shurgard and Second Shurgard	185,931	137,764
Senior credit agreements		
Maturity dates range from 2008 to 2009		
Interest rate of 4.58% (EURIBOR + 2.25%)		
Capital leases	6,010	11,112
Maturity dates range from 2011 to 2052		
Interest rates range from 6% to 14%		
	1,275,571	1,286,916
Discount on domestic senior notes payable	(610)	(695)
Premium on domestic mortgage notes payable	759	981
Total Notes Payable	$ 1,275,720	$ 1,287,202

(1) All maturities and interest rates are as of December 31, 2005.

First Shurgard and Second Shurgard have senior credit agreements denominated in euros to borrow, in aggregate, up to 272.5 million ($322.7 million as of December 31, 2005). As of December 31, 2005, the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

available amount under those credit facilities was, in aggregate, 115.5 million ($136.8 million). Our draws under the First Shurgard and Second Shurgard credit facilities are determined on a development project basis and can be limited if the completion of projects is not timely and if we have certain cost overruns. The credit facilities also require us to maintain a maximum loan to value of the collateral ratio and a minimum debt service ratio. In December 2004, we notified the agent for the lenders of First Shurgard s credit facility that First Shurgard would require modifications to certain of its covenants in order to be in compliance. The lenders agreed to modifications of these covenants in February 2005. No default or acceleration of the credit facility was declared by the lenders. As of December 31, 2005, we were in compliance with the revised covenants. Borrowings under both the First Shurgard and Second Shurgard credit facilities were such that they could only be used to fund property development costs of First Shurgard and Second Shurgard. In January 2006, we amended Second Shurgard s credit agreement such as to allow for borrowings for up to 21.9 million ($25.9 million as of December 31, 2005) to be used for acquisition of existing self-storage properties including properties under capital leases.

In December 2005, we renewed a domestic variable rate mortgage note payable at maturity. The note is collateralized by 21 self-storage properties and bears interest of LIBOR plus 1.5%. This amendment increased the principal amount of the borrowing by $0.7 million to $67.0 million and extended the term to December 2008.

In February 2005, we entered into one new domestic mortgage agreement to partially finance the purchase of a storage center in North Carolina (see Note 4). This $2.2 million note matures in February 2010 and bears monthly interest of LIBOR plus 2%. At December 31, 2005, we had three loan agreements to develop three new properties. We had drawn $3.5 million under these loans and $5.0 million remained available for draw. Also, in July 2005, we refinanced two of our fixed interest rate mortgages into one new $3.1 million fixed interest rate mortgage bearing a 4.95% interest rate and maturing in August 2015.

As of December 31, 2005 and 2004, our notes payable were collateralized by storage centers with net book values of $1.42 billion and $1.18 billion, respectively.

At December 31, 2005, scheduled amortization and maturities of all notes payable, excluding capital leases, for the next five years and thereafter were as follows (in thousands):

Year	**Total**
2006	$ 9,226
2007	64,310
2008	230,542
2009	37,976
2010	10,631
Thereafter	916,876
	$ 1,269,561

Participation Rights

In 2000 and prior, we formed joint ventures in which our partners rights, including rights to redeem their interests at amounts determined in the related agreements, were substantively participating mortgages. We accounted for these joint ventures as financing arrangements, and, as such, recognized all activities related to those properties in our financial statements. On the formation of the ventures, we recognized participation rights liabilities and related discounts on the underlying liabilities for the estimated fair values of the partners shares of the joint ventures based on the best evidence available to us. The discounts were amortized as a component of interest expense based on estimated dates of redemptions. We retired our remaining participation rights in

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 2004, when we acquired our joint venture partner s interest. In 2004 and 2003, we recognized $1.1 million and $5.5 million, respectively, in amortization income. The adjustments to amortization were based on re-evaluations of our estimated participation rights liability each period based on the performance of the related properties and estimates of the rights retirement dates. Also, in 2003 we recognized a $7.5 million impairment loss in relation with four properties associated with these participation rights.

Note 10 Lease Obligations

We lease certain parcels of land, buildings and equipment. We also have five properties in Belgium and the Netherlands under capital leases with purchase options on the Belgian properties exercisable in 2011 and 2022. The future minimum rental payments required under these leases are as follows (in thousands):

	Operating leases (1)	Capital leases	Total
2006	$ 9,509	$ 618	$ 10,127
2007	8,512	630	9,142
2008	7,265	642	7,907
2009	6,584	654	7,238
2010	5,200	604	5,804
Thereafter	143,852	33,784	177,636
	$ 180,922	$ 36,932	$ 217,854

(1) Certain of our European land operating leases have indefinite terms or extension options exercisable at discretion of the lessee. For such land leases we have disclosed operating lease obligations over the estimated useful life of the related property.

The present value of net minimum capital lease payments at December 31, 2005, was as follows (in thousands):

Present value of net minimum capital lease payments	
Capital lease total future payments	$ 36,932
Amount representing interest	(30,922)
Present value of net minimum capital lease payments	$ 6,010

Expenses under operating leases were approximately $8.4 million, $6.3 million and $5.6 million for the years ended December 31, 2005, 2004 and 2003, respectively. Certain of our land leases include escalation clauses, and we recognize related lease expenses on a straight-line basis. Several of our lease agreements have rent amounts contingent on our storage centers revenue. Our lease expense due to contingent rent was $280,000, $150,000 and $180,000, in 2005, 2004 and 2003, respectively.

The net book value of properties under capital leases was $6.1 million and $9.8 million as of December 31, 2005 and 2004, respectively, net of accumulated depreciation of $1.2 million and $2.9 million, respectively. We recognize depreciation expense on these properties in depreciation and amortization on the consolidated statements of operations.

Note 11 Restructuring and Exit Costs

Upon acquiring the remaining minority interest, we announced a plan to change the management structure of Shurgard Europe, including the consolidation of certain national offices, and recorded charges associated with

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

these activities, including certain termination benefits payable to certain involuntarily terminated employees and lease termination costs relating to certain leased office facilities that we ceased using in 2005. Under this plan, we also announced that we would undertake further cost reduction initiatives through the end of 2007. In 2005, we started implementing cost reductions by consolidating certain departments and we reduced the number of positions in operations management, real estate and finance groups in various countries. We recorded the charges related to these cost reduction initiatives as the various initiatives take effect. We also recognized a liability for lease termination costs based on the remaining rental payments under the lease less estimated market sublease payments we might receive should we sublease the space. The operating leases for facilities we have ceased to use expire in 2009. Under this plan, we recognized expenses of $2.4 million in 2005, including $2.0 million in severance payments and $0.4 million for lease obligations that are included in general administrative and other on our consolidated statement of operations. As of December 31, 2005, we had an outstanding liability of $630,000. We expect to incur additional expenses in 2006 and 2007 as further reorganization decisions are made.

In December 2001 and 2003, our board of directors approved exit plans to discontinue our containerized storage operations. In connection with these decisions, we accrued incremental costs expected to be incurred during the closing of the warehouses affected by our exit plan. As of December 31, 2005, we had a remaining liability under warehouse operating lease obligations through 2008. The liability is recognized at its fair value for the remaining lease rentals, reduced by estimated sublease rentals and is reevaluated periodically. As of December 31, 2005, we had entered into subleasing agreements for all seven warehouses, including some on a month-to-month basis.

Since 2001, we have incurred $5.3 million of exit costs related to containerized storage operations. The following table summarizes costs incurred for exiting our containerized storage operations since January 2003:

	(in thousands)
Total accrued exit costs as of January 1, 2003	$ 1,019
Payments made	(507)
Total accrued exit costs as of December 31, 2003	512
Exit costs	2,276
Payments made	(1,304)
Total accrued exit costs as of December 31, 2004	1,484
Exit costs	271
Payments made	(982)
Total accrued exit costs as of December 31, 2005	$ 773

Note 12 Income Taxes

We elected to be taxed as a REIT under the Internal Revenue Code commencing with our taxable year ended December 31, 1994. As a REIT, we generally will not be subject to corporate level federal income tax on taxable income we distribute to our shareholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not qualify as a REIT for four subsequent years. Even if we qualify for taxation as a REIT, we are subject to certain state and local taxes on income and property, and to federal income and excise taxes on undistributed taxable income. In addition, taxable income from non-REIT activities managed through our taxable REIT subsidiaries is subject to federal, state and local income taxes and our European subsidiaries are subject to certain income taxes in the respective jurisdictions of the countries in which they operate. As of December 31, 2005, we believe we were in compliance with REIT requirements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following reconciles our net income to the adjusted REIT taxable income:

	2005 (*estimate*)	2004 (*actual*) (in thousands)	2003 (*actual*)
Net income	$ 11,659	$ 45,295	$ 37,638
Adjustments to earnings of European subsidiaries	53,680	39,775	20,329
Costs related to takeover proposal and exploration of strategic alternatives	13,775		
Stock grant compensation	(5,168)	(4,782)	(2,353)
Settlement reserves	(2,693)	2,790	144
Investment in U.S. partnerships and joint ventures	2,280	365	9,055
Travel and entertainment	302	273	222
Unrealized (gain) loss on financial instruments	(1,951)	(630)	2,194
Adjustments to earnings of taxable REIT subsidiaries	(749)	218	3,035
Depreciation and amortization	10,702	9,860	597
Gain on disposition of assets	284	193	2,540
Workmen s compensation	(343)	1,840	1,336
Unrealized loss (gain) on foreign exchange	2,473	(2,172)	(230)
Professional fees	843	(2,749)	4,781
Prepaid rent	(143)	307	314
Section 162(m) limitation	183	1,171	
Accrued compensation	846	915	453
Other items	71	68	(208)
Adjusted REIT taxable income subject to the 90% distribution requirement	$ 86,051	$ 92,737	$ 79,847

For income tax purposes, distributions paid to common shareholders consist of ordinary income, capital gains, return of capital or a combination thereof. For the years ended December 31, 2005, 2004 and 2003, distributions paid per share were taxable as follows:

	2005		2004		2003	
	Amount	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**
Ordinary income	$ 1.47	65.9%	$ 1.52	69.4%	$ 1.67	77.7%
Capital gains	0.22	9.9%	0.32	14.6%	0.06	2.8%
Return of capital	0.54	24.2%	0.35	16.0%	0.42	19.5%
	$ 2.23	100.0%	$ 2.19	100.0%	$ 2.15	100.0%

Additionally, during 2005 we paid dividends on our Series C and Series D cumulative redeemable preferred stock of $1.63 and $1.64 per share, respectively. Of these amounts, 87.0% consisted of ordinary dividends and 13.0% consisted of capital gain dividends.

In 2005, we transferred ownership interests of certain properties from a taxable entity to the REIT and recorded approximately $410,000 of U.S. federal and state income tax expense related to this transaction. Also, certain

European subsidiaries have started generating taxable income resulting in income tax expense in 2005. In 2003, we recognized a $1.6 million tax expense for Recom, a Belgian subsidiary that we started consolidating that year. As of December 31, 2005 and 2004, we had tax liabilities of $870,000 and $1.9 million, respectively. Consolidated U.S. income from continuing operations before income tax expense was $27.8 million, $63.6 million and $40.7 million for 2005, 2004 and 2003, respectively. The corresponding amounts from foreign based operations were losses of $27.7 million, $34.1 million and $3.8 million, respectively.

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Our income tax expense consisted of the following components:

	2005	2004	2003
	(in thousands)		
Federal	$ 386	$ 27	$
State	73		
Foreign	177	45	1,611
Total income tax expense	$ 636	$ 72	$ 1,611

The components of deferred tax assets (liabilities) for Shurgard s taxable operations are included in the table below. As of December 31, 2005 and 2004, we had established a valuation allowance for the value of our deferred tax assets. Given the history of losses of our taxable operations, we have concluded there is insufficient evidence at this point to justify recognition of the benefits of these deferred tax assets on our books. Our domestic TRS entities have started to generate taxable income, which resulted in a reduction of our domestic deferred tax assets as of December 31, 2005 compared to 2004. As of December 31, 2005, we had U.S. federal net operating loss carryforwards of $24.1 million that will expire starting in 2012. Additionally, as of December 31, 2005, we had U.S. state and local net operating loss carryforwards of $11.8 million that will start expiring in 2006. We had $307.4 million of net operating loss carryforwards from our European operations as of December 31, 2005. This amount may be carried forward indefinitely. On March 6, 2006, we entered into an Agreement and Plan of Merger (see Note 22) with Public Storage, Inc., that contemplates a merger whereby we will be merged with and into a subsidiary of Public Storage, Inc. Upon merger it is possible that part of the net operating loss carryforwards described above could be lost, in whole or in part, depending upon the type of transaction.

The foreign and domestic components of our net deferred tax asset were as follows:

	2005	2004
	(in thousands)	
Domestic	$ 9,627	$ 10,592
Foreign	95,062	77,019
Net deferred tax asset before valuation allowance	104,689	87,611
Valuation allowance	(104,689)	(87,611)
Net deferred tax asset	$	$

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Significant components of our deferred tax assets and liabilities were as follows:

	2005	2004
	(in thousands)	
Deferred tax assets:		
Net operating loss carryforwards	$ 106,580	$ 105,888
Net unrealized loss on derivatives	5,575	
Losses on asset recognition	591	503
Accrual of warehouses exit costs	263	595
Other	791	1,164
Deferred tax liabilities:		
Depreciation	(5,579)	(9,028)
Exchange translation on bonds payable	(3,186)	(6,888)
Other	(346)	(4,623)
Net deferred tax asset before valuation allowance	104,689	87,611
Valuation allowance	(104,689)	(87,611)
Net deferred tax asset	$	$

We increased our valuation allowance for deferred tax assets by $17.1 million, $78.2 million and $1.0 million in 2005, 2004 and 2003, respectively.

Note 13 Shareholders Equity

Shurgard has 40 million shares of preferred stock authorized, of which 2.8 million shares have been designated as Series A junior participating preferred stock (none of which were issued or outstanding at December 31, 2005), 2 million shares have been designated as Series C cumulative redeemable preferred stock (all of which were issued and outstanding at December 31, 2005) and 3.45 million shares have been designated as Series D cumulative redeemable preferred stock (all of which were issued and outstanding at December 31, 2005). The board of directors is authorized to determine the rights, preferences and privileges of the preferred stock including the number of shares constituting any such series and the designation thereof.

Our Series C and Series D cumulative redeemable preferred stock earn quarterly dividends at rates of 8.70% and 8.75% of their liquidation preferences, respectively. Our series C cumulative redeemable preferred stock became callable at our option in December 2003, at a redemption price of $25 per share. Our Series D cumulative redeemable preferred Stock became callable at our option in February 2006, at a redemption price of $25 per share. On December 1, 2005, our board of directors declared preferred dividends for our Series C and Series D cumulative redeemable preferred stock for the fourth quarter of 2005 at a rate of $0.54 and $0.55 per share, respectively. The aggregate amount of these preferred stock dividends was $3.0 million and was accrued in other liabilities on the consolidated balance sheet as of December 31, 2005.

In 2005, we acquired CPI, which owns two storage properties in Florida (see Note 4). We issued 127,684 shares of Class A common stock ($5.5 million) in connection with this purchase. We allocated the amount of the consideration to storage centers and related assets acquired.

In October 2003, we issued 395,000 shares of our Class A common stock in connection with our purchase of our European operating partners interest in Recom and Shurgard Europe.

On July 11, 2003, we raised approximately $178.2 million through the sale to the public of 5.75 million shares of Class A common stock. We used approximately $101.6 million of the proceeds to fund the acquisition

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of an additional 19.7% ownership interest in Shurgard Europe. We used the additional proceeds to repay a portion of the indebtedness under our line of credit, which included amounts we borrowed to purchase the 36 properties that we previously operated under our tax retention operating leases and to fund our additional investment in Recom.

In June 2003, we issued 3,050,000 shares of Class A common stock in connection with our purchase of Minnesota Mini-Storage at closing and issued an additional 50,000 shares in September 2004 when the transaction was finalized.

Note 14 Derivative Financial Instruments

We use derivative instruments to manage risks associated with movements in interest rates and foreign currency exchange rates. We report derivative financial instruments at fair value on our consolidated balance sheets in other assets and other liabilities and had the following balances as of December 31:

	December 31, 2005	December 31, 2004
	(in thousands)	
Assets		
Debt-related contracts	$ 2,792	$ 5,612
Foreign currency exchange contracts	1,917	5,622
	$ 4,709	$ 11,234
Liabilities		
Debt-related contracts	$ (21,778)	$ (39,586)
Foreign currency exchange contracts	(2,219)	(2,089)
	$ (23,997)	$ (41,675)

As of December 31, 2005 and 2004, the balance in accumulated other comprehensive income (loss) related to derivative transactions was a loss of $9.5 million and of $9.9 million, respectively.

In the United States we had entered into interest rate swaps that were not designated as hedges, which matured in February 2005 and were settled for $14.9 million.

In March 2002, we entered into a fixed to variable interest rate swap for $50 million of the senior notes payable due in 2004. We designated this hedge as a fair value hedge. We recognized the gain or loss on the swap and the bonds in earnings and adjusted the carrying value of the bonds accordingly. On August 20, 2002, we terminated these swaps at a gain of $2 million. We amortized this gain to interest expense as an adjustment to the carrying value of the bonds over the remaining life of the bonds using the effective interest method. For the years ended December 31, 2004 and 2003, interest expense was reduced by $380,000 and $1.2 million respectively, for amortization of the gain. We repaid the bonds in full in April 2004.

Shurgard Europe has entered into an interest rate swap to effectively fix EURIBOR at 3.714% through October 2011 on 325 million of variable rate debt. This swap is designated as a cash flow hedge and was a liability of

$12.9 million and $12.7 million at December 31, 2005 and 2004, respectively. Shurgard Europe has also entered into foreign currency exchange derivatives designated as cash flow hedges. These instruments were liabilities of $1.7 million and assets of $940,000 at December 31, 2005 and assets of $2.1 million and liabilities of $1.5 million at December 31, 2004. We had undesignated interest rate caps for interest rate changes between October 2011 and October 2014 that we entered into as part of Shurgard Europe s bond issuance. Shurgard

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Europe s interest rate cap was an asset of $2.8 million at December 31, 2005, and expires in October 2014. To offset the earnings impact of this cap, we sold two interest rate caps with terms, that combined, reciprocate those of Shurgard Europe s cap. These caps were liabilities of $3.0 million at December 31, 2005.

First Shurgard has entered into interest rate swaps designated as cash flow hedges of interest payments on future borrowings under its credit facility. In June 2005, we determined that one of these swaps ceased to be an effective hedge and no longer qualified for hedge accounting. Accordingly, we are reclassifying the related accumulated other comprehensive loss of 230,000 ($280,000 at December 31, 2005) to earnings through the swaps maturity in March 2006. We expect to reclassify approximately $95,000 to earnings for this instrument in 2006.

(The weighted-average notional amounts and fixed pay rates of these swaps still designated as cash flow hedges are as follows (euros in millions):

	2006	2007	2008
Notional amounts	123.6	118.8	45.1
Weighted-average pay rates	3.7%	3.8%	3.8%

The swap agreements were liabilities of $2.7 million and $4.1 million at December 31, 2005 and 2004, respectively.

First Shurgard has also entered into foreign currency exchange derivatives designated as cash flow hedges or economic hedges of net investments in subsidiaries outside the euro zone. These instruments, which mature in May 2008, were liabilities of $0.5 million at December 31, 2005 and assets of $0.8 million and liabilities of $0.5 million at December 31, 2004. We recognized a gain of $0.8 million and $0.3 million in currency translation adjustment on our consolidated balance sheet for those derivatives for the same periods.

In connection with financing agreements, First Shurgard also entered into call options maturing on May 27, 2008, for the purchase of 15 million equating to $18.6 million at a fixed exchange rate. This transaction does not qualify for hedge accounting. These instruments were assets of $970,000 and $2.7 million at December 31, 2005 and 2004, respectively.

Second Shurgard has entered into interest rate swaps designated as cash flow hedges of interest payments on future borrowings under its credit facility. The weighted-average notional amounts and fixed pay rates of these swaps are as follows (euros in millions):

	2006	2007	2008	2009
Notional amounts	91.4	123.3	125.2	69.3
Weighted-average pay rates	3.8%	3.7%	3.7%	3.7%

These swap agreements were liabilities of $3.1 million and $2.8 million at December 31, 2005 and 2004, respectively.

In 2005 and 2004, we recognized a loss of $0.4 million and $0.7 million, respectively, for hedge ineffectiveness in (interest expense/foreign exchange gain/loss) in our consolidated statements of operations.

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SHURGARD STORAGE CENTERS, INC.

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Note 15 Foreign operations

We conduct our foreign operations through Shurgard Europe and other European subsidiaries, which we started consolidating as of January 1, 2004. Our European revenues amounted to $126.5 million, or 26%, and $102.1 million, or 24%, of total revenue for the years ended December 31, 2005 and 2004, respectively.

As a result of our international operations, we recorded a $9.7 million foreign exchange loss, a $6.2 million foreign exchange gain and a $430,000 foreign exchange loss for the years ended December 31, 2005, 2004 and 2003, respectively.

Through July 1, 2005, we were exposed to foreign currency exchange risk related to intercompany debt with or between our European subsidiaries that is not denominated in the functional currency of the subsidiary or the investee. In connection with the acquisition of the remaining interest in Shurgard Europe, we reevaluated our plans and expectations with respect to repayment of certain intercompany debt with our European subsidiaries and determined that it is prospectively a long-term-investment as defined in SFAS 52, Foreign Currency Translation. Accordingly, we do not recognize exchange gains or losses on such intercompany debt in our consolidated statements of operations. Rather, beginning July 1, 2005, we report these translation adjustments as a component of other comprehensive income (loss). We had a foreign exchange loss of $9.2 million in net income related to this intercompany debt during 2005 compared to a gain of $6.5 million during 2004. We recorded losses of $1.3 million related to this intercompany debt during 2005, as a component of other comprehensive income (loss).

Included in accumulated other comprehensive income was a cumulative foreign currency translation adjustment loss of $4.1 million as of December 31, 2005, and a gain of $12.7 million as of December 31, 2004.

Note 16 Stock Compensation and Benefit Plans

Summary of Stock Compensation Plans

Our stock compensation plans provide for the granting of options, as well as restricted stock awards, performance awards, stock unit awards and distribution equivalent rights. As of December 31, 2005, we had outstanding grants under several stock option and long-term incentive compensation plans. Our 1993 Stock Option Plan for Employees and Stock Option Plan for Non-employee Directors, as amended during 1995, expired in 2003. Our 1995 Long-Term Incentive Compensation Plan expired in 2000, and the remaining outstanding options under the plan will expire in or before 2010.

In 2005 and 2004, we made grants under both the 2000 Long-Term Incentive Compensation Plan (the 2000 Plan), and the 2004 Long-Term Incentive Compensation Plan (the 2004 Plan) that was approved by shareholders in June 2004. In 2003, we made grants under the 2000 Plan. The purpose of the 2004 Plan is to enhance the long-term profitability and shareholder value of the Company by offering incentives and rewards to those employees, officers, directors, consultants and agents of Shurgard and its subsidiaries who are key to our growth and success. The 2004 Plan is also intended to encourage such persons to remain in the service of Shurgard and its subsidiaries and to acquire and maintain stock ownership in Shurgard. Both the 2000 Plan and the 2004 Plan permit the plan administrator to authorize loans, loan guarantees or installment payments to assist award recipients in acquiring shares pursuant to awards, but contain certain limitations imposed by tax legislation. Both plans require mandatory acceleration of vesting in the event of certain mergers and consolidations or a sale of substantially all the assets or a liquidation of Shurgard, except where such awards are assumed or replaced in the transaction. The 2000 Plan and the 2004 Plan allow for grants to consultants and agents as well as our officers, directors and key employees.

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The 2000 Plan provides for the granting of up to 2.8 million shares of our Class A common stock. Approximately 20,000 authorized shares remained available for future grants under this plan as of December 31, 2005. The 2004 Plan provides for the granting of up to 3.5 million shares of our Class A common stock. Approximately 3.1 million authorized shares were available for future grants under this plan as of December 31, 2005.

Stock Options

Each stock option provides the recipient the right to purchase shares of our Class A common stock at the fair market value of our common stock as of the date of grant. Stock options have a ten-year term from the grant date and vest over a three-year period under the 2000 Plan and a minimum of four years under the 2004 Plan with a vesting schedule determined by the plan administrator at the time of grant.

The fair value of options granted under our stock option plans is estimated on the date of grant using the Black-Scholes option-pricing model with weighted-average assumptions as follows:

Weighted average assumptions used for

Black-Scholes option-pricing model

	2005	2004	2003
Dividend yield	4.02%	5.55%	7.97%
Expected volatility	20%	22%	23%
Risk free interest rate	4.43%	3.59%	2.94%
Expected life (in years)	5.5	5.5	5.6
Fair value per option (1)	$ 8.83	$ 5.04	$ 3.12

(1) Weighted averages of option grants during each period.

The following table summarizes changes in options outstanding under the plans:

	2005		2004		2003	
	Number of Shares	Weighted average exercise price	Number of Shares	Weighted average exercise price	Number of Shares	Weighted average exercise price
Outstanding, January 1,	2,727,970	$ 31.64	2,887,294	$ 28.21	2,896,461	$ 26.17
Granted	402,180	$ 56.07	605,203	$ 42.09	492,350	$ 36.43
Forfeited	(90,533)	$ 37.88	(88,262)	$ 33.19	(72,283)	$ 23.67
Exercised	(222,030)	$ 29.11	(676,265)	$ 26.17	(429,234)	$ 29.46
Outstanding, December 31,	2,817,587	$ 35.11	2,727,970	$ 31.64	2,887,294	$ 28.21
Exercisable, December 31,	1,896,545	$ 29.04	1,727,562	$ 27.13	1,982,611	$ 25.67

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The following table summarizes information about stock options outstanding and exercisable at December 31, 2005:

	Options outstanding			Options exercisable	
Range of exercise prices per share	Number of options	Weighted average exercise price	Weighted average remaining contractual life	Number of options	Weighted average exercise price
$21.63 to $25.99	756,390	$ 23.28	4.2 years	756,390	$ 23.28
$26.00 to $31.99	746,282	$ 29.76	5.0 years	746,282	$ 29.76
$32.00 to $41.99	433,008	$ 37.21	7.9 years	282,655	$ 37.14
$42.00 to $57.71	881,907	$ 48.75	9.3 years	111,218	$ 42.77
	2,817,587	$ 35.11	6.6 years	1,896,545	$ 29.04

Restricted Stock

Restricted shares entitle the grantees to all shareholder rights with respect to voting and receipt of dividends during the restriction period, except restricted stock may not be sold, assigned, transferred, pledged or otherwise disposed of prior to vesting. The shares generally vest ratably over 5 years. If a grantee s employment is terminated prior to the end of the five-year period, the unvested shares will be forfeited. The table below presents the activity for restricted shares:

	2005	2004	2003
	(in thousands except share and per share data)		
Restricted shares granted (1)	37,528	51,130	101,650
Restricted shares forfeited	(8,656)	(8,317)	(3,651)
Average fair value of restricted shares granted	$ 56.66	$ 41.68	$ 37.08
Compensation expense for restricted shares	$ 1,575	$ 2,559	$ 948

(1) The 2003 grants include a special award to an officer in December 2003 of 38,889 shares of restricted stock with an accelerated vesting term of six months and 17,584 shares with ratable vesting over a four-year term commencing in December 2003.

Other Stock Compensation and Benefit Plans

In 1996, we established an employee stock purchase plan under which U.S. employees can elect to purchase Shurgard stock through regular periodic payroll deductions without paying broker commissions. This plan provides for potential price discounts of up to 15%. Since January 2000, a 10% discount has been offered to employees under this plan.

We have an employee retirement savings plan, which includes an employee incentive savings plan (the 401(k) plan) and an employee stock ownership plan (the ESOP), in which substantially all our U.S. employees are eligible to participate. Under the 401(k) plan, each year, employees may contribute an amount not to exceed the maximum allowable by law. We match a portion of employee contributions in cash. Our expense for contributions to the 401(k) plan was approximately $880,000, $680,000 and $580,000 for 2005, 2004 and 2003, respectively. Employees may direct the investment of all contributions to the 401(k) plan in one or more of ten mutual fund investment options administered by a third party, but cannot invest them directly in Shurgard stock. Under our ESOP, U.S. employees may receive discretionary annual awards of Shurgard stock that are determined as a percentage of the eligible employees salaries. ESOP contributions are funded in cash, which the plan uses to purchase Shurgard stock on the open market. Funded shares are held in individual participant accounts and may

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not be sold by participants while they are in the employ of Shurgard. Our expense for contributions to the ESOP was approximately $800,000, $720,000 and $620,000 for 2005, 2004 and 2003, respectively.

In 2004, we implemented a stock appreciation rights plan in Europe whereby participants are entitled to receive a payment based on the appreciation of our common stock and dividends paid over the vesting period. The rights fully vest at the end of a three-year period and are generally forfeited if a participant s employment is terminated prior to maturity. We recognize a liability for these rights and adjust it each reporting period based on the current stock price and dividend rights accrued for all rights outstanding. The expense is recognized through earnings ratably over the three-year vesting period. If a right is forfeited, we reduce the liability to reflect the forfeiture and reverse the compensation expense previously recognized. In 2005, we recognized compensation expense of approximately $760,000 related to this plan, compared to $670,000 in 2004. Also, we recognized expenses of $1.1 million and $970,000 in 2005 and in 2004, respectively, for various defined contribution plans in Europe.

We have entered into an agreement with each of our executive officers that provides for payments in the event that the officer s employment is terminated by us other than for cause, or by the employee for good reason, within two years after certain business combination transactions, including, but not limited to, the proposed merger with Public Storage, Inc. (Public Storage). In the event of such a termination, the officer would be entitled to payment of two and one-half times his or her annual salary plus his or her bonus. In addition, in the event the payments made under one of these agreements are subject to certain taxation, the officer would be entitled to additional payments necessary to reimburse him or her for such additional tax payment.

Note 17 Shareholder Rights Plan

In March 2004, we adopted an amended and restated rights agreement and declared a distribution of one right for each outstanding share of our common stock. The rights expire in March 2014. Under certain conditions, each right may be exercised to purchase one one-hundredth of a share of Series A junior participating preferred stock at a purchase price of $110, subject to adjustment. The rights will be exercisable only if a person or group has acquired 10% or more of the outstanding shares of common stock, or following the commencement of a tender or exchange offer for 10% or more of such outstanding shares of common stock, other than in connection with a transaction approved by our board of directors. If a person or group acquires more than 10% of the then outstanding shares of common stock, each right will entitle its holder to purchase, common stock (or, in certain circumstances, cash, property or other securities of Shurgard) having a value equal to two times the exercise price of the right. In addition, if Shurgard is acquired in a merger or other business combination transaction other than a transaction approved by our board of directors, each right will entitle its holder to purchase that number of the acquiring company s common shares having a market value of twice the right s exercise price. We will be entitled to redeem the rights at $0.0001 per right at any time prior to the earlier of their expiration or the time that a person has acquired a 10% position. In March 2006, we amended the rights agreement (i) to clarify that the rights agreement does not apply to, and the rights are not exercisable in connection with, our the Agreement and Plan of Merger (Merger Agreement) dated March 6, 2006, with Public Storage or the proposed merger that it contemplates and (ii) to provide that in addition to the expiration provisions set forth in the rights agreement, the rights will expire at the effective time of the proposed merger. The rights do not have voting or distribution rights, and until they become exercisable, have no dilutive effect on our earnings.

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 18 Net Income Per Common Share

The following summarizes the computation of basic and diluted earnings per share:

	2005	2004	2003
	(in thousands except share data)		
Results of operations Numerator			
(Loss) income from continuing operations	$ (590)	$ 29,466	$ 35,314
Preferred distributions and other	(12,153)	(12,193)	(12,082)
(Loss) income from continuing operations available to common shareholders	(12,743)	17,273	23,232
Discontinued operations	12,249	18,168	2,324
Cumulative effect of accounting changes		(2,339)	
Net (loss) income available to common shareholders	$ (494)	$ 33,102	$ 25,556
Weighted average share amounts Denominator			
Basic weighted average shares outstanding	46,660	45,968	40,406
Effect of dilutive stock based awards		658	582
Diluted weighted average shares outstanding	46,660	46,626	40,988
Basic per share amounts			
(Loss) income from continuing operations available to common shareholders	$ (0.27)	$ 0.37	$ 0.57
Discontinued operations	0.26	0.40	0.06
Cumulative effect of accounting changes		(0.05)	
Net (loss) income available to common shareholders	$ (0.01)	$ 0.72	$ 0.63
Diluted per share amounts			
(Loss) income from continuing operations available to common shareholders	$ (0.27)	$ 0.37	$ 0.56
Discontinued operations	0.26	0.39	0.06
Cumulative effect of accounting changes		(0.05)	
Net (loss) income available to common shareholders	$ (0.01)	$ 0.71	$ 0.62

We have excluded the following non-dilutive stock options and unvested common stock awards for certain periods from the computation of diluted earnings per share, because the options exercise prices were greater than the average market price of the common shares or the Company incurred a loss from continuing operations available to common shareholders during the reporting period:

	2005	2004	2003
Number of options	2.8 million	531,000	416,000
Range of exercise prices	$21.63 to $57.71	$38.61 to $43.68	$33.91 to $37.60
Expiration on or before	December 2015	December 2014	December 2013
Unvested common stock awards	113,000	41,000	94,000

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 19 Discontinued Operations

In 2004, we designated eight storage centers, six of which are located in California and the others in Texas and Washington, as discontinued operations. We sold six of those properties in 2004 for an aggregate gain of $16.2 million. We sold the remaining two in 2005 for aggregate proceeds of $14.1 million and an aggregate gain of $6.4 million.

In 2005, we sold one storage center in Arizona and two in Washington for aggregate proceeds of approximately $10.7 million, resulting in aggregate gains of approximately $5.4 million. We have presented the results of operations and gains on sales of these storage centers as discontinued operations for all periods presented. Furthermore, as of December 31, 2005, we had two storage centers designated as held for sale on our balance sheet. The results of operations of storage centers held for sale were included in our domestic Same Store segment (also see Note 25).

The following table summarizes income from discontinued operations:

	2005	2004	2003
		(in thousands)	
Discontinued operations:			
Revenue	$ 903	$ 4,355	$ 5,360
Operating expense	(386)	(1,788)	(2,194)
Depreciation and amortization	(99)	(625)	(842)
Operating income from discontinued operations	418	1,942	2,324
Gain on sale of properties	11,831	16,226	
Discontinued operations	$ 12,249	$ 18,168	$ 2,324

Note 20 Segment Reporting

Shurgard currently has four reportable segments: Domestic Same Store and New Store and European Same Store and New Store. We have adjusted the previously reported segment information for 2003 to include our European segments information; however, the new composition of our segments is additive only and does not change previously reported segment results for our domestic operations. For the purpose of reconciliation of the segment reporting to the consolidated statement of operations, the 2003 results of our European segments are classified in unconsolidated joint ventures.

Our definition of Same Store includes existing storage centers acquired prior to January 1 of the previous year, as well as developed properties that have been operating for a full two years as of January 1 of the current year. We project that newly developed properties will reach stabilization in approximately 24-48 months. New Store includes existing facilities that had not been acquired as of January 1 of the previous year, as well as developed properties that have not been operating a full two years as of January 1 of the current year.

These reportable segments allow us to focus on improving results from our existing real estate assets and renting up our new facilities. We evaluate each segment s performance based on net operating income (NOI) and NOI after indirect and leasehold expenses. NOI is defined as storage center operations revenue less direct operating expenses, but does not include any allocation of indirect operating expenses. Indirect and leasehold expenses include land or building lease expense and certain shared property costs such as bank fees, district and corporate management, purchasing, national contracts personnel and marketing, as well as certain overhead costs allocated to property operations such as business information technology, legal services, human resources and

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

accounting. Indirect operating expenses are allocated to storage centers based on number of months in operation during the period and do not include containerized storage operations, internal real estate acquisition costs or abandoned development expenses.

Using the definition of Same Store and New Store described above, the portfolio of assets reported in these segments changes from year to year. Assets transition from New Store to Same Store over time. As of December 31, 2005, the goodwill balance was $27.4 million of which we allocated $24.2 million to our domestic reporting units and $3.2 million to our European reporting units. The following table illustrates the results using the 2005 Same Store and New Store bases for reportable segments as of and for the years ended December 31, 2005 and 2004. Same Store includes all storage centers acquired prior to January 1, 2004, and developments opened prior to January 1, 2003. New Store represents all storage centers acquired after January 1, 2004, and developments opened after January 1, 2003. Other Stores include properties no longer in service, properties closed in the process of being redeveloped, or disposed properties in which we have no remaining ownership interest as of December 31, 2005.

	2005						
	Domestic Same Store	Domestic New Store	Europe Same Store	Europe New Store	Other Stores	Discontinued Stores	Total
	(in thousands)						
Storage center operations revenue	$ 329,002	$ 23,432	$ 101,819	$ 24,698	$ 922	$ (903)	$ 478,970
Direct operating expense	112,002	11,545	42,592	20,714	349	(322)	186,880
Net operating income	217,000	11,887	59,227	3,984	573	(581)	292,090
Indirect expense	16,989	1,453	11,907	6,512	69	(64)	36,866
Leasehold expense	4,157	379	2,299	325			7,160
Indirect and leasehold expense	21,146	1,832	14,206	6,837	69	(64)	44,026
Net operating income (loss) after indirect and leasehold expense	$ 195,854	$ 10,055	$ 45,021	$ (2,853)	$ 504	$ (517)	$ 248,064
Segment operating storage center assets, net	$ 1,395,141	$ 211,201	$ 710,284	$ 359,527	$ 3,112	$ (2,175)	$ 2,677,090
Total Storage center additions	$ 221,534	$ 68,383	$ 58,318	$ 103,855	$	$	$ 452,090

	2004						
	Domestic Same Store	Domestic New Store	Europe Same Store	Europe New Store	Other Stores	Discontinued Stores	Total
	(in thousands)						
	$ 309,228	$ 7,010	$ 90,948	$ 11,161	$ 5,195	$ (4,355)	$ 419,187

Storage center operations revenue							
Direct operating expense	103,583	5,759	41,141	13,973	2,026	(1,520)	164,962
Net operating income	205,645	1,251	49,807	(2,812)	3,169	(2,835)	254,225
Indirect expense	14,975	664	12,025	5,291	276	(268)	32,963
Leasehold expense	4,114	53	1,892	215			6,274
Indirect and leasehold expense	19,089	717	13,917	5,506	276	(268)	39,237
Net operating income (loss) after indirect and leasehold expense	$ 186,556	$ 534	$ 35,890	$ (8,318)	$ 2,893	$ (2,567)	$ 214,988
Segment operating storage center assets, net	$ 1,414,307	$ 164,591	$ 759,374	$ 299,657	$ 9,230	$	$ 2,647,159
Total Storage center additions	$ 205,900	$ 99,248	$ 16,375	$ 100,392	$	$	$ 421,915

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table illustrates the results using the 2004 Same Store and New Store base for reportable segments as of and for the years ended December 31, 2004 and 2003. Same Store includes all storage centers acquired prior to January 1, 2003, and all developments opened prior to January 1, 2002. New Store represent all storage centers acquired after January 1, 2003, and developments opened after January 1, 2002:

	Domestic Same Store	Domestic New Store	Europe Same Store	2004 Europe New Store (in thousands)	Other Store	Discontinued Stores	Total
Storage center operations revenue	$ 288,167	$ 30,591	$ 73,241	$ 28,868	$ 2,675	$ (4,355)	$ 419,187
Direct operating expense	93,918	16,283	30,539	24,575	1,167	(1,520)	164,962
Net operating income	194,249	14,308	42,702	4,293	1,508	(2,835)	254,225
Indirect expense	14,103	1,684	8,781	8,535	128	(268)	32,963
Leasehold expense	3,736	431	1,620	487			6,274
Indirect and leasehold expense	17,839	2,115	10,401	9,022	128	(268)	39,237
Net operating income (loss) after indirect and leasehold expense	$ 176,410	$ 12,193	$ 32,301	$ (4,729)	$ 1,380	$ (2,567)	$ 214,988
Segment operating storage center assets, net	$ 1,249,893	$ 334,181	$ 541,367	$ 517,664	$ 4,054	$	$ 2,647,159
Total Storage center additions	$ 195,701	$ 102,434	$ 10,127	$ 106,640	$	$	$ 414,902

	Domestic Same Store	Domestic New Store	Europe Same Store	2003 Europe New Store (in thousands)	Other Store	Discontinued Stores	Total
Segment revenue	$ 275,397	$ 13,437	$ 60,707	$ 10,065	$ 7,841	$ (5,360)	$ 362,087
Less unconsolidated joint ventures			(60,707)	(10,065)	(230)		(71,002)
Consolidated revenue	275,397	13,437			7,611	(5,360)	291,085
Direct operating expense	91,401	8,956	25,136	12,661	3,619	(1,874)	139,899
Less unconsolidated joint ventures			(25,136)	(12,661)	(131)		(37,928)
Consolidated direct operating expense	91,401	8,956			3,488	(1,874)	101,971
Consolidated NOI	183,996	4,481			4,123	(3,486)	189,114

Indirect expense	12,767	865	8,734	5,529	369	(320)	27,944
Leasehold expense	3,241	445	1,433	247			5,366
Less unconsolidated joint ventures			(10,167)	(5,776)	(11)		(15,954)
Consolidated indirect and leasehold expense	16,008	1,310			358	(320)	17,356
Consolidated NOI after indirect and leasehold expense	$ 167,988	$ 3,171	$	$	$ 3,765	$ (3,166)	$ 171,758
Segment operating storage center assets, net	$ 1,294,584	$ 245,193	$	$	$ 32,107	$	$ 1,571,884
Total Storage center additions	$ 168,247	$ 182,046	$	$	$	$	$ 350,293

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table reconciles the reportable segments direct and indirect operating expense to consolidated operating expense, for the years ended December 31, 2005, 2004 and 2003:

	2005	2004 (in thousands)	2003
Consolidated direct operating expense	$ 186,880	$ 164,962	$ 101,971
Consolidated indirect operating and leasehold expense	44,026	39,237	17,356
Other operating expense, net	2,100	7,181	6,553
Consolidated operating expense	$ 233,006	$ 211,380	$ 125,880

The following table reconciles the reportable segments NOI per the table above to consolidated net income for the years ended December 31, 2005, 2004 and 2003:

	2005	2004 (in thousands)	2003
Consolidated NOI after indirect and leasehold expense	$ 248,064	$ 214,988	$ 171,758
Other revenue	4,922	5,101	6,877
Other operating expense, net	(2,100)	(7,181)	(6,553)
Real estate development expense	(10,042)	(4,991)	(23)
Depreciation and amortization	(95,722)	(87,503)	(55,537)
Impairment and abandoned project expense	(3,354)	(2,856)	(13,889)
General, administrative and other	(35,318)	(32,961)	(18,012)
Costs related to takeover proposal and exploration of strategic alternatives	(13,775)		
Interest expense	(105,584)	(82,876)	(51,182)
Amortization of participation rights discount		1,123	5,529
Loss on derivatives, net	(2,122)	(615)	(2,194)
Foreign exchange (loss) gain	(9,665)	6,247	(431)
Interest income and other, net	3,746	4,361	4,887
Minority interest	20,936	16,608	(1,206)
Equity in earnings (losses) of other real estate investments, net	60	93	(3,099)
Income tax expense	(636)	(72)	(1,611)
(Loss) income from continuing operations	$ (590)	$ 29,466	$ 35,314

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table reconciles the reportable segments assets to consolidated assets as of December 31, 2005 and 2004:

	As of December 31, 2005	2004
	(in thousands)	
Segment operating storage centers assets, net	$ 2,677,090	$ 2,647,159
Non storage centers and properties held for sale	9,093	10,628
Corporate assets, net	12,678	14,498
Storage centers, net	2,698,861	2,672,285
Construction in progress	67,073	58,431
Total storage centers	2,765,934	2,730,716
Cash and cash equivalents	39,778	50,277
Restricted cash	4,972	7,181
Goodwill	27,440	24,206
Other assets	119,248	128,204
Total assets	$ 2,957,372	$ 2,940,584

Note 21 Supplemental Quarterly Financial Data (Unaudited)

We separately report as discontinued operations the historical operating results attributable to operating properties sold and held for sale and the applicable gain or loss on the disposition of the properties. As a result, we have made the appropriate reclassification adjustments to our previously issued financial statements for the quarters ended March 31, June 30, and September 30, and December 31, 2005 and 2004.

	Three months ended			
	March 31, 2005	June 30, 2005	September 30, 2005 (1)	December 31, 2005
	(in thousands, except share data)			
Revenue	$ 113,625	$ 119,467	$ 125,484	$ 125,316
Income from operations	19,921	23,909	31,728	30,892
Income (loss) from continuing operations	(1,332)	(865)	(3,903)	5,510
Net income (loss)	5,256	(693)	1,590	5,506
Basic per share amounts				
(Loss) income from continuing operations available to common shareholders	$ (0.09)	$ (0.08)	$ (0.15)	$ 0.05
Discontinued operations	0.14		0.12	
Net income (loss) available to common shareholders per share	$ 0.05	$ (0.08)	$ (0.03)	$ 0.05
Diluted per share amounts				
	$ (0.09)	$ (0.08)	$ (0.15)	$ 0.05

(Loss) income from continuing operations available to common shareholders				
Discontinued operations	0.14		0.12	
Net income (loss) available to common shareholders per share	$ 0.05	$ (0.08)	$ (0.03)	$ 0.05

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(1) In the third quarter of 2005, we recognized a $12.7 million expense associated with the merger proposal and exploration of strategic alternatives. See Note 22.

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three months ended			
	March 31, 2004	June 30, 2004	September 30, 2004	December 31, 2004
	(in thousands, except share data)			
Revenue	$ 99,075	$ 104,153	$ 109,701	$ 111,359
Income from operations	18,939	24,008	26,967	14,683
Income from continuing operations	1,429	8,095	13,574	6,368
Income before cumulative effect of change	2,034	20,807	18,153	6,640
Net (loss) income	(305)	20,807	18,153	6,640
Basic per share amounts				
(Loss) income from continuing operations available to common shareholders	$ (0.03)	$ 0.11	$ 0.23	$ 0.07
Discontinued operations	0.01	0.28	0.10	0.01
Cumulative effect of change in accounting principle	(0.05)			
Net income (loss) available to common shareholders per share	$ (0.07)	$ 0.39	$ 0.33	$ 0.08
Diluted per share amounts				
(Loss) income from continuing operations available to common shareholders	$ (0.03)	$ 0.11	$ 0.23	$ 0.07
Discontinued operations	0.01	0.27	0.10	0.01
Cumulative effect of change in accounting principle	(0.05)			
Net income (loss) available to common shareholders per share	$ (0.07)	$ 0.38	$ 0.33	$ 0.08

Note 22 Commitments and contingencies

The following tables summarize our contractual obligations and our off-balance sheet commitments as of December 31, 2005.

	Payments due by period				
	Total	2006	2007-2008	2009-2010	2011 and beyond
	(in thousands)				
Contractual Obligations					
Long-term debt	$ 1,853,061	$ 9,226	$ 878,352	$ 48,607	$ 916,876
Capital and operating lease obligations	217,854	10,127	17,049	13,042	177,636
Totals	$ 2,070,915	$ 19,353	$ 895,401	$ 61,649	$ 1,094,512

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Amount of commitment expiration per period				
	Total amounts committed	2006	2007-2008 (in thousands)	2009-2010	2011 and beyond
Other Commercial Commitments & Contingent Liabilities					
Development contract commitments (1)	$ 51,697	$ 50,775	$ 347	$ 575	$
Commitment to purchase interests (2)	2,000	2,000			
Loan commitments (3)	4,187	4,129	58		
Outstanding letters of credit and other (4)	3,718	3,718			
Totals	$ 61,602	$ 60,622	$ 405	$ 575	$

(1) Includes costs to complete property development and redevelopment projects conducted with contractors. We computed the outstanding commitment based on total estimated project costs less costs incurred to date. This includes $21.1 million of development commitments on our European joint ventures in which we have a 20% ownership interest.

(2) Includes a commitment to purchase the ownership interest of a minority interest.

(3) Includes loan commitments to a California developer to finance the construction of certain storage centers according to our specifications.

(4) Includes primarily an outstanding letter of credit related to our insurance trust for workmen s compensation and of letters of credit related to properties under construction.

Legal Proceedings

On March 7, 2006, Doris Staer filed a purported class action suit in the Superior Court of Washington for King County styled as Doris Staer v. Shurgard Storage Centers, Inc., Charles K. Barbo, Anna Karin Andrews, Raymond A. Johnson, W. Thomas Porter, Gary E. Pruitt, David K. Grant, Howard P. Behar and Richard P. Fox (Case No. 06-2-08148-0 SEA) alleging self-dealing and breaches of fiduciary duties. Ms. Staer claims that Shurgard and the named directors breached their fiduciary duties in connection with the approval of our Merger Agreement with Public Storage, Inc. and seeks among other things to enjoin the transaction. We believe that our actions and the actions of our board of directors were appropriate.

We are a defendant in litigation filed on September 17, 2002, in the Superior Court of California for Orange County styled as Gary Drake v. Shurgard Storage Centers, Inc. et al (Case No. 02CC00152). The complaint alleges that we misrepresented the size of our storage units, seeks class action status and seeks damages, injunctive relief and declaratory relief against us under California statutory and common law relating to consumer protection, unfair competition, fraud and deceit and negligent misrepresentation. The Court recently ruled that the class of potential members in this lawsuit is limited to our California customers. No class has yet been certified. It is possible that we may incur losses as a result of this litigation, but we currently do not believe that the range of such losses would be material to our financial position, operating results or cash flows. However, we cannot presently determine the potential total damages, if any, or the ultimate outcome of the litigation. We are vigorously defending this action.

In addition, from time to time we are subject to various legal proceedings that arise in the ordinary course of business. Although we cannot predict the outcomes of these proceedings with certainty, we do not believe that the disposition of these matters and the matters discussed above will have a material adverse effect on our financial position, operating results or cash flows. We expense legal costs on legal proceedings as incurred.

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Takeover Proposal and Exploration of Strategic Alternatives

By letter dated July 8, 2005, Public Storage, Inc. made an unsolicited takeover proposal to acquire us through a fully taxable all stock transaction pursuant to which 0.8 shares of Public Storage common stock would be exchanged for each outstanding share of Shurgard common stock. The board of directors met on July 22, 2005 and, with the assistance of financial and legal advisors, conducted a thorough review of the proposal and unanimously decided to reject the proposal. The board of directors determined that a combination of the companies on the terms proposed would not be in the best interests of our shareholders and communicated our rejection of the proposal by letter to Public Storage dated July 26, 2005. On August 1, 2005, Public Storage publicly disclosed its interest in combining the two companies on the same terms previously presented, and Shurgard publicly reiterated its rejection of that proposal.

On October 27, 2005, we announced that our board of directors has authorized management and our financial advisors to explore reasonably available strategic alternatives to maximize shareholder value. These alternatives include, but are not limited to, a sale of the Company, the formation of asset joint ventures with strategic partners, a sale of certain of our assets or operations, and continued implementation of our strategic business plan.

On March 6, 2006, we entered into a Merger Agreement, dated as of March 6, 2006, with Public Storage, that contemplates a merger whereby we will be merged with and into a subsidiary of Public Storage. Each outstanding share of our common stock will be converted into the right to receive 0.82 of a fully paid and non-assessable share of Public Storage common stock, and we expect to redeem each series of our outstanding preferred stock in accordance with its terms. Public Storage will assume approximately $1.8 billion of our debt. Holders of Shurgard s stock options, restricted stock units and shares of restricted stock will receive, subject to adjustments, options exercisable for shares of Public Storage common stock, restricted stock units and restricted shares of Public Storage common stock, respectively.

Our board of directors and the board of directors of Public Storage have approved the Merger Agreement. The proposed merger is subject to our shareholders approval, Public Storage s shareholders approval of the issuanc of shares of Public Storage stock to be used as merger consideration and other customary closing conditions.

We have made certain representations and warranties in the Merger Agreement and have agreed to certain covenants, including, among others, subject to certain exceptions, to permit our board of directors to comply with its fiduciary duties, and not to solicit, negotiate, provide information in furtherance of, approve, recommend or enter into any other acquisition proposal (as defined in the Merger Agreement).

The Merger Agreement contains representations and warranties that the parties have made to each other as of specific dates. The assertions embodied in those representations and warranties were made solely for purposes of the contract between the parties, and may be subject to important qualifications and limitations agreed to by the parties in connection with negotiating its terms. Moreover, the representations and warranties are subject to a contractual standard of materiality that may be different from what may be viewed as material to shareholders, and the representations and warranties may have been intended not as statements of fact, but rather as a way of allocating risk between the parties. This description of certain terms of the Merger Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the Merger Agreement, a copy of which is filed with our current report on Form 8-K dated March 7, 2006.

We have entered into engagement letters with our financial advisors for services to be rendered in connection with the takeover proposal and an exploration of strategic alternatives. Combined minimum fee

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

obligations under these agreements total $12 million for services to be rendered to us over a period of up to 18 months, which commenced in July 2005. We expensed the entire $12 million combined minimum fee obligation in 2005. As of December 31, 2005, $11.4 million of accrued minimum fee obligations were included in other liabilities. We expensed an additional $1.8 million in legal fees and reimbursements of expenses as incurred in 2005. As a result of entering into the Merger Agreement with Public Storage in March 2006, we will incur $12 million of additional financial advisory fees plus out of pocket expenses in 2006. Of the total $23.4 million financial advisory fees payable in 2006, approximately $10.5 million are due during the first quarter of 2006; the balance of $12.9 million will become payable upon consummation of the proposed merger.

Note 23 Related Party Transactions

Charles K. Barbo, our chief executive officer though January 1, 2006, and chairman of our board of directors, indirectly owns a 0.5% ownership interest in a limited partnership known as Shurgard Institutional Fund L.P. I, a consolidated subsidiary of Shurgard. Shurgard owns a 99% interest in this entity.

Recom, a consolidated Belgian subsidiary as of June 28, 2003, made a subordinated loan to Shurgard Europe in 1999. In September 2003, Recom and other Shurgard Europe warrant holders exercised their warrants to purchase additional equity interests in Shurgard Europe. The majority of the warrants were held by Recom which upon exercise, exchanged $139.6 million of the subordinated loan payable, an amount equal to the exercise price of the warrants. Cash proceeds from the exercise of the remaining warrants and other borrowings by Shurgard Europe were used to repay the remaining $7.5 million balance of the subordinated loan payable.

On July 8, 2003, we loaned 1.9 million ($2.2 million based on exchange rates as of July 8, 2003, which rates were applied in all the amounts listed below) to E-Parco, a Belgian company owned by certain employees of Shurgard Europe. E-Parco had an indirect ownership interest in Shurgard Europe through Recom. The proceeds of this loan were used by E-Parco to repurchase its shares from Mr. Grant, an officer of the Company, and certain other employees of Shurgard Europe. We paid 1.2 million ($1.4 million as of July 2, 2003) to Mr. Grant for his shares and 0.7 million ($0.8 million as of July 2, 2003) was paid to the other former employees for their shares. The purchase price for the E-Parco shares was based on recent third party sales transactions for interests in Shurgard Europe. As partial consideration for the loan, E-Parco granted Shurgard an option to purchase its 377 Recom shares for 4.3 million ($5.3 million on July 2, 2004) plus forgiveness of the loan including accrued interest. We exercised the option on June 1, 2004 and closed the purchase of E-Parco shares on July 2, 2004. Since July 2, 2004, we have been the sole shareholder of Recom.

On June 30, 2003, we issued $20 million of our Class A common stock in exchange for notes receivable from shareholders. The shares were initially recorded as a reduction of shareholders equity that secured $20 million in mortgage debt assumed in the purchase of Minnesota Mini-Storage (see Note 4). The notes from shareholders were collateralized by a pledge of the shareholders Shurgard common stock and were paid in full in October 2003, and we reclassified the $20 million to shareholders equity.

In April 2003, we acquired the general partner interests in Shurgard Partners LP II (Shurgard Partners II), the general partner of Shurgard Institutional Fund LP II (Institutional II), a consolidated entity, for $0.2 million. The acquired Shurgard Partners II general partner interests were owned by an unaffiliated third party and an officer of the Company. The acquisition was, in part, in response to the board of directors stated objective of eliminating existing historical arrangements involving related parties. The purchase price payable for the acquired Shurgard Partners II general partner interests was governed by the terms of the partnership agreements for Shurgard Partners II and Institutional II and was based on the fair market value of the property owned by Institutional II as determined by a third party appraisal. This transaction increased our ownership of Institutional II from 99% to 100%. Of the $0.2 million total purchase price, we paid $84,000 to Mr. Barbo, our Chief Executive Officer at the time, to acquire his partnership interest in Shurgard Partners II.

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On May 27, 2002, we entered into a subscription agreement to purchase up to $50 million of three year 9.75% payment-in-kind cumulative preferred bonds to be issued at the option of Shurgard Europe. Pursuant to the subscription agreement, Shurgard Europe had the ability to issue up to $50 million of these preferred bonds to us during the first two years of the three-year commitment term. Shurgard Europe has the option of increasing our total notional subscription to $55 million with an additional $20 million that can be drawn by First Shurgard only in a potential event of a default on the five year debt facility between First Shurgard and a group of commercial banks. In February 2005, as part of a renegotiation of the covenants on the First Shurgard credit facility, an additional 5 million of subordinated bonds and a 2.5 million subordinated working capital facility was made available to First Shurgard. Interest is payable on the bonds at the end of each quarter in cash or through an issuance of additional bonds. Any bonds issued to pay interest can be issued above the commitment amount. Shurgard Europe must redeem the bonds on the redemption date, or may redeem at any time prior to the redemption date, by paying us 115% of the face value of the outstanding bonds plus accrued and unpaid interest. The subscription agreement with Shurgard Europe entitles us to a commitment fee of 0.5% and a structuring fee of 1.5% of the initial commitment of $50 million, as well as an unused fee equal to 1% of the undrawn amount payable in arrears on an annual basis. The subscription agreement with First Shurgard for the additional $20 million entitles us to a commitment fee of 2% of the $20 million. Prior to the consolidation of Shurgard Europe, these fees were recognized in income using the effective interest method over the extended term of the bonds. As of December 31, 2003, $55.3 million of U.S. dollar denominated bonds had been issued to us under this commitment including $6.0 million in additional bonds issued for accrued interest. The terms of the bonds provide that the parties will treat the bonds as an equity investment in Shurgard Europe for federal income tax purposes. The bonds income and fees related to the bonds are included in our consolidated statements of operations in interest income other, net for the period ended December 31, 2003. Shurgard Europe s interest expense and fees related to this subscription agreement are also included in interest income and other and therefore the impact of interest is eliminated in the consolidated statements of operations as of December 31, 2003.

Note 24 Subsequent Events

On January 23, 2006, we completed the acquisition of 3S-Self-Storage Systems SAS in France a company that operates nine self-storage facilities in various metropolitan areas where we already have operating properties. We will incorporate the management of these properties with our existing portfolio of 39 self-storage centers in France. We completed the acquisition through our 20% owned Second Shurgard subsidiary for total consideration and acquisition costs of approximately $46 million. We financed the acquisition with $20.0 million from draws on Second Shurgard s credit facility and the remainder with Second Shurgard s cash from equity contributions.

On February 16, 2006, our board of directors declared a fourth quarter dividend of $0.56 per common share. The dividend totals $26.4 million and was paid on March 13, 2006, to shareholders of record as of March 3, 2006.

Note 25 Reclassifications (Subsequent Event)

Subsequent to the filing of our annual report on Form 10-K on March 20, 2006, in conjunction with the planned merger with Public Storage, Shurgard terminated its plans to sell two domestic storage centers, which were classified as held for sale and reported as discontinued operations at December 31, 2005. Instead, management has determined it will hold such properties for the foreseeable future. Therefore, in accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the accompanying consolidated statements o operations have been restated and the net results of operations from these properties have been reclassified to continuing operations from discontinued operations for the years ended December 31, 2005, 2004

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SHURGARD STORAGE CENTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and 2003. The effect of the reclassification represents a $277,000, or 32%, decrease in our previously reported net loss from continuing operations for the year ended December 31, 2005, and an increase in our previously reported net income from continuing operations of $235,000, or 0.8%, and $166,000, or 0.5%, for the years ended December 31, 2004 and 2003, respectively. As a result of the foregoing, Notes 4, 18, 19, 20 and 21 to the consolidated financial statements for the three years ended December 31, 2005, have been updated. There is no effect on Shurgard s previously reported net income, financial condition or cash flows.

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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

				INITIAL COST				Gross Amount as of December 31, 2005					
Property Name	Location	State or Country (3)	Encum-brances (2)	Land	Building, Equip. & Other	Gross Storage Centers	Costs Subsequent to Acquisition	Land and Land Held for Sale	Building Equip. & Other	Gross Storage centers	Accum. Depr.	Owned Since	Year Built
Ahwatukee	Phoenix	AZ	$	$ 721	$ 2,469	$ 3,190	$ 40	$ 721	$ 2,509	$ 3,230	$ (677)	1998	19
Arrowhead	Glendale	AZ		569	2,600	3,169	58	569	2,658	3,227	(735)	1997	19
Chandler	Chandler	AZ		652	2,608	3,260	600	652	3,208	3,860	(1,282)	1986	19
Collonade Mall	Phoenix	AZ			1,146	1,146	60		1,206	1,206	(407)	1998	19
Cooper Road	Gilbert	AZ		376	2,398	2,774	59	376	2,457	2,833	(424)	2001	20
Desert Sky	Phoenix	AZ		536	2,891	3,427	5	536	2,896	3,432	(452)	2001	20
Dobson Ranch	Mesa	AZ		499	1,996	2,495	229	499	2,225	2,724	(767)	1996	19
Houghton	Tucson	AZ	2,289	607	2,536	3,143	349	607	2,885	3,492	(579)	2000	20
Mesa	Mesa	AZ		352	1,829	2,181	587	355	2,413	2,768	(1,045)	1987	19
Mill Avenue	Tempe	AZ		147	1,799	1,946	105	431	1,620	2,051	(387)	1999	19
Oro Valley	Tucson	AZ		561	2,930	3,491	5	561	2,935	3,496	(319)	2003	20
Phoenix	Phoenix	AZ		670	2,697	3,367	209	656	2,920	3,576	(1,237)	1985	19
Phoenix East	Phoenix	AZ		543	2,189	2,732	429	543	2,618	3,161	(1,097)	1987	19
Scottsdale Air Park	Scottsdale	AZ		880	3,694	4,574	97	880	3,791	4,671	(1,129)	1997	19
Scottsdale North	Scottsdale	AZ		1,093	4,811	5,904	449	1,093	5,260	6,353	(1,810)	1985	19
Scottsdale South	Scottsdale	AZ		410	1,743	2,153	217	410	1,960	2,370	(878)	1985	1976
Shea	Scottsdale	AZ		786	3,165	3,951	283	807	3,427	4,234	(977)	1997	19
Speedway	Tucson	AZ		744	2,304	3,048	799	773	3,074	3,847	(763)	1998	19
Tanque Verde	Tucson	AZ		578	2,620	3,198	8	578	2,628	3,206	(387)	2002	20
Union Hills	Phoenix	AZ		615	2,475	3,090	175	617	2,648	3,265	(691)	1998	19
Val Vista	Gilbert	AZ		682	2,805	3,487	1,114	778	3,823	4,601	(766)	1999	19
Warner	Tempe	AZ		313	1,352	1,665	280	313	1,632	1,945	(783)	1995	19
Alicia Parkway	Laguna Hills	CA		1,729	7,027	8,756	434	1,729	7,461	9,190	(1,834)	1998	19
Aliso Viejo	Aliso Viejo	CA		2,218	3,628	5,846	845	2,218	4,473	6,691	(1,455)	1996	19
Antioch	Antioch	CA	3,281	638	4,366	5,004	513	678	4,839	5,517	(834)	2000	20
Blossom Valley	San Jose	CA		1,204	4,128	5,332	628	1,212	4,748	5,960	(1,163)	1998	19
Cabot Road	Laguna Niguel	CA	4,180	1,300	6,129	7,429	39	1,300	6,168	7,468	(922)	2001	20
Capitol Expressway	San Jose	CA		973	6,181	7,154	(658)		6,496	6,496	(1,157)	2000	20
Castro Valley	Castro Valley	CA		810	4,010	4,820	318	907	4,231	5,138	(1,422)	1996	19
Castro Valley Business Park	Castro Valley	CA		97	390	487	26	97	416	513	(144)	1996	19
Costa Mesa	Costa Mesa	CA	2,407	1,057	2,956	4,013	287	882	3,418	4,300	(725)	1999	19
Culver City	Culver City	CA		1,039	4,146	5,185	328	1,039	4,474	5,513	(1,831)	1988	19
Daly City	Daly City	CA		1,846	5,438	7,284	901	1,846	6,339	8,185	(2,606)	1995	19
El Cajon	El Cajon	CA		1,013	4,113	5,126	737	1,013	4,850	5,863	(2,066)	1986	19
El Cerito	Richmond	CA		765	3,055	3,820	316	765	3,371	4,136	(1,348)	1986	19
Huntington Beach	Huntington Beach	CA		949	3,794	4,743	522	949	4,316	5,265	(1,715)	1988	19
Kearney Balboa	San Diego	CA		830	3,333	4,163	494	830	3,827	4,657	(1,618)	1986	19
La Habra	La Habra	CA		715	2,886	3,601	404	715	3,290	4,005	(1,397)	1986	1979

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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

Property Name	Location	State or Country (3)	Encum-brances (2)	INITIAL COST Land	INITIAL COST Building, Equip. & Other	INITIAL COST Gross Storage Centers	Costs Subsequent to Acquisition	Gross Amount as of December 31, 2005 Land and Land Held for Sale	Gross Amount as of December 31, 2005 Building Equip. & Other	Gross Amount as of December 31, 2005 Gross Storage centers	Accum. Depr.	Owned Since
Livermore	Livermore	CA		1,185	4,622	5,807	(6)	1,185	4,616	5,801	(663)	2002
Long Beach	Long Beach	CA		1,190	6,601	7,791	760	1,190	7,361	8,551	(578)	2003
Martinez	Martinez	CA		1,012	2,215	3,227	8,334	2,830	8,731	11,561	(1,700)	1995
Monterey	Sand City	CA		1,274	6,107	7,381	(4)	1,274	6,103	7,377	(736)	2002
Mountain View	Mountain View	CA		439	1,757	2,196	312	439	2,069	2,508	(864)	1987
Natomas	Sacramento	CA		1,307	4,604	5,911	22	1,307	4,626	5,933	(349)	2003
Newark	Newark	CA		855	3,421	4,276	499	855	3,920	4,775	(1,167)	1996
Northridge	Northridge	CA		2,215	6,250	8,465	1,701	2,215	7,951	10,166	(454)	2004
Oakley	Oakley	CA		1,570	4,655	6,225	17	1,570	4,672	6,242	(693)	2001
Ontario	Ontario	CA		512	2,058	2,570	472	512	2,530	3,042	(696)	1996
Orange	Orange	CA		1,144	4,580	5,724	96	1,144	4,676	5,820	(1,504)	1996
Palm Desert	Palm Desert	CA		921	5,885	6,806		921	5,885	6,806	(105)	2005
Palms	Los Angeles	CA	4,839	1,598	6,309	7,907		1,598	6,309	7,907	(409)	2003
Palo Alto	Palo Alto	CA		701	2,805	3,506	596	705	3,397	4,102	(1,279)	1986
Pinole	Pinole	CA		614	1,023	1,637	1,658	1,006	2,289	3,295	(672)	1995
Presidio	San Francisco	CA		104	1,137	1,241		104	1,137	1,241	(40)	2005
Rancho Mirage	Rancho Mirage	CA		912	5,313	6,225	1,125	957	6,393	7,350	(288)	2004
Rancho San Diego	Rancho San Diego	CA	3,759	1,312	4,874	6,186		1,312	4,874	6,186	(519)	2003
Sacramento	Sacramento	CA		680	2,723	3,403	132	680	2,855	3,535	(916)	1996
San Juan Creek	San Juan Capistran	CA	4,693	1,450	5,526	6,976	1,345	1,450	6,871	8,321	(933)	2001
San Leandro	San Leandro	CA		776	3,105	3,881	156	776	3,261	4,037	(1,080)	1996
San Lorenzo	San Lorenzo	CA		611	2,447	3,058	212	611	2,659	3,270	(875)	1996
Santa Ana	Santa Ana	CA		1,467	5,920	7,387	621	1,467	6,541	8,008	(2,704)	1986
SF-Evans	San Francisco	CA		2,073	11,236	13,309	44	2,073	11,280	13,353	(1,155)	2002
Solana Beach	Solana Beach	CA			6,837	6,837	620		7,457	7,457	(3,035)	1987
South San Francisco	San Francisco	CA		721	2,897	3,618	333	721	3,230	3,951	(1,322)	1987
Sunnyvale	Sunnyvale	CA		1,697	6,541	8,238	5,827	1,697	12,368	14,065	(3,750)	1986
Tracy	Tracy	CA		732	2,928	3,660	279	732	3,207	3,939	(1,035)	1996
Tracy II	Tracy	CA		840	2,858	3,698	42	826	2,914	3,740	(395)	2002
Union City	Hayward	CA		287	1,208	1,495	197	287	1,405	1,692	(835)	1985
Van Ness	San Francisco	CA		5,289	9,001	14,290	530	5,289	9,531	14,820	(1,878)	1999
Vista Park-Land Lease	San Jose	CA			93	93	4		97	97	(75)	2001
Walnut Creek	Walnut Creek	CA	3,181	630	4,512	5,142	1,317		6,459	6,459	(1,430)	1999
West Covina	West Covina	CA	3,896	1,470	4,869	6,339	8	1,470	4,877	6,347	(205)	2004
Westpark	Irvine	CA	7,382	690	7,478	8,168	5,021	4,190	8,999	13,189	(1,841)	2000
Westwood	Los Angeles	CA		951	3,797	4,748	4,318	951	8,115	9,066	(2,744)	1986
Woodland Hills	Woodland Hills	CA	4,889	1,980	8,342	10,322	3	1,980	8,345	10,325	(297)	2004
Denver Tech Center	Greenwood Village	CO		863	3,296	4,159	25	863	3,321	4,184	(265)	2003

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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

Property Name	Location	State or Country (3)	Encum- brances (2)	INITIAL COST Land	INITIAL COST Building, Equip. & Other	INITIAL COST Gross Storage Centers	Costs Subsequent to Acquisition	Gross Amount as of December 31, 2005 Land and Land Held for Sale	Gross Amount as of December 31, 2005 Building Equip. & Other	Gross Amount as of December 31, 2005 Gross Storage centers	Accum. Depr.	Owne Sinc
Highlands Ranch	Highlands Ranch	CO		594	2,822	3,416	155	596	2,975	3,571	(121)	200
Kipling & Hampden	Lakewood	CO		326	2,472	2,798	8	327	2,479	2,806	(340)	200
Lakewood	Golden	CO		528	2,108	2,636	238	528	2,346	2,874	(922)	198
Northglenn	Northglenn	CO		531	2,152	2,683	729	531	2,881	3,412	(1,237)	198
Tamarac	Denver	CO		194	776	970	225	194	1,001	1,195	(446)	198
Thornton	Denver	CO		237	956	1,193	204	235	1,162	1,397	(506)	198
Windermere	Littleton	CO		653	2,690	3,343	481	653	3,171	3,824	(1,364)	198
Alafaya JV	Orlando	FL	2,791	1,984	3,234	5,218	105	1,984	3,339	5,323	(473)	200
Blue Heron	West Palm Beach	FL		1,327	5,490	6,817	236	1,327	5,726	7,053	(2,384)	198
Brandon	Brandon	FL	2,999	973	3,423	4,396	143	989	3,550	4,539	(825)	199
Carrollwood	Tampa	FL	1,480	884	2,705	3,589	579	911	3,257	4,168	(666)	200
Central Parkway	Altamonte Springs	FL		1,166	3,972	5,138		1,166	3,972	5,138	(95)	200
Colonial Town	Orlando	FL	4,564	1,040	3,439	4,479	269	1,040	3,708	4,748	(565)	200
Davie	Davie	FL		1,890	3,021	4,911	3,997	2,633	6,275	8,908	(2,314)	199
Daytona Beach	Daytona Beach	FL	2,902	1,620	3,165	4,785	174	1,651	3,308	4,959	(729)	199
Delray Beach	Delray Beach	FL		748	2,993	3,741	347	748	3,340	4,088	(1,114)	199
Eau Gallie	Melbourne	FL	2,607	629	2,718	3,347	139	649	2,837	3,486	(640)	199
Fairbanks	Winter Park	FL		1,104	3,329	4,433	165	1,104	3,494	4,598	(411)	200
Hunt Club	Apopka	FL		764	3,614	4,378		764	3,614	4,378	(328)	200
Hyde Park	Tampa	FL	2,907	1,237	2,773	4,010	1,000	1,243	3,767	5,010	(761)	200
Kirkman	Orlando	FL		954	3,151	4,105		954	3,151	4,105	(74)	200
Lauderhill	Lauderhill	FL		761	3,164	3,925	325	761	3,489	4,250	(1,050)	199
Maguire	Orlando	FL	3,501	954	4,244	5,198		954	4,244	5,198	(26)	200
Maitland	Maitland	FL	4,426	74	4,985	5,059	575	106	5,528	5,634	(1,598)	199
Margate	Margate	FL		906	3,623	4,529	(9)	906	3,614	4,520	(1,175)	199
McCoy-Wells Fargo NW	Orlando	FL		765	3,700	4,465	16	765	3,716	4,481	(542)	200
Military Trail	West Palm Beach	FL		1,140	4,564	5,704	222	1,140	4,786	5,926	(1,912)	198
Oakland Park	FT Lauderdale	FL		2,443	9,878	12,321	217	2,439	10,099	12,538	(4,073)	198
Oldsmar	Oldsmar	FL	2,273	606	2,787	3,393	155	628	2,920	3,548	(516)	200
Ormond Beach	Ormond Beach	FL	2,912	761	3,202	3,963	253	792	3,424	4,216	(739)	199
Oviedo	Oviedo	FL	2,744	527	2,716	3,243	331	535	3,039	3,574	(907)	199
Red Bug	Altamonte Springs	FL	2,530	856	2,951	3,807	150	825	3,132	3,957	(867)	199
Seminole	Seminole	FL		336	1,344	1,680	181	336	1,525	1,861	(654)	198
South Orange	Orlando	FL	3,032	715	2,709	3,424	349	741	3,032	3,773	(893)	199
South Semoran	Orlando	FL	2,701	933	3,184	4,117	862	965	4,014	4,979	(1,037)	199
University	Orlando	FL		1,140	4,374	5,514	7	1,140	4,381	5,521	(587)	200
Vineland	Orlando	FL	1,896	1,752	1,165	2,917		638	2,279	2,917	(522)	199
West Town	Altamonte Springs	FL	2,155	657	3,070	3,727	439	728	3,438	4,166	(843)	199

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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

Property Name	Location	State or Country (3)	Encum-brances (2)	INITIAL COST Land	INITIAL COST Building, Equip. & Other	INITIAL COST Gross Storage Centers	Costs Subsequent to Acquisition	Gross Amount as of December 31, 2005 Land and Land Held for Sale	Gross Amount as of December 31, 2005 Building Equip. & Other	Gross Amount as of December 31, 2005 Gross Storage centers	Accum. Depr.	Owne Sinc
West Waters	Tampa	FL	2,269	950	3,569	4,519	168	950	3,737	4,687	(650)	200
Ansley Park	Atlanta	GA		804	3,255	4,059	3,130	1,301	5,888	7,189	(2,374)	199
Brookhaven	Atlanta	GA		1,082	2,223	3,305	2,589	1,568	4,326	5,894	(1,718)	199
Clairmont Road	Atlanta	GA		470	1,907	2,377	370	470	2,277	2,747	(723)	199
Decatur	Decatur	GA		644	2,719	3,363	2,665	1,111	4,917	6,028	(1,973)	199
Forest Park	Forest Park	GA		573	2,293	2,866	201	573	2,494	3,067	(850)	199
Gwinnett Place	Lawrenceville	GA		820	2,324	3,144	551	820	2,875	3,695	(948)	199
Holcomb Bridge	Roswell	GA	2,750	917	2,991	3,908	8	920	2,996	3,916	(582)	199
Jones Bridge	Alpharetta	GA		676	3,833	4,509	28	630	3,907	4,537	(1,038)	199
Lawrenceville	Lawrenceville	GA		858	3,064	3,922	162	858	3,226	4,084	(874)	199
Morgan Falls	Atlanta	GA		1,429	5,718	7,147	382	1,429	6,100	7,529	(1,985)	199
Norcross	Norcross	GA		562	2,248	2,810	193	562	2,441	3,003	(831)	199
Peachtree	Duluth	GA		1,144	4,784	5,928	213	1,144	4,997	6,141	(1,564)	199
Perimeter Center	Atlanta	GA		1,458	2,715	4,173	256	1,458	2,971	4,429	(1,030)	199
Roswell	Roswell	GA		435	1,743	2,178	289	435	2,032	2,467	(814)	198
Sandy Plains	Marietta	GA		1,012	4,066	5,078	449	1,012	4,515	5,527	(1,089)	199
Satellite Blvd	Atlanta	GA		670	2,831	3,501	146	670	2,977	3,647	(892)	199
Stone Mountain	Stone Mountain	GA		656	2,637	3,293	262	656	2,899	3,555	(961)	199
Tucker	Tucker	GA		241	656	897	509	241	1,165	1,406	(390)	199
Alsip	Alsip	IL		250	1,001	1,251	1,520	250	2,521	2,771	(824)	198
Berwyn	Berwyn	IL		868	5,375	6,243	69	868	5,444	6,312	(694)	200
Bolingbrook	Bolingbrook	IL		641	2,631	3,272	571	641	3,202	3,843	(838)	199
Bridgeview	Bridgeview	IL		479	1,917	2,396	253	479	2,170	2,649	(890)	198
Chicago Heights	Chicago Heights	IL		1,543	3,575	5,118	(5)	1,543	3,570	5,113	(466)	200
Country Club Hills	Country Club Hills	IL		777	3,109	3,886	596	781	3,701	4,482	(789)	199
Dolton	Calumet City	IL		344	1,489	1,833	1,502	344	2,991	3,335	(1,003)	198
Fox Valley	Aurora	IL		927	2,986	3,913	30	932	3,011	3,943	(815)	199
Fullerton	Chicago	IL		3,325	6,965	10,290	98	3,325	7,063	10,388	(614)	200
Glenview West	Glenview	IL		1,003	3,878	4,881	25	1,003	3,903	4,906	(388)	200
Hillside	Hillside	IL		261	1,043	1,304	308	261	1,351	1,612	(516)	198
Lincolnwood	Lincolnwood	IL		818	4,356	5,174	5	818	4,361	5,179	(680)	200
Lisle	Lisle	IL		575	2,335	2,910	304	576	2,638	3,214	(1,073)	198
Lombard	Lombard	IL		392	1,566	1,958	269	239	1,988	2,227	(836)	198
Niles	Niles	IL		1,449	3,935	5,384	161	1,449	4,096	5,545	(524)	200
Oak Forest	Orland Park	IL		704	1,869	2,573	1,493	704	3,362	4,066	(1,206)	199
Palatine	Palatine	IL	2,134	413	2,213	2,626	1,146	453	3,319	3,772	(582)	200
River West	Chicago	IL		1,187	5,116	6,303	333	1,187	5,449	6,636	(426)	200
Rolling Meadows	Rolling Meadows	IL		384	1,587	1,971	550	384	2,137	2,521	(812)	198

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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

Property Name	Location	State or Country (3)	Encum-brances (2)	INITIAL COST Land	INITIAL COST Building, Equip. & Other	INITIAL COST Gross Storage Centers	Costs Subsequent to Acquisition	Gross Amount as of December 31, 2005 Land and Land Held for Sale	Gross Amount as of December 31, 2005 Building Equip. & Other	Gross Amount as of December 31, 2005 Gross Storage centers	Accum. Depr.	Owned Since
Schaumburg	Schaumburg	IL		443	1,808	2,251	501	429	2,323	2,752	(887)	1982
Schaumburg South	Schaumburg	IL		490	3,231	3,721	1,531	921	4,331	5,252	(911)	1999
Wheaton	Wheaton	IL		247	4,190	4,437	80	221	4,296	4,517	(744)	2002
Willowbrook	Willowbrook	IL		412	1,650	2,062	433	412	2,083	2,495	(820)	1986
Carmel	Carmel	IN		404	2,560	2,964	24	404	2,584	2,988	(899)	1996
Castleton	Indianapolis	IN		494	1,969	2,463	189	522	2,130	2,652	(609)	1998
College Park	Indianapolis	IN		694	2,777	3,471	778	694	3,555	4,249	(1,388)	1986
Downtown Indy	Indianapolis	IN	2,792	947	3,393	4,340	(17)	1,286	3,037	4,323	(637)	2004
Eagle Creek	Indianapolis	IN		802	2,646	3,448	76	802	2,722	3,524	(733)	1998
East 62nd Street	Indianapolis	IN		376	1,629	2,005		376	1,629	2,005	(221)	2002
East Washington St.	Indianapolis	IN	2,136	399	2,583	2,982	20	412	2,590	3,002	(539)	1999
Fishers	Fishers	IN		827	3,394	4,221	424	827	3,818	4,645	(1,089)	1997
Geist	Fishers	IN		547	2,356	2,903	5	547	2,361	2,908	(328)	2002
Georgetown	Indianapolis	IN		461	2,143	2,604	432	461	2,575	3,036	(804)	1996
Glendale	Indianapolis	IN		520	2,077	2,597	210	520	2,287	2,807	(949)	1986
North Greenwood	Indianapolis	IN			2,600	2,600	65		2,665	2,665	(684)	1998
Speedway IN	Indianapolis	IN		472	2,094	2,566	177	452	2,291	2,743	(291)	2002
Annapolis	Annapolis	MD			3,432	3,432	90		3,522	3,522	(917)	1998
Briggs Chaney	Silver Springs	MD		430	1,727	2,157	187	430	1,914	2,344	(757)	1994
Clinton	Clinton	MD		303	1,213	1,516	2,106	650	2,972	3,622	(927)	1986
Crofton	Gambrills	MD		376	1,516	1,892	161	376	1,677	2,053	(674)	1988
Frederick Road	Frederick	MD		206	826	1,032	154	206	980	1,186	(409)	1994
Gaithersburg	Gaithersburg	MD		614	2,465	3,079	1,634	614	4,099	4,713	(1,493)	1994
Germantown	Germantown	MD		552	2,218	2,770	231	552	2,449	3,001	(942)	1994
Laurel	Laurel	MD		391	1,570	1,961	298	391	1,868	2,259	(752)	1988
Oxon Hill	FT Washington	MD		349	1,401	1,750	192	349	1,593	1,942	(608)	1994
Reisterstown	Owing Mills	MD		586	1,177	1,763	176	586	1,353	1,939	(178)	2002
Suitland	Suitland	MD		660	2,638	3,298	246	660	2,884	3,544	(1,171)	1987
Ann Arbor	Ann Arbor	MI		424	1,695	2,119	295	424	1,990	2,414	(878)	1988
Auburn Hills	Auburn Hills	MI		565	2,798	3,363	198	565	2,996	3,561	(475)	2002
Canton	Canton	MI		433	1,797	2,230	447	433	2,244	2,677	(789)	1988
Canton South	Canton	MI	2,591	842	2,308	3,150	803	852	3,101	3,953	(557)	2000
Clinton Township	Clinton Township	MI		754	3,195	3,949	267	772	3,444	4,216	(794)	1999
Dearborn	Dearborn	MI		1,773	2,694	4,467		1,773	2,694	4,467	(238)	2002
Farmington Hills (O Brien)	Farmington Hills	MI		1,361	3,597	4,958	6	1,361	3,603	4,964	(234)	2004
Flint South	Flint	MI		615	1,738	2,353	273	615	2,011	2,626	(301)	2001
Fraser	Fraser	MI		627	2,599	3,226	290	627	2,889	3,516	(917)	1988
Jackson	Jackson	MI		317	1,282	1,599	(376)	309	914	1,223	(4)	1997

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Lansing	Lansing	MI		124	500	624	(184)	124	316	440	(2)	1983
Livonia	Livonia	MI		636	2,634	3,270	532	636	3,166	3,802	(944)	1988
Madison Heights	Madison Height	MI		487	2,099	2,586	772	487	2,871	3,358	(951)	1995
Mt. Clemens	Mt. Clemens	MI	1,856	935	2,614	3,549	(130)	935	2,484	3,419	(390)	2001
Plymouth	Canton Township	MI		348	1,436	1,784	1,295	348	2,731	3,079	(970)	1985
Rochester	Shelby Township	MI		610	2,445	3,055	201	610	2,646	3,256	(880)	1996
Rochester Hills	Rochester Hills	MI		970	3,929	4,899	84	970	4,013	4,983	(613)	2001
Roseville	Roseville	MI		931	3,295	4,226	2	931	3,297	4,228	(235)	2003
Southfield	Southfield	MI		702	2,824	3,526	721	702	3,545	4,247	(1,326)	1983
Southfield at Telegraph	Southfield	MI		702	2,824	3,526	2,461	1,333	4,654	5,987	(579)	2002
Sterling Heights	Sterling Heights	MI		919	3,692	4,611	174	919	3,866	4,785	(1,283)	1996
Taylor	Taylor	MI		632	2,094	2,726	1,586	632	3,680	4,312	(1,311)	1995
Troy Maple	Troy	MI		556	2,243	2,799	3,359	1,987	4,171	6,158	(1,451)	1981
Troy Oakland Mall	Troy	MI		642	2,604	3,246	762	642	3,366	4,008	(1,313)	1983
Walled Lake	Walled Lake	MI		359	1,437	1,796	564	359	2,001	2,360	(796)	1985
Warren	Warren	MI		683	2,831	3,514	1,376	815	4,075	4,890	(1,110)	1988
Westland	Westland	MI		617	3,607	4,224		617	3,607	4,224	(363)	2003
Anoka	Anoka	MN		368	1,714	2,082	125	368	1,839	2,207	(166)	2003
Apple Valley	Apple Valley	MN		633	3,103	3,736	44	633	3,147	3,780	(272)	2003
Brooklyn Park	Brooklyn Park	MN		1,226	3,195	4,421	232	1,226	3,427	4,653	(283)	2003
Burnsville	Burnsville	MN		661	3,074	3,735	40	661	3,114	3,775	(276)	2003
Chanhassen	Chanhassen	MN		774	4,343	5,117	79	774	4,422	5,196	(389)	2003
Coon Rapids	Coon Rapids	MN		971	4,161	5,132	133	971	4,294	5,265	(366)	2003
Eden Prairie East	Eden Prairie	MN		1,182	4,894	6,076	162	1,182	5,056	6,238	(432)	2003
Eden Prairie West	Eden Prairie	MN		913	5,151	6,064	189	913	5,340	6,253	(439)	2003
Edina	Edina	MN		1,316	5,627	6,943	63	1,316	5,690	7,006	(475)	2003
Hopkins	Hopkins	MN		829	2,522	3,351	60	829	2,582	3,411	(219)	2003
Little Canada	Little Canada	MN		1,233	8,182	9,415	410	1,233	8,592	9,825	(708)	2003
Maple Grove	Maple Grove	MN		653	2,199	2,852	39	653	2,238	2,891	(194)	2003
Minnetonka	Minnetonka	MN		631	3,089	3,720	327	631	3,416	4,047	(267)	2003
Plymouth 169	Plymouth	MN		534	1,175	1,709	20	534	1,195	1,729	(106)	2003
Plymouth 494	Plymouth	MN		1,364	4,025	5,389	(5)	1,364	4,020	5,384	(344)	2003
Plymouth West	Plymouth	MN		813	3,346	4,159	48	813	3,394	4,207	(286)	2003
Richfield	Richfield	MN		1,298	5,458	6,756	18	1,298	5,476	6,774	(485)	2003
Shorewood	Shorewood	MN		1,039	5,793	6,832	158	1,039	5,951	6,990	(510)	2003
Woodbury	Woodbury	MN		1,097	4,467	5,564	30	1,097	4,497	5,594	(393)	2003
Southhaven	Hornlake	MS	1,761	814	1,863	2,677	1,007	835	2,849	3,684	(614)	1998
Albermarle	Charlotte	NC	3,308	707	3,960	4,667	149	707	4,109	4,816	(517)	2002

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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

				INITIAL COST			Costs	Gross Amount as of December 31, 2005				
Property Name	Location	State or Country (3)	Encum-brances (2)	Land	Building, Equip. & Other	Gross Storage Centers	Subsequent to Acquisition	Land and Land Held for Sale	Building Equip. & Other	Gross Storage centers	Accum. Depr.	Owned Since
Amity Ct	Charlotte	NC	1,842	433	2,054	2,487	57	459	2,085	2,544	(280)	2002
Arrowood	Charlotte	NC	2,597	1,155	2,541	3,696	212	1,218	2,690	3,908	(363)	2002
Atlantic Avenue	Raleigh	NC		1,424	4,058	5,482		1,424	4,058	5,482	(96)	2005
Capital Boulevard	Raleigh	NC		342	1,376	1,718	1,308	339	2,687	3,026	(798)	1994
Cary	Cary	NC		714	2,860	3,574	1,843	714	4,703	5,417	(1,224)	1994
Clayton	Clayton	NC		764	2,344	3,108	473	807	2,774	3,581	(305)	2002
Concord	Concord	NC	1,897	665	1,949	2,614	110	703	2,021	2,724	(260)	2002
Cone Blvd	Greensboro	NC	1,070	599	3,024	3,623	507	651	3,479	4,130	(419)	2002
COTT	Matthews	NC	857	237	1,210	1,447	49	273	1,223	1,496	(155)	2002
Country Club	Winston Salem	NC		757	3,198	3,955	1,355	803	4,507	5,310	(411)	2002
Creedmoor	Raleigh	NC		807	3,178	3,985	15	807	3,193	4,000	(858)	1997
Eastland	Charlotte	NC	2,228	536	3,209	3,745	144	536	3,353	3,889	(416)	2002
English Rd	High Point	NC		602	2,020	2,622	433	636	2,419	3,055	(285)	2002
Friendly Avenue	Greensboro	NC		657	3,175	3,832		657	3,175	3,832	(77)	2005
Garner	Garner	NC		204	818	1,022	188	250	960	1,210	(392)	1994
Gastonia	Gastonia	NC	2,200	881	2,138	3,019		881	2,138	3,019	(75)	2005
Glenwood	Raleigh	NC		266	1,066	1,332	139	266	1,205	1,471	(509)	1994
Glenwood Avenue	Raleigh	NC		1,214	2,975	4,189		1,214	2,975	4,189	(71)	2005
Hickory	Hickory	NC	4,317	892	2,885	3,777	3,770	1,410	6,137	7,547	(773)	2002
Lexington NC	Lexington	NC	1,046	430	1,315	1,745	83	425	1,403	1,828	(188)	2002
Matthews	Matthews	NC	1,733	775	4,709	5,484	26	743	4,767	5,510	(603)	2002
Monroe	Monroe	NC	2,125	506	2,628	3,134	10	506	2,638	3,144	(369)	2002
Morrisville	Morrisville	NC		409	1,640	2,049	144	409	1,784	2,193	(725)	1994
N. Tryon	Charlotte	NC	1,974	873	2,175	3,048	125	873	2,300	3,173	(309)	2002
Park Rd	Charlotte	NC		1,014	3,337	4,351	2	1,014	3,339	4,353	(428)	2002
Pavilion	Charlotte	NC	1,487	1,320	1,969	3,289	61	1,298	2,052	3,350	(254)	2002
Pineville	Pineville	NC	9,168	2,334	4,764	7,098	151	2,334	4,915	7,249	(652)	2002
Poole Road	Raleigh	NC		1,123	1,266	2,389		1,123	1,266	2,389	(31)	2005
Randleman	Greensboro	NC	1,950	1,094	2,314	3,408	9	1,094	2,323	3,417	(293)	2002
Rockingham	Rockingham	NC	774	157	1,564	1,721	20	157	1,584	1,741	(209)	2002
Salisbury	Salisbury	NC	3,188	155	4,617	4,772	97	155	4,714	4,869	(579)	2002
Silas Creek	Winston Salem	NC		1,640	2,311	3,951	1,035	1,691	3,295	4,986	(381)	2002
South Boulevard	Charlotte	NC	4,794	2,180	3,926	6,106	36	2,180	3,962	6,142	(221)	2004
South Raleigh	Raleigh	NC		792	610	1,402		792	610	1,402	(15)	2005
Stallings	Matthews	NC	2,068	747	1,689	2,436	535	786	2,185	2,971	(317)	2002
Wake Forest	Wake Forest	NC	713	851	1,484	2,335	500	901	1,934	2,835	(237)	2002
Weddington	Waxhaw	NC	2,386	642	2,345	2,987	71	706	2,352	3,058	(293)	2002
Wendover	Charlotte	NC		1,736	6,402	8,138		1,736	6,402	8,138	(151)	2005

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Wilkinson	Charlotte	NC	1,968	548	2,777	3,325	115	548	2,892	3,440	(363)	2002	
Winston	Winston Salem	NC	1,171	354	1,441	1,795	252	328	1,719	2,047	(232)	2002	
Bricktown	Bricktown	NJ	3,699	1,398	2,640	4,038	2,423	1,957	4,504	6,461	(749)	2004	
Marlboro	Morganville	NJ		1,320	4,963	6,283	75	1,320	5,038	6,358	(814)	2001	
Marlton	Marlton	NJ		842	4,643	5,485	77	842	4,720	5,562	(421)	2003	
Old Bridge	Matawan	NJ		767	2,301	3,068	2,185	767	4,486	5,253	(1,479)	1987	1
Rockaway (dover)	Dover	NJ		2,038	3,983	6,021	38	2,038	4,021	6,059	(421)	2003	
Voorhees	Voorhees	NJ		1,121	4,268	5,389	(60)	1,121	4,208	5,329	(674)	2001	
West Paterson	West Paterson	NJ		1,944	6,367	8,311	66	1,944	6,433	8,377	(399)	2004	
Bethpage	Bethpage	NY	6,475	2,370	6,209	8,579	2,674	3,417	7,836	11,253	(1,211)	2004	
Commack	Commack	NY	6,140	3,461	6,203	9,664	212	3,461	6,415	9,876	(1,430)	1999	
Gold Street	Brooklyn	NY		1,194	4,821	6,015	1,622	1,194	6,443	7,637	(2,590)	1986	
Great Neck	Great Neck	NY	2,047	436	2,632	3,068	320	438	2,950	3,388	(569)	1999	1
Hempstead	Hempstead	NY	4,420	1,902	4,572	6,474	1,450	2,599	5,325	7,924	(969)	2004	
Melville	Melville	NY		1,099	3,897	4,996	3,739	1,099	7,636	8,735	(1,595)	1998	
Nesconset	Nesconset	NY	3,048	1,072	2,919	3,991	665	1,074	3,582	4,656	(678)	2000	
Northern Boulevard	Long Island	NY		1,244	5,039	6,283	1,119	1,244	6,158	7,402	(2,561)	1987	
Utica Avenue	Brooklyn	NY		830	3,556	4,386	653	830	4,209	5,039	(1,728)	1986	
Van Dam Street	Long Island	NY		760	3,189	3,949	540	760	3,729	4,489	(1,621)	1986	
Yonkers	Yonkers	NY		913	3,936	4,849	739	913	4,675	5,588	(2,008)	1986	
16th & Sandy	Portland	OR		231	938	1,169	1,521	492	2,198	2,690	(700)	1995	
Allen Boulevard	Beaverton	OR		525	2,101	2,626	121	525	2,222	2,747	(734)	1996	
Barbur Boulevard	Portland	OR		337	3,411	3,748	2,612	790	5,570	6,360	(2,157)	1995	
Beaverton	Beaverton	OR		216	4,201	4,417		216	4,201	4,417	(161)	1985	
Denney Road	Beaverton	OR		593	2,380	2,973	271	593	2,651	3,244	(1,070)	1989	
Division	Portland	OR		352	1,395	1,747	2,708	809	3,646	4,455	(1,320)	1996	
Gresham	Gresham	OR		744	2,442	3,186	122	744	2,564	3,308	(864)	1996	
Hillsboro	Hillsboro	OR		720	2,992	3,712	185	720	3,177	3,897	(1,047)	1996	
King City / Tigard	Tigard	OR		511	2,051	2,562	228	511	2,279	2,790	(929)	1987	
Liberty Road	Salem	OR		524	1,280	1,804	3,971	889	4,886	5,775	(1,245)	1995	
Milwaukie	Milwaukie	OR		583	2,005	2,588	3,290	1,161	4,717	5,878	(1,687)	1996	
Oregon City	Oregon City	OR		321	1,613	1,934	2,088	715	3,307	4,022	(1,334)	1995	
Portland	Portland	OR		382	1,530	1,912	160	382	1,690	2,072	(694)	1988	
Salem	Salem	OR		574	2,294	2,868	519	574	2,813	3,387	(1,172)	1983	
Airport	Philadelphia	PA		799	3,194	3,993	731	799	3,925	4,724	(1,509)	1986	
Edgemont	Newton Square	PA		497	3,070	3,567	2,761	949	5,379	6,328	(2,075)	1995	
Jenkintown	Jenkintown	PA		1	2,247	2,248	115		2,363	2,363	(128)	2004	
Oxford Valley	Fairless Hills	PA		1,197	4,174	5,371	84	1,197	4,258	5,455	(558)	2002	

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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

				INITIAL COST			Costs	Gross Amount as of December 31, 2005				
Property Name	Location	State or Country (3)	Encum-brances (2)	Land	Building, Equip. & Other	Gross Storage Centers	Subsequent to Acquisition	Land and Land Held for Sale	Building Equip. & Other	Gross Storage centers	Accum. Depr.	Owned Since
Painters Crossing	Glen Mills	PA		513	2,868	3,381	9	511	2,879	3,390	(765)	1998
Valley Forge	Berwyn	PA		331	2,816	3,147	594		3,741	3,741	(416)	2002
Westchester	West Chester	PA			4,197	4,197	578		4,775	4,775	(1,931)	1986
Ashley River	Charleston	SC		851	3,880	4,731	5	910	3,826	4,736	(483)	2002
Ballantyne	Fort Mill	SC		640	1,976	2,616	638	681	2,573	3,254	(286)	2002
Charleston	Ladson	SC	1,892	403	3,063	3,466	505	467	3,504	3,971	(427)	2002
Dave Lyle	Rock Hill	SC		487	2,483	2,970	417	533	2,854	3,387	(341)	2002
Florence	Florence	SC	2,653	584	3,841	4,425	213	584	4,054	4,638	(483)	2002
Garners Ferry	Columbia	SC	2,338	1,026	2,361	3,387	44	1,026	2,405	3,431	(309)	2002
Greenville	Greenville	SC	1,794	330	1,557	1,887	33	330	1,590	1,920	(235)	2002
James Island (Folly Road)	Charleston	SC		605	2,372	2,977		605	2,372	2,977	(190)	2003
Rock Hill	Rock Hill	SC	2,181	415	1,867	2,282	381	451	2,212	2,663	(284)	2002
Rosewood (Morningstar)	Columbia	SC		363	3,549	3,912	11	363	3,560	3,923	(256)	2002
Shriners	Greenville	SC	1,968	431	2,324	2,755	73	460	2,368	2,828	(314)	2002
Spartanburg	Spartanburg	SC	472	212	1,065	1,277	102	212	1,167	1,379	(156)	2002
Sumter	Sumter	SC	1,142	268	1,657	1,925	72	253	1,744	1,997	(225)	2002
Sunset	Lexington	SC		535	2,299	2,834	443	400	2,877	3,277	(331)	2002
Woodruff	Greenville	SC	1,866	1,082	1,390	2,472	208	1,078	1,602	2,680	(216)	2002
Franklin	Franklin	TN	2,245	569	2,057	2,626	140	584	2,182	2,766	(796)	1995
Hermitage	Hermitage	TN	2,259	157	2,445	2,602	597	327	2,872	3,199	(1,325)	1995
Hickory Hollow	Antioch	TN	1,686	743	2,337	3,080	318	758	2,640	3,398	(777)	1997
Medical Center TN	Nashville	TN	1,738	236	2,251	2,487	126	246	2,367	2,613	(909)	1995
Rivergate	Madison	TN	2,913	760	1,958	2,718	870	776	2,812	3,588	(854)	1996
South Main	Memphis	TN	585	465	1,480	1,945	(329)	352	1,264	1,616	(312)	2000
Stones River	Murfreesboro	TN	2,175	373	1,879	2,252	584	399	2,437	2,836	(661)	1998
Sycamore View	Memphis	TN	1,161	340	1,460	1,800	1,360	364	2,796	3,160	(716)	1998
Winchester	Memphis	TN	1,897	620	2,655	3,275	277	642	2,910	3,552	(807)	1998
Wolfchase	Memphis	TN	1,564	760	1,881	2,641	630	781	2,490	3,271	(760)	1997
Audelia II	Richardson	TX		689	2,286	2,975	(5)	689	2,281	2,970	(339)	2002
Bandera Road	San Antonio	TX		468	1,873	2,341	155	468	2,028	2,496	(867)	1988
Bedford	Bedford	TX		408	1,678	2,086	174	408	1,852	2,260	(800)	1985
Bee Caves Road	Austin	TX		608	3,609	4,217	1,305	1,207	4,315	5,522	(944)	1999
Beltline	Irving	TX		414	1,671	2,085	476	414	2,147	2,561	(953)	1989
Blanco Road	San Antonio	TX		801	3,235	4,036	160	801	3,395	4,196	(1,436)	1988
Champions	Houston	TX		515	2,775	3,290	261	484	3,067	3,551	(782)	1998
Cinco Ranch	Katy	TX		1,751	1,336	3,087	108	523	2,672	3,195	(630)	1999
City Place	Dallas	TX		1,045	3,314	4,359	464	1,118	3,705	4,823	(846)	1999
East Lamar	Arlington	TX		742	1,863	2,605	592	742	2,455	3,197	(767)	1996

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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

				INITIAL COST			Costs	Gross Amount as of December 31, 2005				
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Federal Road	Houston	TX		552	2,223	2,775	208	552	2,431	2,983	(1,039)	1988
First Colony	Missouri City	TX		447	2,175	2,622	36	427	2,231	2,658	(431)	2000
Forum 303	Arlington	TX		273	1,100	1,373	182	273	1,282	1,555	(565)	1986
Fredericksburg Road	San Antonio	TX		645	2,596	3,241	439	645	3,035	3,680	(1,254)	1987
Greenville Avenue	Dallas	TX		768	3,104	3,872	817	1,375	3,314	4,689	(922)	1998
Helotes	Helotes	TX	1,816	481	2,277	2,758	41	493	2,306	2,799	(453)	2000
Henderson Pass	San Antonio	TX		562	2,348	2,910	933	1,386	2,457	3,843	(670)	1998
Henderson Street	Fort Worth	TX		318	3,137	3,455	966	338	4,083	4,421	(884)	1999
Highway 26	Hurst	TX		517	2,761	3,278	(1)	527	2,750	3,277	(468)	2001
Highway 78	San Antonio	TX		392	1,550	1,942	229	392	1,779	2,171	(480)	1998
Hill Country Village	San Antonio	TX		679	2,731	3,410	200	679	2,931	3,610	(1,237)	1985
Hillcroft	Houston	TX			3,645	3,645	101		3,746	3,746	(1,548)	1991
Hurst	Hurst	TX		363	1,492	1,855	154	363	1,646	2,009	(677)	1987
Imperial Valley	Houston	TX		461	1,856	2,317	224	461	2,080	2,541	(887)	1988
Irving	Irving	TX		180	734	914	813	314	1,413	1,727	(592)	1985
Kingwood	Kingwood	TX		525	2,097	2,622	813	511	2,924	3,435	(1,128)	1988
Lakeline	Austin	TX		737	3,412	4,149	(24)	748	3,377	4,125	(596)	2001
Las Colinas	Irving	TX	2,326	478	2,717	3,195	461	491	3,165	3,656	(591)	2000
Lewisville	Lewisville	TX		434	2,521	2,955	31	434	2,552	2,986	(810)	1997
MacArthur	Irving	TX		180	734	914	1,241	359	1,796	2,155	(838)	1985
Macarthur Crossing	Irving	TX		746	2,577	3,323	404	746	2,981	3,727	(1,023)	1996
Medical Center (TX)	Houston	TX		737	2,950	3,687	336	737	3,286	4,023	(1,500)	1989
Medical Center SA	San Antonio	TX	2,165	660	2,683	3,343	149	667	2,825	3,492	(544)	2000
Mission Bend	Houston	TX		653	2,218	2,871	560	653	2,778	3,431	(937)	1995
Nacogdoches	San Antonio	TX		363	1,565	1,928	1,561	381	3,108	3,489	(773)	1998
North Austin	Austin	TX		609	1,331	1,940	25	609	1,356	1,965	(62)	1986
North Carrollton	Carrollton	TX		627	2,739	3,366	38	627	2,777	3,404	(575)	2000
North Park	Kingwood	TX		570	2,163	2,733	79	549	2,263	2,812	(432)	2000
Oak Farms	Houston	TX		2,603	2,730	5,333	986	2,652	3,667	6,319	(827)	1999
Oak Hills	Austin	TX	2,491	149	3,568	3,717	21		3,738	3,738	(840)	1999
Oltorf	Austin	TX		609	4,399	5,008	2	609	4,401	5,010	(593)	2002
Olympia	Missouri City	TX	2,247	489	2,912	3,401	24	505	2,920	3,425	(550)	2000
Park Cities East	Dallas	TX		1,017	2,686	3,703	329	1,017	3,015	4,032	(1,054)	1995
Parker Road	Plano	TX		809	2,133	2,942	49	809	2,182	2,991	(765)	1995
Preston Road	Dallas	TX		703	2,702	3,405	118	697	2,826	3,523	(888)	1997
River Oaks	Houston	TX		987	2,565	3,552	5,018	1,738	6,832	8,570	(2,657)	1996
Round Rock	Round Rock	TX		386	1,641	2,027	162	386	1,803	2,189	(589)	1997
San Antonio NE	San Antonio	TX		406	1,630	2,036	159	406	1,789	2,195	(758)	1985

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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

				INITIAL COST			Costs	Gross Amount as of December 31, 2005				
Property Name	Location	State or Country (3)	Encum-brances (2)	Land	Building, Equip. & Other	Gross Storage Centers	Subsequent to Acquisition	Land and Land Held for Sale	Building Equip. & Other	Gross Storage centers	Accum. Depr.	Owne Sinc
Shavano Park	San Antonio	TX		566	2,887	3,453	(6)	565	2,882	3,447	(440)	200
Slaughter Lane	Austin	TX		592	2,428	3,020	340	592	2,768	3,360	(866)	199
South Cooper	Arlington	TX		632	2,305	2,937	335	632	2,640	3,272	(867)	199
South Main TX	Houston	TX		404	1,039	1,443	184	392	1,235	1,627	(284)	200
Southlake	Southlake	TX		670	2,738	3,408	429	670	3,167	3,837	(801)	199
Sugarland	Sugarland	TX		761	2,991	3,752	191	761	3,182	3,943	(1,309)	198
T.C. Jester	Houston	TX		903	3,613	4,516	491	903	4,104	5,007	(1,304)	199
The Quarry	San Antonio	TX		1,316	2,817	4,133	164	488	3,809	4,297	(919)	199
Thousand Oaks	San Antonio	TX		421	1,683	2,104	158	421	1,841	2,262	(771)	198
Universal City	Universal City	TX		169	593	762	1,098	169	1,691	1,860	(690)	199
Valley Ranch	Coppell	TX		791	3,210	4,001	240	791	3,450	4,241	(1,064)	199
West University	Houston	TX		1,121	4,484	5,605	205	1,121	4,689	5,810	(1,942)	198
Westchase	Houston	TX		250	2,756	3,006	16	351	2,671	3,022	(520)	200
Westheimer	Houston	TX		611	2,470	3,081	92	611	2,562	3,173	(1,040)	198
Windcrest	San Antonio	TX		626	2,535	3,161	510	626	3,045	3,671	(995)	199
Woodforest	Houston	TX		538	1,870	2,408	438	538	2,308	2,846	(732)	199
Woodlands	Spring	TX		737	2,948	3,685	405	737	3,353	4,090	(1,374)	198
Bayside	Virginia Beach	VA		236	943	1,179	358	236	1,301	1,537	(500)	198
Burke	Fairfax	VA		634	2,539	3,173	233	634	2,772	3,406	(878)	199
Burke Centre	Burke	VA		1,035	4,778	5,813	274	1,035	5,052	6,087	(700)	200
Cedar Road	Chesapeake	VA		295	1,184	1,479	268	295	1,452	1,747	(547)	199
Charlottesville	Charlottesville	VA		305	1,225	1,530	150	305	1,375	1,680	(583)	199
Chesapeake	Chesapeake	VA		454	1,821	2,275	110	454	1,931	2,385	(639)	199
Crater Road	Petersburg	VA		224	898	1,122	120	224	1,018	1,242	(416)	199
Dale City	Dale City	VA		346	1,388	1,734	514	346	1,902	2,248	(711)	199
Fairfax	Fairfax	VA		1,136	4,555	5,691	2,542	1,414	6,819	8,233	(2,636)	198
Falls Church	Falls Church	VA		1,413	5,661	7,074	1,685	1,413	7,346	8,759	(2,477)	198
Fordson	Alexandria	VA		324	3,114	3,438	95	324	3,209	3,533	(452)	200
Fullerton	Springfield	VA		1,139	4,346	5,485	128	1,139	4,474	5,613	(657)	200
Gainesville	Gainesville	VA		245	983	1,228	196	245	1,179	1,424	(489)	199
Herndon	Herndon	VA		582	2,334	2,916	576	582	2,910	3,492	(1,142)	198
Holland Road	Virginia Beach	VA		204	818	1,022	207	204	1,025	1,229	(443)	199
Jefferson Davis Hwy	Richmond	VA		306	1,226	1,532	127	306	1,353	1,659	(552)	199
Kempsville	Virginia Beach	VA		279	1,116	1,395	170	279	1,286	1,565	(512)	198
Laskin Road	Virginia Beach	VA		305	1,225	1,530	181	305	1,406	1,711	(588)	199
Leesburg	Leesburg	VA		541	2,174	2,715	97	541	2,271	2,812	(742)	199
Manassas East	Manassas	VA		339	1,406	1,745	28	339	1,434	1,773	(596)	200
Manassas West/East	Manassas	VA		315	1,221	1,536	738	315	1,959	2,274	(767)	198

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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

				INITIAL COST			Costs	Gross Amount as of December 31, 2005				
Property Name	**Location**	**State or Country (3)**	**Encum-brances (2)**	**Land**	**Building, Equip. & Other**	**Gross Storage Centers**	**Subsequent to Acquisition**	**Land and Land Held for Sale**	**Building Equip. & Other**	**Gross Storage centers**	**Accum. Depr.**	**Owned Since**
McLean	McLean	VA			1,839	1,839	1,799		3,638	3,638	(1,599)	1997
Merrifield	Fairfax	VA		3,184	3,966	7,150	918	3,192	4,876	8,068	(1,006)	1999
Midlothian Turnpike	Richmond	VA		646	2,591	3,237	85	582	2,740	3,322	(902)	1996
Newport News North	Newport News	VA		574	2,301	2,875	393	574	2,694	3,268	(857)	1996
Newport News South	Newport News	VA		496	2,014	2,510	383	496	2,397	2,893	(969)	1985
North Richmond	Richmond	VA		344	1,375	1,719	220	344	1,595	1,939	(670)	1988
Old Towne	Alexandria	VA	5,500	2,036	7,210	9,246	173	2,036	7,383	9,419	(1,548)	1999
Potomac Mills	Woodbridge	VA		1,114	3,440	4,554	32	1,122	3,464	4,586	(932)	1997
Princess Anne Road	Virginia Beach	VA		305	1,225	1,530	128	305	1,353	1,658	(539)	1994
South Military Highway	Virginia Beach	VA		289	1,161	1,450	363	289	1,524	1,813	(512)	1996
Sterling (Cascades)	Sterling	VA		2,292	3,639	5,931	64	2,292	3,703	5,995	(937)	1998
Telegraph	Lorton	VA		441	2,036	2,477	302	441	2,338	2,779	(319)	2001
Temple	Prince George	VA		297	1,193	1,490	213	297	1,406	1,703	(562)	1994
Virginia Beach Blvd.	Virginia Beach	VA		502	1,832	2,334	513	502	2,345	2,847	(963)	1989
Auburn	Auburn	WA		760	2,773	3,533	214	760	2,987	3,747	(1,042)	1996
Ballinger Way	Shoreline	WA		893	3,545	4,438	55	893	3,600	4,493	(226)	2004
Bellefield	Bellevue	WA		957	3,830	4,787	288	957	4,118	5,075	(1,367)	1996
Bellevue	Bellevue	WA		1,860	7,483	9,343	5,196	2,320	12,219	14,539	(4,159)	1984
Bellingham	Bellingham	WA		601	2,400	3,001	415	601	2,815	3,416	(1,121)	1981
Bremerton	Bremerton	WA		563	2,297	2,860	135	563	2,432	2,995	(716)	1997
Burien	Burien	WA		646	2,622	3,268	565	646	3,187	3,833	(1,296)	1985
Burien II	Seatac	WA		388	1,553	1,941	313	388	1,866	2,254	(788)	1985
Canyon Park	Bothell	WA		1,023	2,949	3,972	332	1,023	3,281	4,304	(1,534)	1996
Canyon Road Puyallup	Puyallup	WA		234	937	1,171	168	234	1,105	1,339	(379)	1996
Capitol Hill	Seattle	WA		764	4,516	5,280	990	839	5,431	6,270	(3,164)	1987
East Bremerton	Bremerton	WA		576	2,312	2,888	262	576	2,574	3,150	(854)	1996
East Lynnwood	Lynnwood	WA		482	1,933	2,415	534	482	2,467	2,949	(955)	1986
Edmonds	Edmonds	WA		1,190	4,806	5,996	670	1,190	5,476	6,666	(2,133)	1984
Everett	Everett	WA		512	2,045	2,557	772	512	2,817	3,329	(1,107)	1981
Factoria	Bellevue	WA		590	2,362	2,952	241	580	2,613	3,193	(1,010)	1984
Factoria Square	Bellevue	WA		1,226	4,909	6,135	203	1,226	5,112	6,338	(1,635)	1996
Federal Way	Federal Way	WA		862	3,414	4,276	301	872	3,705	4,577	(1,611)	1984
Gig Harbor	Gig Harbor	WA		1,119	769	1,888	126	1,059	955	2,014	(248)	1999
Hazel Dell	Vancover	WA		728	1,506	2,234	2,928	1,279	3,883	5,162	(1,350)	1996
	Tacoma	WA		592	2,362	2,954	290	592	2,652	3,244	(1,085)	1981

Highland Hills												
Issaquah	Issaquah	WA		615	2,460	3,075	248	615	2,708	3,323	(1,159)	1985
Juanita	Kirkland	WA	3,472	877	4,469	5,346	30	877	4,499	5,376	(866)	2000
Kennydale	Renton	WA		816	3,267	4,083	233	816	3,500	4,316	(1,095)	1996

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Property Name	**Location**	**State or Country (3)**	**Encum-brances (2)**	**Land**	**Building, Equip. & Other**	**Gross Storage Centers**	**Costs Subsequent to Acquisition**	**Land and Land Held for Sale**	**Building Equip. & Other**	**Gross Storage centers**	**Accum. Depr.**	**Ov Si**
Kent	Kent	WA		557	2,297	2,854	52	543	2,363	2,906	(701)	
Lacey	Lacey	WA		251	1,014	1,265	105	185	1,185	1,370	(362)	
Lake City	Seattle	WA		572	2,421	2,993	340	572	2,761	3,333	(1,212)	
Lake Union	Seattle	WA		1,580	7,440	9,020	62	2,956	6,126	9,082	(2,614)	
Lakewood 512	Lakewood	WA		920	3,676	4,596	737	920	4,413	5,333	(1,602)	
Lynnwood	Lynnwood	WA		775	3,186	3,961	143	757	3,347	4,104	(980)	
Mill Creek	Everett	WA		627	3,760	4,387	315	627	4,075	4,702	(975)	
Parkland	Tacoma	WA		400	1,634	2,034	138	391	1,781	2,172	(531)	
Pier 57	Seattle	WA		872	4,558	5,430	131	872	4,689	5,561	(1,141)	
Port Orchard	Port Orchard	WA		483	2,013	2,496	151	483	2,164	2,647	(690)	
Queen Anne/Magnolia	Seattle	WA		952	3,777	4,729	305	952	4,082	5,034	(1,705)	
Redmond	Redmond	WA		537	5,503	6,040	52	529	5,563	6,092	(1,380)	
Renton	Renton	WA		625	2,557	3,182	308	625	2,865	3,490	(1,211)	
Salmon Creek	Vancouver	WA		759	3,327	4,086	153	759	3,480	4,239	(1,048)	
Sammamish Plateau	Sammamish	WA		963	3,854	4,817	71	963	3,925	4,888	(982)	
Shoreline	Shoreline	WA		770	3,446	4,216	734	770	4,180	4,950	(1,643)	
Smokey Point (1)(5)	Arlington	WA		232	929	1,161	(280)	881		881		
South Hill	Puyallup	WA		300	1,247	1,547	209	300	1,456	1,756	(591)	
Southcenter	Renton	WA		425	1,783	2,208	241	425	2,024	2,449	(881)	
Sprague	Tacoma	WA		717	1,431	2,148	2,937	1,241	3,844	5,085	(1,435)	
Tacoma South (1)(5)	Tacoma	WA		315	1,263	1,578	(284)	1,294		1,294		
Totem Lake	Kirkland	WA		660	2,668	3,328	321	660	2,989	3,649	(1,233)	
Vancouver Mall	Vancouver	WA		364	1,457	1,821	326	364	1,783	2,147	(770)	
W. Olympia	Olympia	WA		359	1,446	1,805	131	351	1,585	1,936	(456)	
West Seattle	Seattle	WA		698	4,202	4,900	66	698	4,268	4,966	(1,298)	
White Center (aka West Seattle)	Seattle	WA		559	2,284	2,843	199	559	2,483	3,042	(1,014)	
Woodinville	Woodinville	WA		674	2,693	3,367	454	674	3,147	3,821	(1,203)	
Corporate Office	Seattle	WA		3,947	7,096	11,043	19,204	4,070	26,178	30,248	(18,669)	
Monocacy (Land with no Building)	Frederick	MD		1,288		1,288		1,288		1,288		
Olive Interbelt (Non-Shurgard Store)	St. Louis	MO		818	3,705	4,523	116	818	3,821	4,639	(1,527)	
Dolfield (1)	Baltimore	MD					565	565		565		
Fontana-Sierra (1)	Fontana	CA		391	1,572	1,963	(1,635)	328		328		
St. Peters (Land with no Building)	St. Peters	MO		1,012		1,012	25	1,037		1,037		
Domestic total			248,741	376,524	1,421,816	1,798,340	259,428	398,314	1,659,455	2,057,769	(432,937)	

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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

				INITIAL COST				Gross Amount as of December 31, 2005					
Property Name	Location	State or Country (3)	Encum-brances (2)	Land	Building, Equip. & Other	Gross Storage Centers	Costs Subsequent to Acquisition	Land and Land Held for Sale	Building Equip. & Other	Gross Storage centers	Accum. Depr.	Owned Since	Ye Bu
Aartselaar	Antwerpen	Belgium	$ 3,345	$ 1,030	$ 6,038	$ 7,068	$ 674	$ 1,397	$ 6,345	$ 7,742	$ (1,402)	2004	19
Antwerpen Bredabaan	Antwerpen	Belgium	3,045	1,753	4,683	6,436	423	2,003	4,856	6,859	(672)	2004	20
Borgerhout	Antwerpen	Belgium	2,685	395	4,842	5,237	252	685	4,804	5,489	(523)	2004	20
Brugge	Brugge	Belgium	2,269	1,023	3,784	4,807	68	1,023	3,852	4,875	(619)	2004	19
Forest	Brussels	Belgium	4,306		5,336	5,336	858	408	5,786	6,194	(1,469)	2004	19
Ghent	Ghent	Belgium	3,841	1,283	6,730	8,013	328	1,288	7,053	8,341	(2,226)	2004	19
Groot-Bijgaarden	Brussels	Belgium	3,118	1,959	3,799	5,758	(1)	1,959	3,798	5,757		2005	20
Jette	Brussels	Belgium	4,249	1,190	7,802	8,992	543	1,406	8,129	9,535	(1,367)	2004	20
Kortrijk	Kortrijk	Belgium	2,685	1,418	4,491	5,909	651	1,946	4,614	6,560	(643)	2004	19
Leuven	Leuven	Belgium	3,248	1,843	5,024	6,867	69	1,843	5,093	6,936	(876)	2004	19
Linkeroever	Antwerpen	Belgium	2,075	789	3,510	4,299	165	820	3,644	4,464	(402)	2004	20
Luik	Luik	Belgium	2,085	924	3,403	4,327	235	938	3,624	4,562	(504)	2004	20
Machelen	Machelen	Belgium	2,517	871	4,459	5,330	669	1,348	4,651	5,999	(1,021)	2004	19
Molenbeek	Brussels	Belgium	1,978	839	3,242	4,081	150	839	3,392	4,231	(847)	2004	19
Overijse	Overijse	Belgium	2,299	1,459	3,385	4,844	541	1,644	3,741	5,385	(613)	2004	19
Sint Pieters Leeuw	Brussels	Belgium	2,344	743	4,206	4,949	195	806	4,338	5,144	(651)	2004	20
Waterloo	Waterloo	Belgium	4,899	626	7,680	8,306	984	1,913	7,377	9,290	(1,581)	2004	19
Wavre	Wavre	Belgium	2,199	851	3,704	4,555	33	851	3,737	4,588	(275)	2004	20
Zaventem	Zaventem	Belgium	3,983	3,272	5,090	8,362	1,038	3,706	5,694	9,400	(2,156)	2004	19
Amager	Copenhagen	Denmark	4,457	475	6,683	7,158	60	481	6,737	7,218	(152)	2005	20
Herlev	Copenhagen	Denmark	4,350	2,197	4,124	6,321	414	2,223	4,512	6,735	(161)	2004	20
Hørsholm	Hørsholm	Denmark	4,543	1,373	7,775	9,148	664	1,440	8,372	9,812	(708)	2004	20
Hvidovre	Hvidovre	Denmark	4,780	1,907	8,133	10,040	845	1,968	8,917	10,885	(976)	2004	20
Ishøj	Ishøj	Denmark	3,595	1,203	6,232	7,435	182	1,203	6,414	7,617	(736)	2004	20
Osterbro	Copenhagen	Denmark	4,724	2,332	7,409	9,741	259	2,351	7,649	10,000	(611)	2004	20
Roskilde	Roskilde	Denmark	4,603	2,348	7,645	9,993	57	2,348	7,702	10,050	(672)	2004	20
Tårnby	Copenhagen	Denmark	4,705	1,753	5,195	6,948	317	1,773	5,492	7,265	(297)	2004	20
Aix La Pioline	Marseille	France	4,089	1,748	4,643	6,391	24	1,748	4,667	6,415	(20)	2005	20
Asnières	Asnières	France	5,285	2,762	8,485	11,247	821	2,964	9,104	12,068	(1,439)	2004	20
Avignon	Avignon	France	3,403	1,255	3,389	4,644	653	1,283	4,014	5,297	(133)	2004	20
Ballainvilliers	Ballainvilliers	France	3,612	1,918	5,673	7,591	214	1,934	5,871	7,805	(1,052)	2004	20
Buchelay	Buchelay	France	3,567	1,465	6,090	7,555	231	1,465	6,321	7,786	(1,051)	2004	20
Chambourcy	Chambourcy	France	4,602	3,806	6,042	9,848	382	3,980	6,250	10,230	(435)	2004	20
Coignières	Coignières	France	3,330	1,536	5,514	7,050	443	1,611	5,882	7,493	(860)	2004	20
Epinay	Epinay	France	3,620	1,401	6,290	7,691	65	1,401	6,355	7,756	(843)	2004	20
Eragny	Paris	France	3,770	748	5,071	5,819	71	756	5,134	5,890	(380)	2004	20
Fresnes	Fresnes	France	3,988	2,514	5,961	8,475	717	2,733	6,459	9,192	(1,089)	2004	20
Grigny	Grigny	France	3,586	1,312	6,288	7,600	73	1,312	6,361	7,673	(924)	2004	20

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				INITIAL COST			Costs	Gross Amount as of December 31, 2005				
Property Name	Location	State or Country (3)	Encumbrances (2)	Land	Building, Equip. & Other	Gross Storage Centers	Subsequent to Acquisition	Land and Land Held for Sale	Building Equip. & Other	Gross Storage centers	Accum. Depr.	Ov Si
La Seyne	La Seyne-sur-mer	France	3,330	749	6,226	6,975	368	838	6,505	7,343	(776)	
Lormont	Bordeaux	France	3,676	914	5,004	5,918	32	914	5,036	5,950	(29)	
Lyon Gerland	Lyon	France	3,987	3,291	5,104	8,395	105	3,291	5,209	8,500	(529)	
Lyon Sarrazin	Lyon	France	4,178	720	6,111	6,831	34	720	6,145	6,865	(24)	
Lyon Vaise	Lyon	France	3,997	2,168	3,855	6,023	335	2,192	4,166	6,358	(244)	
Marseille	Marseille	France	4,193	1,958	6,928	8,886	140	1,964	7,062	9,026	(942)	
Marseille Bonneveine	Marseille	France	3,534	2,280	3,234	5,514	69	2,305	3,278	5,583	(303)	
Mérignac	Bordeaux	France	3,696	1,097	4,379	5,476	311	1,110	4,677	5,787	(194)	
Montrouge	Montrouge	France	2,798	988	6,474	7,462	1,470	988	7,944	8,932	(2,554)	
Nanterre	Nanterre	France	5,089	2,787	7,487	10,274	1,727	3,148	8,853	12,001	(1,614)	
Nice	Nice	France	3,699	1,710	4,576	6,286	2,118	1,878	6,526	8,404	(2,335)	
Noisy	Noisy	France	4,592	2,618	6,984	9,602	346	2,705	7,243	9,948	(744)	
Osny	Osny	France	2,899	1,134	4,982	6,116	503	1,203	5,416	6,619	(1,001)	
Pessac	Bordeaux	France	3,085	1,427	3,793	5,220	67	1,443	3,844	5,287	(133)	
Pierrefitte	Paris	France	4,205	1,964	4,163	6,127	656	1,986	4,797	6,783	(190)	
Poissonniers	Paris	France	6,449	1,968	10,262	12,230	58	1,968	10,320	12,288	(5)	
Pontault Combault	Pontault Combault	France	2,989	1,116	5,205	6,321	706	1,187	5,840	7,027	(1,138)	
Port-Marly	Port-Marly	France	3,248	1,207	5,681	6,888	994	1,434	6,448	7,882	(1,037)	
Rosny	Rosny	France	3,708	1,551	6,273	7,824	941	1,691	7,074	8,765	(1,139)	
Sevran	Sevran	France	3,780	1,471	6,572	8,043	110	1,470	6,683	8,153	(763)	
Sucy	Paris	France	4,433	3,278	3,584	6,862	98	3,315	3,645	6,960	(322)	
Thiais	Thiais	France	5,136	4,266	6,537	10,803	227	4,366	6,664	11,030	(861)	
Varlin	Varlin	France	277		550	550	572		1,122	1,122	(696)	
Villejust	Villejust	France	3,546	1,504	5,996	7,500	457	1,553	6,404	7,957	(1,151)	
Vitrolles	Vitrolles	France	3,780	1,799	6,201	8,000	98	1,803	6,295	8,098	(759)	
Wambrechies	Lille	France	2,927	1,593	2,837	4,430	134	1,611	2,953	4,564	(184)	
Wasquehal	Lille	France	3,533	708	4,750	5,458	45	716	4,787	5,503	(83)	
Wattignies	Lille	France	3,252	640	4,606	5,246	81	647	4,680	5,327	(288)	
Bonn Bornheimer Strasse	Bonn	Germany	4,244	2,129	4,452	6,581	122	2,152	4,551	6,703	(226)	
Düsseldorf Erkrather Strasse	Düsseldorf	Germany	4,240	1,508	5,023	6,531	170	1,538	5,163	6,701	(326)	
Düsseldorf Heerdter Landstrasse	Düsseldorf	Germany	3,753	1,064	5,079	6,143	4	1,078	5,069	6,147	(361)	
Essen Martin Luther Strasse	Essen	Germany	4,580	1,689	5,979	7,668	28	1,708	5,988	7,696	(435)	
Köln Clevischer Ring	Köln	Germany	3,571	1,362	4,813	6,175	47	1,362	4,860	6,222	(66)	
Köln Melatengürtel	Köln	Germany	4,635	2,277	4,609	6,886	54	2,297	4,643	6,940	(230)	
Krefeld Diessemer Bruch	Krefeld	Germany	3,522	926	4,476	5,402	425	936	4,891	5,827	(230)	
Mönchengladbach Krefelder Strasse	Mönchengladbach	Germany	4,012	1,575	4,707	6,282	95	1,592	4,785	6,377	(345)	

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Mönchengladbach Waldnieler Strasse	Mönchengladbach	Germany	4,197	1,980	4,590	6,570	64	2,001	4,633	6,634	(340)
Mülheim Düsseldorfer Strasse	Essen	Germany	3,617	868	4,631	5,499	40	876	4,663	5,539	(81)
Wuppertal Friedrich-Engels-Alle	Wuppertal	Germany	3,859	926	4,556	5,482	575	935	5,122	6,057	(169)
Almere	Amsterdam	Netherlands	4,005	1,066	4,766	5,832	397	1,078	5,151	6,229	(340)
Amersfoort	Amersfoort	Netherlands	5,984	3,136	5,931	9,067	(2,097)	683	6,287	6,970	(859)
Amstelveen	Amsterdam	Netherlands	2,448		3,584	3,584	181		3,765	3,765	(235)
Amsterdam	Amsterdam	Netherlands	2,738	287	3,527	3,814	2,432	287	5,959	6,246	(733)
Amsterdam Badhoeve	Amsterdam	Netherlands	3,546	1,404	3,886	5,290	371	1,420	4,241	5,661	(251)
Amsterdam Sneevliet	Amsterdam	Netherlands	4,259		4,525	4,525	117		4,642	4,642	(342)
Apeldoorn	Apeldoorn	Netherlands	3,256	1,666	5,207	6,873	312	1,704	5,481	7,185	(683)
Breda	Breda	Netherlands	3,975	2,267	6,169	8,436	252	2,341	6,347	8,688	(785)
Delft	Delft	Netherlands	3,910	2,386	4,778	7,164	972	2,466	5,670	8,136	(512)
Den Haag	The Hague	Netherlands	4,908	782	9,420	10,202	974	782	10,394	11,176	(1,657)
Den Haag 2, Lozerlaan	The Hague	Netherlands	326		3,268	3,268			3,268	3,268	
Diemen	Amsterdam	Netherlands	4,256	3,755	5,224	8,979	460	4,074	5,365	9,439	(508)
Dordrecht Ampere	Dordrecht	Netherlands	3,265	1,501	4,465	5,966	772	1,513	5,225	6,738	(466)
Dordrecht II	Dordrecht	Netherlands	4,048	2,011	6,467	8,478	153	2,037	6,594	8,631	(711)
Ede	Ede	Netherlands	3,268	484	5,933	6,417	485	484	6,418	6,902	(692)
Eindhoven Praxis	Eindhoven	Netherlands	2,847		4,344	4,344	7		4,351	4,351	
Heemstede	Amsterdam	Netherlands	6,459	3,434	6,257	9,691	(2,037)	730	6,924	7,654	(772)
Kerkrade Heerlen	Kerkrade	Netherlands	3,119	1,343	5,235	6,578	107	1,342	5,343	6,685	(623)
Maastricht	Maastricht	Netherlands	3,047	389	4,318	4,707	1,446	448	5,705	6,153	(794)
Nijmegen	Nijmegen	Netherlands	2,385		5,032	5,032	300		5,332	5,332	(562)
Rijswijk	Rijswijk	Netherlands	3,260	511	6,275	6,786	483	511	6,758	7,269	(638)
Rotterdam	Rotterdam	Netherlands	2,990	1,121	5,168	6,289	836	1,121	6,004	7,125	(845)
Rotterdam Stadionweg	Rotterdam	Netherlands	2,957	1,302	4,934	6,236	248	1,328	5,156	6,484	(585)
Spaanse Polder	Rotterdam	Netherlands	2,200		5,238	5,238	402		5,640	5,640	(743)
Spijkenisse	Rotterdam	Netherlands	3,369	1,399	5,779	7,178	51	1,399	5,830	7,229	(410)
Tilburg	Tilburg	Netherlands	3,502	1,209	4,101	5,310	132	1,223	4,219	5,442	(270)
Utrecht Cartesius	Utrecht	Netherlands	3,887	2,151	5,066	7,217	1,006	2,244	5,979	8,223	(522)
Utrecht Franciscus	Utrecht	Netherlands	4,466	2,930	4,141	7,071	90	2,963	4,198	7,161	(342)
Utrecht Nieuwegein	Utrecht	Netherlands	3,858	2,129	5,975	8,104	1,000	2,397	6,707	9,104	(925)
Veldhoven	Eindhoven	Netherlands	3,728	1,944	5,032	6,976	903	2,014	5,865	7,879	(530)
Zaandam	Amsterdam	Netherlands	3,608	2,059	5,544	7,603	203	2,106	5,700	7,806	(750)
Zoetermeer	The Hague	Netherlands	335		3,278	3,278			3,278	3,278	
Årstaberg	Årstaberg	Sweden	3,831	1,548	5,680	7,228	679	1,548	6,359	7,907	(709)

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Danderyd	Danderyd	Sweden	4,206	1,760	6,623	8,383	446	1,791	7,038	8,829	(794)	2004
Handen	Handen	Sweden	3,652	1,147	6,356	7,503	810	1,296	7,017	8,313	(1,611)	2004
Helsingborg	Malmö	Sweden	3,292	559	3,976	4,535	240	565	4,210	4,775	(428)	2004
Högdalen	Högdalen	Sweden	3,756	1,319	6,378	7,697	292	1,319	6,670	7,989	(947)	2004
Jakobsberg	Jakobsberg	Sweden	2,769	503	5,180	5,683	946	928	5,701	6,629	(1,612)	2004
Kungens Kurva	Kungens Kurva	Sweden	3,581	1,087	6,271	7,358	1,398	2,376	6,380	8,756	(2,108)	2004
Lund (MMÖ)	Malmö	Sweden	2,896	1,468	4,423	5,891	250	1,511	4,630	6,141	(723)	2004
Lundavägen (MMÖ)	Malmö	Sweden	4,110	2,168	5,737	7,905	1,150	2,372	6,683	9,055	(1,307)	2004
Minelund (GBG)	Goteborg	Sweden	3,628	1,736	5,742	7,478	419	1,824	6,073	7,897	(1,005)	2004
Molndal (GBG)	Goteborg	Sweden	3,493	1,249	5,958	7,207	848	1,699	6,356	8,055	(1,529)	2004
Moraberg (STHLM)	Stockholm	Sweden	3,365	1,171	5,724	6,895	293	1,299	5,889	7,188	(1,173)	2004
Rissne	Rissne	Sweden	3,991	2,450	5,774	8,224	945	2,450	6,719	9,169	(1,715)	2004
Sköndal	Sköndal	Sweden	3,644	1,380	6,097	7,477	303	1,379	6,401	7,780	(853)	2004
Sodermalm	Sodermalm	Sweden	1,330	333	2,111	2,444	525	332	2,637	2,969	(909)	2004
Solna	Solna	Sweden	6,614	2,445	11,097	13,542	1,813	3,361	11,994	15,355	(2,849)	2004
Taby	Taby	Sweden	3,320	1,415	5,401	6,816	1,057	1,654	6,219	7,873	(1,672)	2004
Upplands Väsby	Upplands Väsby	Sweden	3,873	1,418	6,509	7,927	348	1,429	6,846	8,275	(1,282)	2004
Uppsala	Uppsala	Sweden	3,370	983	5,925	6,908	699	1,124	6,483	7,607	(1,580)	2004
Vällingby	Stockholm	Sweden	4,258	2,509	6,149	8,658	255	2,509	6,404	8,913	(454)	2004
Västra Frölunda (GBG)	Goteborg	Sweden	3,651	2,324	5,132	7,456	422	2,489	5,389	7,878	(810)	2004
Ystadsvägen (MMÖ)	Malmö	Sweden	3,128	1,073	5,231	6,304	336	1,078	5,562	6,640	(821)	2004
Croydon	Croydon	UK	5,574	3,887	8,216	12,103	1,621	4,597	9,127	13,724	(1,411)	2004
Edgeware	Edgeware	UK	7,326	3,133	7,633	10,766	112	3,168	7,710	10,878	(505)	2004
Ewell	Ewell	UK	5,595	3,301	8,841	12,142	2,145	3,994	10,293	14,287	(1,261)	2004
Forest Hill	London	UK	6,908	3,351	7,837	11,188	113	3,389	7,912	11,301	(176)	2004
Greenford	Greenford	UK	8,590	5,966	12,670	18,636	1,524	7,348	12,812	20,160	(1,208)	2004
Gypsy Corner	London	UK	6,685	4,784	9,456	14,240	920	5,461	9,699	15,160	(688)	2004
Hanworth	Hanworth	UK	5,457	4,424	7,436	11,860	1,350	5,539	7,671	13,210	(1,187)	2004
Hatch End	Harrow	UK	7,309	2,823	6,726	9,549	531	2,847	7,233	10,080	(253)	2004
Hayes	Hayes	UK	5,500	3,532	8,358	11,890	1,667	4,582	8,975	13,557	(1,382)	2004
Neasden	Neasden	UK	7,316	5,345	10,479	15,824	926	5,812	10,938	16,750	(1,290)	2004
Putney	Putney	UK	7,455	5,129	10,847	15,976	1,057	5,510	11,523	17,033	(1,069)	2004
Reading	Reading	UK	6,636	6,016	8,353	14,369	141	6,119	8,391	14,510	(1,259)	2004
Ruislip	Ruislip	UK	4,507		9,766	9,766	1,665		11,431	11,431	(1,030)	2004
Streatham	London	UK	4,564	3,847	6,001	9,848	882	4,136	6,594	10,730	(985)	2004
Surbiton	Surbiton	UK		3,351	2,033	5,384	246	3,395	2,235	5,630	(128)	2004
Wallington	London	UK	6,094	2,130	6,793	8,923	72	2,130	6,865	8,995	(112)	2005
West London	London	UK		4,989	8,884	13,873	762	5,118	9,517	14,635	(416)	2004

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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

			INITIAL COST				Costs	Gross Amount as of December 31, 2005			
Property Name	**Location**	**State or Country (3)**	**Encum-brances (2)**	**Land**	**Building, Equip. & Other**	**Gross Storage Centers**	**Subsequent to Acquisition**	**Land and Land Held for Sale**	**Building Equip. & Other**	**Gross Storage centers**	**Accum. Depr.**
Wokingham	Wokingham	UK	6,124	6,306	7,033	13,339	552	6,703	7,188	13,891	(628)
Borsbeek (1)	Antwerpen	Belgium					2,238	2,238		2,238	
Europe Corporate	Brussels	Belgium			7,086	7,086	50	7	7,129	7,136	(6,037)
European total			575,632	266,556	853,908	1,120,464	72,799	283,839	909,424	1,193,263	(119,234)
Total (4)			$ 824,373	$ 643,080	$ 2,275,724	$ 2,918,804	$ 332,227	$ 682,153	$ 2,568,879	$ 3,251,032	$ (552,171)

(1) These properties were classified as held for sale as of December 31, 2005.

(2) In addition to encumbrances listed we had $1.2 million of mortgage debt on two properties under construction in Europe.

(3) All amounts for properties in foreign countries have been translated from the functional currency of the country at the balance sheet rate as of December 31, 2005.

(4) Gross amounts as of December 31, 2005, included properties held for sale of $6.8 million (including properties subsequently reclassified to properties held for use as of March 31, 2006, as discussed in Note 25 to the accompanying consolidated financial statements).

(5) These properties were reclassified to properties held for use from properties held for sale as of March 31, 2006.

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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

The following tables reconcile the changes in land, building, equipment and other, as well as accumulated depreciation over the last three years:

		(in thousands)
Land, Building, Equipment and Other		
Balance at January 1, 2003		$ 1,728,636
Additions during the period		
Acquisitions	$ 123,234	
Developments	41,219	
Improvements and other	23,282	
		187,735
Cost of real estate sold or disposed		(13,735)
Balance at December 31, 2003		1,902,636
Additions during the period		
Effect of consolidation of Shurgard Europe	966,437	
Acquisitions	70,501	
Developments	166,072	
Improvements and other	10,170	
Effect of change in currency translation rate	62,356	
		1,275,536
Cost of real estate sold or disposed		(34,684)
Balance at December 31, 2004		3,143,488
Additions during the period		
Acquisitions	96,304	
Developments	125,820	
Improvements and other	45,241	
Effect of change in currency translation rate	(155,136)	
		112,229
Cost of real estate sold or disposed		(11,459)
Balance at December 31, 2005		$ 3,244,258
Accumulated Depreciation		
Balance at January 1, 2003		$ 274,435
Depreciation expense		54,253
Depreciation associated with discontinued operations		842
Disposals		(7,525)
Balance at December 31, 2003		322,005
Effect of consolidation of Shurgard Europe		72,275
Depreciation expense		86,138
Depreciation associated with discontinued operations		625
Disposals		(5,526)
Effect of change in currency translation rate		4,014
Balance at December 31, 2004		479,531

Depreciation expense	92,819
Depreciation associated with discontinued operations	99
Disposals	(5,947)
Effect of change in currency translation rate	(14,331)
Balance at December 31, 2005	$ 552,171

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SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(Amounts in thousands except share and per share data)

	March 31, 2006	December 31, 2005
ASSETS		
Storage centers:		
Operating storage centers	$ 3,316,120	$ 3,244,258
Less accumulated depreciation	(576,875)	(552,171)
Operating storage centers, net	2,739,245	2,692,087
Construction in progress	88,349	67,073
Properties held for sale	3,783	6,774
Total storage centers	2,831,377	2,765,934
Cash and cash equivalents	36,616	39,778
Restricted cash	2,876	4,972
Goodwill	27,440	27,440
Other assets	125,071	119,248
Total assets	$ 3,023,380	$ 2,957,372
LIABILITIES AND SHAREHOLDERS EQUITY		
Accounts payable and other liabilities	$ 143,136	$ 181,435
Lines of credit	620,700	583,500
Notes payable	1,322,780	1,275,720
Total liabilities	2,086,616	2,040,655
Minority interest	138,983	116,365
Commitments and contingencies (Note 17)		
Shareholders equity:		
Series C Cumulative Redeemable Preferred Stock; $0.001 par value; 2,000,000 shares authorized; 2,000,000 shares issued and outstanding; liquidation preference of $50,000	48,115	48,115
Series D Cumulative Redeemable Preferred Stock; $0.001 par value; 3,450,000 shares authorized; 3,450,000 shares issued and outstanding; liquidation preference of $86,250	83,068	83,068
Class A Common Stock; $0.001 par value; 120,000,000 shares authorized; 47,251,336 and 47,041,680 shares issued and outstanding, respectively	47	47
Additional paid-in capital	1,150,041	1,142,288
Accumulated deficit	(483,856)	(459,586)
Accumulated other comprehensive income (loss)	366	(13,580)
Total shareholders equity	797,781	800,352
Total liabilities and shareholders equity	$ 3,023,380	$ 2,957,372

The accompanying notes are an integral part of these statements.

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SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(Amounts in thousands except share and per share data)

	For the three months ended March 31, 2006	For the three months ended March 31, 2005
Revenue		
Storage center operations	$ 126,768	$ 112,238
Other	842	1,386
Total revenue	127,610	113,624
Expenses		
Operating	61,094	59,078
Real estate development	1,670	2,930
Depreciation and amortization	25,923	23,344
Impairment and abandoned project expense	545	323
General, administrative and other	7,453	8,029
Total storage center expenses	96,685	93,704
Income from operations	**30,925**	**19,920**
Other Income (Expense)		
Costs related to proposed merger (Note 17)	(1,465)	
Interest expense	(29,404)	(24,125)
Gain (loss) on derivatives, net	691	(359)
Foreign exchange gain (loss)	125	(3,848)
Interest income and other, net	405	960
Other expense, net	(29,648)	(27,372)
Income (loss) before minority interest, equity in earnings of other real estate investments, net and income tax expense	1,277	(7,452)
Minority interest	3,933	6,110
Equity in earnings of other real estate investments, net		21
Income tax expense	(19)	(10)
Income (loss) from continuing operations	5,191	(1,331)
Discontinued operations		
Income from discontinued operations	68	164
Gain on sale of discontinued operations		6,423
Total income from discontinued operations	68	6,587
Cumulative effect of change in accounting principle (Note 10)	(200)	
Net Income	**5,059**	**5,256**
Net Income Allocation		

Preferred stock dividends and other		(3,037)		(3,042)
Net income available to common shareholders	$	2,022	$	2,214

The accompanying notes are an integral part of these statements.

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SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Continued)

(unaudited)

(Amounts in thousands except share and per share data)

	For the three months ended March 31, 2006	2005
Basic per share amounts:		
Income (loss) from continuing operations available to common shareholders	$ 0.04	$ (0.09)
Discontinued operations		0.14
Cumulative effect of change in accounting principle		
Net income available to common shareholders per share	$ 0.04	$ 0.05
Diluted per share amounts:		
Income (loss) from continuing operations available to common shareholders	$ 0.04	$ (0.09)
Discontinued operations		0.14
Cumulative effect of change in accounting principle		
Net income available to common shareholders per share	$ 0.04	$ 0.05
Distributions per common share	$ 0.56	$ 0.55

The accompanying notes are an integral part of these statements.

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SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(Amounts in thousands)

	For the three months ended March 31,	
	2006	**2005**
Operating activities:		
Net income	$ 5,059	$ 5,256
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of assets, including discontinued operations	(31)	(6,483)
Depreciation, amortization and impairment losses	25,925	23,384
(Gain) loss on derivatives, net	(691)	359
Stock-based compensation expense	2,024	509
Non-cash interest and other	2,236	2,747
Foreign exchange (gain) loss	(125)	3,848
Minority interest	(3,933)	(6,110)
Changes in operating accounts, net of effect of acquisitions:		
Payments of accrued costs related to proposed merger	(10,840)	
Other assets	3,213	407
Accounts payable and other liabilities	(16,827)	(6,848)
Net cash provided by operating activities	6,010	17,069
Investing activities:		
Construction and improvements to storage centers	(27,306)	(24,492)
Acquisitions of storage centers, including associated intangible assets	(3,114)	(3,000)
Payment for purchase of 3S-Self-Storage, net of cash acquired	(46,262)	
Purchase of intangible assets	(621)	(1,397)
Proceeds from sale of assets	2,530	13,177
Changes in restricted cash, net	2,128	1,412
Increase in notes receivable	(505)	(603)
Purchase of additional interest in European affiliated partnerships	(450)	
Net cash used in investing activities	(73,600)	(14,903)

The accompanying notes are an integral part of these statements.

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SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(unaudited)

(Amounts in thousands)

	For the three months ended March 31, 2006	2005
Financing activities:		
Proceeds from notes payable	$ 36,713	$ 23,421
Payments on notes payable	(897)	(755)
Proceeds from lines of credit	72,200	425,900
Payments on lines of credit	(35,000)	(405,100)
Payment of loan costs	(1,306)	(2,847)
Distributions paid on common and preferred stock	(32,303)	(28,632)
Payments on derivatives	(217)	(14,890)
Proceeds from derivatives	172	
Proceeds from exercise of stock options and dividend reinvestment plan	2,536	954
Contributions received from minority partners	23,638	4,313
Distributions paid to minority partners	(1,480)	(1,068)
Net cash provided by financing activities	64,056	1,296
Effect of exchange rate changes on cash and cash equivalents	372	(1,591)
(Decrease) increase in cash and cash equivalents	(3,162)	1,871
Cash and cash equivalents at beginning of period	39,778	50,277
Cash and cash equivalents at end of period	$ 36,616	$ 52,148
Supplemental schedule of cash flow information:		
Cash paid for interest, net of amounts capitalized	$ 21,808	$ 15,544
Cash paid for income taxes	$ 489	$
Supplemental schedule of non-cash investing information:		
Liabilities assumed in acquisition of management contracts	$	$ 1,200
Supplemental schedule of non-cash financing information:		
Receivable from stock options exercised	$ 3,916	$

The accompanying notes are an integral part of these statements.

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SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the quarterly period ended March 31, 2006

(unaudited)

Note 1 Organization

Shurgard Storage Centers, Inc. and our subsidiaries (the Company, we, Shurgard or us), are engaged p in investing in, acquiring, developing and operating self-storage centers located throughout the United States and in Western Europe. Our revenues are generated primarily from leasing self-storage space to tenants on a month-to-month basis. We also provide ancillary services at our storage centers consisting primarily of truck rentals and sales of storage products.

On March 6, 2006, we entered into an Agreement and Plan of Merger (Merger Agreement), dated as of March 6, 2006, with Public Storage, Inc. (Public Storage), which contemplates that we will be merged with and into a subsidiary of Public Storage. Each outstanding share of our common stock will be converted into the right to receive 0.82 of a fully paid and non-assessable share of Public Storage common stock. In addition, in connection with the merger, we expect to redeem each outstanding series of our preferred stock in accordance with its terms. Public Storage will assume approximately $1.9 billion of our debt. Our board of directors and the board of directors of Public Storage have approved the Merger Agreement. The proposed merger is subject to our shareholders approval, Public Storage s shareholders approval of the issuance of shares of Public Storage common stock to be used as merger consideration and other customary closing conditions. (See further discussion at Note 17).

Note 2 Summary of Significant Accounting Policies

Basis of presentation: The condensed consolidated financial statements include the accounts of Shurgard and our consolidated subsidiaries presented on an accrual basis in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in accordance with the requirements of Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of our financial condition at March 31, 2006 and December 31, 2005, and the results of operations and cash flows for the three-month periods ended March 31, 2006 and 2005. Interim results are not necessarily indicative of the results for the year. The interim financial statements should be read in conjunction with our annual report on Form 10-K for the year ended December 31, 2005. All amounts are presented in U.S. dollars unless indicated otherwise; all balances related to our foreign subsidiaries have been translated into U.S. dollars at period-average or period-end exchange rates as appropriate. All intercompany balances and transactions have been eliminated in consolidation. The interim financial statements assume that Shurgard continues as a separate public company, and therefore do not reflect the effects of transactions or decisions that are contingent on the completion of the proposed merger with Public Storage.

Consolidated and unconsolidated subsidiaries: We consolidate all wholly-owned subsidiaries. We assess whether our subsidiaries are Variable Interest Entities (VIEs) as defined by the Financial Accounting Standards Board s (FASB) Interpretation No. (FIN) 46R, Consolidation of Variable Interest Entities. Upon implementati of FIN 46R in January 1, 2004, we consolidated all VIEs of which we are the primary beneficiary. We evaluate partially-owned subsidiaries and joint ventures held in partnership form to determine whether rights held by other investors constitute substantive participating rights in accordance with Emerging Issues Task Force (EITF) Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights. For partially-owned subsidiaries or joint ventures held in corporate form (including limited liability companies with

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SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

governance provisions that are the functional equivalent of regular corporations), we consider the guidance of Statement of Financial Accounting Standard (SFAS) No. 94, Consolidation of All Majority-Owned Subsidiaries and EITF Issue No. 96-16, Investor s Accounting for an Investee When the Investor has a Majority of the Votin Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights and, in particular, whether rights held by other investors would be viewed as participating rights as defined therein. To the extent that any minority investor has substantive participating rights, has the ability to dissolve the partnership or remove the general partner without cause in a partnership or participating rights in a corporation, including substantive veto rights, the related entity will generally not be consolidated.

Use of estimates: The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the amounts of revenues and expenses recognized during the reporting period. Significant estimates are inherent in the preparation of our financial statements and include the evaluation of impairment of long-lived assets and goodwill, valuation allowances for deferred tax assets, estimated lives of depreciable and amortizable assets and the allocation of the purchase price of acquired businesses and properties and legal liabilities. Actual results could differ from these and other estimates.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current presentation with no effect on shareholders equity, net income or net cash-flows from operating, investing and financing activities

Storage centers: We carry storage centers to be developed or held and used in operations at depreciated cost, reduced for impairment losses where appropriate. We capitalize acquisition, development and construction costs of properties in development in accordance with SFAS No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, and include, where applicable, salaries and related costs, real estate taxes, interest, lease expense and preconstruction costs directly related to the project. Preconstruction costs, which included efforts to secure land control and zoning, to evaluate feasibility and to complete other initial tasks that are essential to development, incurred prior to the acquisition of the property or acquisition of an option to purchase the property being probable, are charged as real estate development expenses as incurred. Real estate development expense represents costs incurred in connection with real estate development projects that do not qualify for capitalization under the above provisions. In addition, for the three months ended March 31, 2006, real estate development includes $500,000 of non-capitalizable fees related to the financing of an acquisition. We record abandonment losses for previously capitalized costs of development projects when we assess that the completion of the project is no longer probable. We capitalize development and construction costs and costs of significant improvements and replacements and renovations at storage centers, while we expense costs of maintenance and repairs as we incur them.

We compute depreciation of each operating storage center using the straight-line method based on the shorter of an estimated useful life of 30 years or the lease term for storage centers built on leased land. We evaluate and if necessary, revise estimates of the useful lives of specific storage centers, when we plan to demolish or replace them. We depreciate equipment and furniture and fixtures based on estimated useful lives of three to six years.

If events or circumstances indicate that the carrying value of an operating storage center may be impaired, we conduct a recoverability analysis based on expected undiscounted cash flows to be generated from the property. If the analysis indicates that we cannot recover the carrying value from estimated future cash flows, we write down the property to its estimated fair value and recognize an impairment loss. We determine fair values based on expected future cash flows using appropriate market discount and capitalization rates.

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SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We carry storage centers held for sale at the lower of their carrying value (i.e., cost less accumulated depreciation and any impairment loss recognized) or estimated fair value less costs to sell. We classify the net carrying values of properties as held for sale when the properties are actively marketed, their sale is considered probable within one year and various other criteria relating to their disposition are met. We discontinue depreciation of the operating storage centers at that time, but we continue to recognize operating revenues, operating expenses and interest expense until the date of sale. In accordance with SFAS No. 144, Accounting fo the Impairment or Disposal of Long-Lived Assets, we report revenues and expense of properties classified as held for sale in discontinued operations for all periods presented if we will sell or have sold the properties on terms where we have no continuing involvement with them after the sale. If active marketing ceases or the properties no longer meet the criteria to be classified as held for sale, we reclassify the properties as held for use, resume depreciation and recognize the loss for the period that we classified the properties as held for sale, and we charge deferred selling costs, if any, to expense.

Acquisitions of businesses and storage centers: We allocate the purchase price of acquired storage centers and businesses to tangible and identified intangible assets based on their fair values. In making estimates of fair values for the purposes of allocating the purchase price, we rely primarily on our extensive knowledge of the market for storage centers and if considered appropriate, will consult with independent appraisers. In estimating the fair value of the tangible and intangible assets acquired, we also consider information obtained about each property as a result of our pre-acquisition due diligence, including independent appraisals that may be obtained in connection with the acquisition or financing of the respective assets.

The fair values of intangible assets include, where applicable, leases to customers with above market rents and in-place lease values. The fair values of these identifiable intangible assets are generally not significant, because substantially all leases in our business are month-to-month, and most customers use our facilities for less than one year. We expense internal costs related to the acquisition of a business, or an operating storage center, as we incur them.

Discontinued operations: We report real estate dispositions as discontinued operations separately as prescribed under the provisions of SFAS No. 144. Accordingly, we report the operating results attributable to operating properties sold or held for sale and the applicable gain or loss on the disposition of the properties as discontinued operations. The condensed consolidated statements of income for prior periods are also adjusted to conform to this classification. There is no impact on our previously reported consolidated financial position, net income or cash flows.

Revenue recognition: The majority of our customers rent under month-to-month lease agreements and revenue is recognized at the contracted rate for each month occupied. Revenue related to customers who sign longer period leases is recognized ratably over the term of the lease. Management fee revenue is recognized each month for which services are rendered; these contracts are generally cancelable by either party on specified advanced notice. We recognize revenue related to profit sharing contracts related to our tenant insurance referral program based on the excess of premiums over actual and estimated claims and administrative costs. Revenues are presented net of provisions for doubtful accounts of $1.6 million and $1.5 million for the three months ended March 31, 2006 and 2005, respectively.

Income taxes: We have elected to be taxed as a Real Estate Investment Trust (REIT) pursuant to the Internal Revenue Code of 1986, as amended. To qualify as a REIT, we must distribute annually to our shareholders at least 90% of our REIT taxable income and meet certain other requirements relating primarily to the nature of our assets and the sources of our revenues. As a REIT, we are not subject to U.S. federal income taxes to the extent of distributions. We believe that we met the qualifications for REIT status at December 31, 2005 and intend to

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SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

meet the qualifications in the future and to distribute at least 90% of our REIT taxable income to shareholders in future tax years. Our domestic non-REIT activities are conducted primarily through Shurgard TRS, Inc., a taxable REIT subsidiary. Our foreign non-REIT activities are conducted primarily through six European taxable REIT subsidiaries. As a result, we have not provided for U.S. federal income taxes for the REIT in our financial statements. However, we do provide for U.S. federal income taxes for our domestic taxable REIT subsidiaries (TRSs). Additionally, both the REIT and our domestic TRSs are subject to certain state income taxes as well as certain franchise taxes. We also provide for income taxes of our European subsidiaries, which are subject to income taxes in the respective jurisdictions of the countries in which they operate.

We have deferred tax assets arising primarily from cumulative net operating losses arising in certain taxable subsidiaries. We evaluate both the positive and negative evidence that we believe is relevant in assessing whether we will realize the deferred tax assets. When we determine that it is more likely than not that we will not realize the tax asset either in part or in whole, we record a valuation allowance. One significant factor representing negative evidence in the evaluation of whether we will realize deferred tax assets arising from cumulative net operating losses is the historical taxable income or loss of the entity. In cases where a taxable entity has not demonstrated a history of achieving taxable income, this represents significant negative evidence in assessing whether we will realize the amounts and generally requires that we provide a valuation allowance.

Derivative financial instruments: We use derivative financial instruments to reduce risks associated with movements in interest and foreign currency exchange rates. We may choose to reduce cash flow and earnings volatility associated with interest rate risk exposure on existing variable-rate borrowings or forecasted variable and fixed-rate borrowings. In some instances, lenders may require us to do so. In order to limit interest rate risk on variable-rate borrowings, we may enter into interest rate swaps or interest rate caps to hedge specific risks. In order to limit interest rate risk on forecasted borrowings, we may enter into interest rate swaps, forward starting swaps, forward rate agreements, interest rate locks and interest rate collars. We may also use derivative financial instruments to reduce foreign currency exchange rate risks to our earnings, cash flows and financial position arising from forecasted intercompany foreign currency denominated transactions and net investments in certain foreign operations. In order to limit foreign currency exchange rate risks associated with forecasted, foreign currency denominated intercompany transactions, we may enter into cross-currency interest rate swaps. In order to limit foreign currency exchange rate risks associated with net investments in foreign operations, we may enter into foreign currency forward contracts. We may also use derivative financial instruments to reduce earnings volatility associated with other derivative financial instruments that are not designated as cash flow hedges. We do not use derivative financial instruments for speculative purposes.

Under purchased interest rate cap agreements, we make premium payments to the counterparties in exchange for the right to receive payments from them if interest rates exceed specified levels during the agreement period. Under sold interest rate cap agreements, we receive premium payments from the counterparties in exchange for the obligation to make payments to them if interest rates exceed specified levels during the agreement period. Under interest rate swap agreements, we and the counterparties agree to exchange the difference between fixed-rate and variable-rate interest amounts calculated by reference to specified notional principal amounts during the agreement period. Notional principal amounts are used to express the volume of these transactions, but the cash requirements and amounts subject to credit risk are substantially less.

Under cross currency interest rate swaps, we and the counterparties agree to exchange fixed amounts of foreign currencies calculated by reference to fixed interest rates and notional principal amounts during the agreement period. We also agree to exchange the notional amounts at the end of the agreement period. Under currency forward contracts, we and the counterparties agree to exchange fixed amounts of currencies at the end of the agreement period.

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SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Parties to interest rate and currency exchange agreements are subject to market risk for changes in interest rates and currency exchange rates and risk of credit loss in the event of nonperformance by the counterparty. We do not require any collateral under these agreements but deal only with highly rated financial institution counterparties (which, in certain cases, are also the lenders on the related debt) and expect that all counterparties will meet their obligations.

Derivative financial instruments are measured at fair value and recognized as assets or liabilities in the balance sheet. Changes in the values of the effective portions of derivative financial instruments designated as cash flow hedges and changes in the values of derivative financial instruments designated as economic hedges of net investments in foreign subsidiaries are reported as components of other comprehensive income (loss). Changes in the values of the ineffective portions of cash flow hedges and all changes in the values of undesignated derivative financial instruments are recognized in earnings. Amounts receivable or payable under interest rate cap and swap agreements designated as cash flow hedges are accounted for as adjustments to interest expense on the related debt. To qualify for hedge accounting, the details of the hedging relationship must be formally documented at inception of the arrangement, including the risk management objective, hedging strategy, hedged item, specific risks that are being hedged, the derivative instrument and how effectiveness is being assessed. The derivative must be highly effective in offsetting either changes in fair value or cash flows, as appropriate, for the risk being hedged. Effectiveness is evaluated on a retrospective and prospective basis based on quantitative measures of correlation. When it is determined that a derivative has ceased to be highly effective as a hedge, we discontinue hedge accounting prospectively.

We discontinue hedge accounting prospectively when (i) we determine that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item (including hedged items such as firm commitments or forecasted transactions); (ii) the derivative expires or is sold, terminated or exercised; (iii) it is no longer probable that the forecasted transaction will occur; (iv) a hedged firm commitment no longer meets the definition of a firm commitment; or (v) we determine that designating the derivative as a hedging instrument is no longer appropriate.

When hedge accounting is discontinued due to our determination that the derivative no longer qualifies as an effective fair-value hedge, we will continue to carry the derivative on the balance sheet at its fair value but cease to adjust the hedged asset or liability for changes in fair value. When hedge accounting is discontinued due to our determination that the derivative no longer qualifies as an effective cash flow hedge, we reclassify the related accumulated other comprehensive income (loss) into earnings when the previously effectively hedged transactions affect earnings. When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, we will continue to carry the derivative on the balance sheet at its fair value, removing from the balance sheet any asset or liability that was recorded to recognize the firm commitment and recording the resulting gain or loss in current period earnings. When we discontinue hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period, the gain or loss on the derivative remains in accumulated other comprehensive income (loss) and is reclassified into earnings when the forecasted transaction affects earnings. However, if it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within an additional two month period of time thereafter, the gains and losses that were accumulated in other comprehensive income (loss) will be recognized immediately in earnings. If we discontinue a cash flow hedge because the variability of the probable forecasted transaction has been eliminated, we will reclassify the net accumulated other comprehensive income (loss) to income over the term of the designated hedging relationship. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, we will carry the derivative at its fair value on the balance sheet, recognizing subsequent changes in the fair value in current period earnings. Expenses recognized relating to changes in the time value of interest rate cap agreements were insignificant in 2006 and 2005.

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SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other comprehensive income (loss):

The following tables summarize components of other comprehensive income (loss):

	For the three months ended March 31, 2006	2005
	(in thousands)	
Net income	$ 5,059	$ 5,256
Other comprehensive income (loss):		
Derivatives designated as hedges	10,816	(1,675)
Currency translation adjustment	3,130	(3,440)
Total other comprehensive income (loss)	13,946	(5,115)
Total comprehensive income	$ 19,005	$ 141

The currency translation adjustment represents the net currency translation adjustment gains and losses related to our European subsidiaries. Amounts are presented net of minority interests.

Financial instruments with characteristics of both liabilities and equity: We adopted the requirements of SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, in th third quarter of 2003; there was no impact on our financial position, operating results or cash flows. However, the minority interests associated with certain of our consolidated joint ventures and our subsidiaries that have finite lives under the terms of the partnership agreements represent mandatorily redeemable interests as defined in SFAS No. 150. As of March 31, 2006 and December 31, 2005 the aggregate book value of these minority interests in finite-lived entities on our condensed consolidated balance sheet was $128.1 million and $105.3 million, respectively. We believe that the estimated aggregate settlement value of these interests was approximately $249.1 million and $213.2 million, respectively. These amounts are based on the estimated liquidation values of the assets and liabilities and the resulting proceeds that we would distribute to our joint venture partners assuming dissolution as of March 31, 2006 and December 31, 2005, respectively. As required under the terms of the respective partnership agreements, subsequent changes to the estimated fair value of the assets and liabilities of the consolidated joint ventures will affect our estimate of the aggregate settlement value. The partnership agreements do not limit the amount to which the minority partners would be entitled to in the event of liquidation of the assets and liabilities and dissolution of the respective partnerships.

Recent accounting pronouncements:

Stock-based compensation expense: At March 31, 2006, we have stock-based employee compensation plans, which are described more fully in Note 10 to the condensed consolidated financial statements. Prior to January 1, 2006, we accounted for those plans under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), and related Interpretations, as permitted by SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123).

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123(R), Share-Based Payment, (SFAS 123R), using the modified-prospective-transition method. Under that transition method, compensation costs recognized in the first quarter of 2006 include: (a) compensation cost for all share-based awards granted prior to, but not yet vested as of January 1, 2006, which is estimated in accordance with the original provisions of SFAS 123 for (i) equity awards (as defined in SFAS 123R) based on the grant-date fair value, and for (ii) liability awards based on the balance sheet date fair value, and (b) compensation cost for all share-based awards granted subsequent to January 1, 2006, based on the grant-date or balance sheet date fair

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SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

value, as applicable, estimated in accordance with the provisions of SFAS 123R. Stock-based compensation expense recognized during the period is based on the value of the portion of stock-based payment awards that is ultimately expected to vest. Expense recognized in the first quarter of 2006, therefore, was reduced for estimated forfeitures. Estimated forfeitures are adjusted at least annually if actual forfeitures differ from those estimates. Results for prior periods have not been restated pursuant to SFAS 123R. (See Note 10.)

Prior to January 1, 2006, stock-based compensation recognized in our statement of income was based on the grant date fair value of restricted shares of Shurgard s common stock, and the intrinsic value of stock options and stock appreciation rights granted to employees of our European subsidiary. Under APB 25 we did not recognize stock-based compensation cost related to stock options that had an exercise price equal to the market value of Shurgard s common stock on the date of grant. Prior to adoption of SFAS 123R, the value of stock options was estimated for purposes of this pro forma disclosure using the Black-Scholes option-pricing formula and amortized to pro forma expense ratably over the options vesting periods. Pre-vesting forfeitures were recognized as incurred through cumulative reversal of previously reported compensation expense.

Prior to the adoption of SFAS 123R, tax benefits of deductions resulting from the exercise of stock options or vesting of restricted share awards were presented as operating cash flows in the Statement of Cash Flows. SFAS 123R requires the cash flows resulting from the tax benefits from tax deductions in excess of the compensation cost recognized for those share based payments (excess tax benefits) to be classified as financing cash flows. Due primarily to our status as a REIT, no excess tax benefit was recognized during the quarters ended March 31, 2006 or 2005.

In October 2005, the FASB issued FASB Staff Position (FSP) FAS 13-1 Accounting for Rental Costs Incurred during a Construction Period, which is effective for lease agreements entered into after January 1, 2006. This FSP clarifies that rental costs incurred during the period of construction of an asset on leased property should not be capitalized; rather they should be recognized as rental expense in the same manner as rental costs incurred after the construction period. However, to the extent a lessee accounts for rental of real estate projects under SFAS No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, it should continue capitalizing rental costs. We lease under operating leases certain parcels of land and buildings on which we develop storage centers or perform certain construction improvements. We have historically capitalized rental costs during the construction period on such properties. We account for real estate projects involving our development and construction of self-storage facilities under SFAS No. 67; therefore, the adoption of this FSP did not have a material impact on our financial position, operating results or cash flows.

In June 2005, the FASB issued EITF Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights. In light of guidance provided in FIN 46R regarding kick-out rights in the context of evaluating variable interests and consolidation of variable interest entities, EITF 04-5 clarifies when a sole general partner should consolidate a limited partnership. EITF 04-5 provides authoritative guidance for purposes of assessing whether a limited partner s rights are important rights that, under SOP 78-9, might preclude a general partner from consolidating a limited partnership. For general partners of all new limited partnerships formed and for existing limited partnerships for which the partnership agreements are modified, EITF 04-5 is effective after June 29, 2005. For general partners in all other limited partnerships, the guidance in this Issue is effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. The adoption of EITF 04-05 did not have a material effect on our financial position, operating results or cash flows.

Effective January 1, 2006 we adopted SFAS No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3 , which was issued in May 2005. This statement replaces APB Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in

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PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Interim Financial Statements, and changes the requirements for the accounting for and reporting of a voluntary change in accounting principle. It also applies to changes required by an accounting pronouncement in the instance that the pronouncement does not include specific transition provisions. APB Opinion No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period the cumulative effect of changing to the new accounting principle. SFAS No. 154 requires retrospective application of changes in accounting principle to prior periods financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. Adoption of this standard had no impact on our financial position, operating results or cash flows.

Note 3 Variable Interest Entities

Under FIN 46R, a VIE must be consolidated by a company if that company is subject to a majority of the expected losses from the VIE s activities or entitled to receive a majority of the entity s residual returns or both. FIN 46R also requires disclosures about VIEs that a company is not required to consolidate, but in which it has a significant variable interest. We adopted FIN 46R as of January 1, 2004.

Prior to June 30, 2005, we had direct and indirect ownership interests in Shurgard Self Storage SCA (Shurgard Europe) of 87.23%. We assessed Shurgard Europe under the provisions of FIN 46R and concluded that it met the definition of a VIE. We also concluded that we were the primary beneficiary effective as of June 2003. As a result, we began consolidating Shurgard Europe in our financial statements beginning January 1, 2004. On June 30, 2005, we acquired the remaining 12.77% ownership interests. Accordingly, as of June 30, 2005, Shurgard Europe became a wholly-owned subsidiary and is no longer a VIE.

Shurgard Europe has created two joint venture entities: First Shurgard SPRL (First Shurgard) formed in January 2003 and Second Shurgard SPRL (Second Shurgard) formed in May 2004. Those joint ventures are expected to develop or acquire up to approximately 75 storage facilities in Europe. Shurgard Europe has a 20% interest in each of these ventures. We have also determined that First Shurgard and Second Shurgard are each VIEs, of which Shurgard Europe is the primary beneficiary. Accordingly, First Shurgard has been consolidated in our financial statements since January 1, 2004, and Second Shurgard has been consolidated since inception. At March 31, 2006, First Shurgard and Second Shurgard had aggregate total assets of $394.8 million, total liabilities of $247.8 million, and credit facilities collateralized by assets with net book value of $370.0 million (see Note 7). As of March 31, 2006, First Shurgard s and Second Shurgard s creditors had no recourse to the general credit of Shurgard or Shurgard Europe other than Shurgard s commitment to subscribe to up to $20 million and an additional 7.5 million ($9.0 million as of March 31, 2006) in preferred bonds in order for First Shurgard to fulfill its obligations under its senior credit agreement. We have an option to put 80% of the bonds issued by First Shurgard to Crescent Euro Self Storage Investments, Shurgard Europe s partner in the joint venture.

In October 2004, Self-Storage Securitisation B.V. (Securitisation BV), a Dutch limited liability entity in which Shurgard and its subsidiaries have no ownership interest, was formed to issue 325 million in floating rate investment grade bonds. This entity receives interest from Shurgard Europe under a note of a similar amount payable by Shurgard Europe and holds certain derivative instruments to hedge its interest rate exposure on the bonds. We determined that Securitisation BV is a VIE of which Shurgard Europe is the primary beneficiary based on the activity of this entity and due to the fact that the notes issued by Securitisation BV are collateralized by assets of Shurgard Europe. This entity has been consolidated since inception.

We do not believe that any of our other investees, in which we would not hold a majority voting interest, are VIEs under the provisions of FIN 46R.

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PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4 Storage Centers and Acquisitions

The following table summarizes the components of our operating storage centers:

	March 31, 2006	December 31, 2005
	(in thousands)	
Land	$ 696,997	$ 675,379
Building	2,538,731	2,487,831
Equipment & Other	80,392	81,048
	$ 3,316,120	$ 3,244,258

Storage centers activity

During the three-month period ended March 31, 2006, we acquired ten new storage centers (one of which is held for sale to be resold) and completed one redevelopment project on an existing storage center. In March 2006, we reevaluated and canceled the disposition plans of two storage centers that were classified as held for sale as of December 31, 2005, at an aggregate carrying value of $2.2 million, and we reclassified them to operating storage centers. Also in March 2006, we sold one parcel of land at no gain that was held for sale at December 31, 2005 at a carrying value of $2.2 million.

Construction in progress at March 31, 2006, consisted primarily of 11 storage centers under construction, of which three were located in Europe and eight were located in the United States, and redevelopment projects for four existing storage centers in the United States.

Acquisitions

On January 23, 2006, we completed the acquisition of 3S Self-Storage Systems SAS a company that operates nine self-storage facilities in various metropolitan areas in France where we already have operating properties. 3S Self-Storage Systems SAS owns six of the facilities and leases the other three under operating leases. We completed the acquisition through Second Shurgard, our 20% owned European joint venture for total cash consideration and acquisition costs of approximately $47.4 million. We financed the acquisition with $20.0 million from draws on Second Shurgard s credit facility and the remainder with Second Shurgard s cash from equity contributions provided by us and our 80% joint venture partner. We incorporated the results of operations of the acquired entity in our condensed consolidated financial statements from the date of acquisition.

This acquisition was accounted for as a purchase transaction. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

Receivables and other assets (1)	$ 4,965
Property held for sale	2,547
Operating storage centers	42,466
Total assets acquired	49,978

Accounts payable and other liabilities assumed	(2,591)
Net assets acquired	$ 47,387

(1) Receivables and other assets include an operating lease related intangible of $880,000 that is amortized over the remaining period of the lease.

Additionally, in March 2006, we acquired a self-storage center in France for cash of $3.1 million.

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PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5 Other Assets and Accounts Payable and Other Liabilities

The following table summarizes other assets:

	March 31, 2006	December 31, 2005
	(in thousands)	
Financing costs, net of accumulated amortization of $24,846 in 2006 and $22,852 in 2005	$ 33,481	$ 34,121
Trade receivable, net of allowance of $4,983 in 2006 and $4,681 in 2005	15,187	14,964
Prepaid expenses	13,675	14,751
Software costs, net of accumulated amortization of $3,504 in 2006 and $3,056 in 2005	15,266	14,638
Notes receivable	14,397	13,868
Non-competition, trademark and management agreements, net of accumulated amortization of $10,318 in 2006 and $9,827 in 2005	3,695	4,186
Other accounts receivable	16,028	10,958
Derivatives assets (see Note 8)	5,080	4,709
Other assets, net of accumulated amortization of $1,639 in 2006 and $1,575 in 2005	8,262	7,053
Total other assets	$ 125,071	$ 119,248

The following table presents the components of accounts payable and other liabilities:

	March 31, 2006	December 31, 2005
	(in thousands)	
Accounts payable	$ 12,508	$ 17,937
Accrued real estate taxes	12,803	12,652
Accrued personnel cost	16,981	15,711
Accrued interest	9,915	15,330
Prepaid revenue and deposits	32,095	28,641
Taxes payable (1)	14,529	15,765
Accrued expense related to exploration of strategic alternatives	360	11,350
Derivatives liabilities (see Note 8)	10,040	23,997
Other accrued expenses and liabilities	33,905	40,052
Total accounts payable and other liabilities	$ 143,136	$ 181,435

(1) Consists of Value added tax, franchise tax, income tax and sales and use tax.

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PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6 Lines of Credit

The following table summarizes our lines of credit:

	March 31, 2006	December 31, 2005	Weighted Average interest rate at March 31, 2006	Weighted Average interest rate at December 31, 2005
	(in thousands)			
Unsecured domestic line of credit	$ 270,700	$ 233,500	5.62%	5.46%
Unsecured domestic term loan credit facility	350,000	350,000	5.76%	5.76%
	$ 620,700	$ 583,500	5.70%	5.64%

As of March 31, 2006, we had an unsecured domestic credit agreement, which includes a revolving credit facility with a group of banks to borrow up to $350 million and a $350 million term loan facility that matures in February 2008. The revolving credit facility can be extended for one year at our option for a fee. The revolving credit facility and the term loan require monthly interest payments at LIBOR plus 0.90% and LIBOR plus 1.10%, respectively, at March 31, 2006. These rates can range from LIBOR plus 0.60% to LIBOR plus 1.15% for the revolving credit facility and from LIBOR plus 0.75% to LIBOR plus 1.50% for the term loan facility based on the ratings assigned to our senior unsecured long-term debt securities. As of March 31, 2006, availability under the revolving credit facility was $79.3 million.

The domestic credit agreement requires us to maintain quarterly maximum total debt and secured debt to gross asset value ratios and minimum adjusted EBITDA to fixed charges and unencumbered net operating income to unsecured interest expense ratios. The financial covenants also require us to maintain a minimum tangible net worth. A breach of these covenants and other various covenants may result in an acceleration of the maturity of amounts outstanding. The domestic credit agreement restricts our distributions to a maximum of 105% of Adjusted Funds from Operations (Adjusted FFO) for up to four consecutive quarters; after that it must not exceed 95% of Adjusted FFO. Adjusted FFO is defined in the domestic credit agreement as (i) net income (calculated in accordance with GAAP) excluding non-recurring gains and losses on or from operating properties; plus (ii) depreciation and amortization; and after adjustments for unconsolidated subsidiaries. Adjusted FFO excludes the effects of charges and costs associated with Public Storage s merger proposal and our exploration of strategic alternatives. Contributions to Adjusted FFO from unconsolidated subsidiaries are reflected in Adjusted FFO in proportion to borrower s share of such unconsolidated subsidiaries. The quarterly distributions did not reach 95% of the Adjusted FFO in 2005 or 2006. As of March 31, 2006, we were in compliance with these financial covenants.

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PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7 Notes Payable

	March 31, 2006 (1)	December 31, 2005
	(in thousands)	
Domestic Notes Payable (1)		
5.875% senior unsecured notes due in 2013	$ 200,000	$ 200,000
7.75% senior unsecured notes due in 2011	200,000	200,000
7.625% senior unsecured notes due in 2007	50,000	50,000
Fixed rate mortgage notes payable	166,554	167,331
Maturity dates range from 2006 to 2015		
Interest rates range from 4.95% to 8.9%		
Variable rate mortgage notes payable	81,674	81,410
Maturity dates range from 2006 to 2010		
Interest rates range from 6.19% to 7.75%		
European Notes Payable (1)		
Collateralized 325 million notes payable due in 2011	392,512	384,889
Interest rate of 3.00% (EURIBOR + 0.51%)		
First Shurgard and Second Shurgard	225,845	185,931
Senior credit agreements		
Maturity dates range from 2008 to 2009		
Interest rate of 4.78% (EURIBOR + 2.25%)		
Capital leases	6,064	6,010
Maturity dates range from 2011 to 2052		
Interest rates range from 6% to 14%		
	1,322,649	1,275,571
Discount on domestic senior notes payable	(589)	(610)
Premium on domestic mortgage notes payable	720	759
Total Notes Payable	$ 1,322,780	$ 1,275,720

(1) All maturities and interest rates are as of March 31, 2006.

First Shurgard and Second Shurgard have senior credit agreements denominated in euros to borrow, in aggregate, up to 272.5 million ($329.1 million as of March 31, 2006). As of March 31, 2006, the available amount under those credit facilities was, in aggregate, 85.5 million ($103.3 million). In January 2006, we amended Second Shurgard s credit agreement such as to allow for borrowings for up to 21.9 million ($26.4 million as of March 31, 2006) to be used for acquisition of existing self-storage properties including properties under capital leases. Our draws under the First Shurgard and Second Shurgard credit facilities are determined on a development project basis, or on an acquisition project basis when applicable for Second Shurgard, and can be limited if the completion of projects is not timely and if we have certain cost overruns. The credit facilities also require us to maintain a maximum loan to value of the collateral ratio and a minimum debt service ratio. As of March 31, 2006, we were in compliance with these financial covenants.

At March 31, 2006, we had two credit facilities with $4.7 million available for draw to develop two new domestic properties.

As of March 31, 2006 and December 31, 2005, our notes payable were collateralized by storage centers with net book values of $1.47 billion and $1.42 billion, respectively.

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PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We capitalized interest of $1.0 million and $559,000 for the three-month periods ended March 31, 2006 and 2005, respectively, using a weighted-average rate of our credit facilities and senior notes payable.

Note 8 Derivative Financial Instruments

We use derivative instruments to manage risks associated with movements in interest rates and foreign currency exchange rates. We report derivative financial instruments at fair value on our consolidated balance sheets in other assets and other liabilities and had the following balances as of:

	March 31, 2006	December 31, 2005
	(in thousands)	
Assets		
Debt-related contracts	$ 3,545	$ 2,792
Foreign currency exchange contracts	$ 1,535	$ 1,917
	$ 5,080	$ 4,709
Liabilities		
Debt-related contracts	$ (8,277)	$ (21,778)
Foreign currency exchange contracts	$ (1,763)	$ (2,219)
	$ (10,040)	$ (23,997)

As of March 31, 2006 and December 31, 2005, the balance in accumulated other comprehensive income (loss) related to derivative transactions was a gain of $1.3 million and a loss of $9.5 million, respectively.

Shurgard Europe has entered into an interest rate swap to effectively fix EURIBOR at 3.714% through October 2011 on 325 million of variable rate debt. This swap is designated as a cash flow hedge and was a liability of $2.3 million and $12.9 million at March 31, 2006 and December 31, 2005, respectively. Shurgard Europe has also entered into foreign currency exchange derivatives designated as cash flow hedges. These instruments were liabilities of $1.4 million and assets of $470,000 at March 31, 2006, and liabilities of $1.7 million and assets of $940,000 at December 31, 2005. We had undesignated interest rate caps for interest rate changes between October 2011 and October 2014 that we entered into as part of Shurgard Europe s bond issuance. Shurgard Europe s interest rate cap was an asset of $3.5 million and $2.8 million at March 31, 2006 and December 31, 2005, respectively, and expires in October 2014. To offset the earnings impact of this cap, we sold two interest rate caps with terms, that combined, reciprocate those of Shurgard Europe s cap. These caps were liabilities of $3.8 million and $3.0 million at March 31, 2006 and December 31, 2005, respectively.

First Shurgard has entered into interest rate swaps designated as cash flow hedges of interest payments on future borrowings under its credit facility. In June 2005, we determined that a swap had ceased to be an effective hedge and no longer qualified for hedge accounting. Accordingly, we reclassified the remaining related accumulated other comprehensive loss to earnings. During the three months ended March 31, 2006, we reclassified $95,000 through earnings for this instrument that matured in March 2006. The weighted-average notional amounts and fixed pay rates of these swaps designated as cash flow hedges are as follows (euros in millions):

	2006	2007	2008
Notional amounts	123.6	118.8	45.1
Weighted-average pay rates	3.7%	3.8%	3.8%

The swap agreements were liabilities of $1.4 million and $2.7 million at March 31, 2006 and December 31, 2005, respectively.

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First Shurgard has also entered into foreign currency exchange derivatives designated as cash flow hedges or economic hedges of net investments in subsidiaries outside the euro zone. These instruments, which mature in May 2008, were liabilities of $360,000 and $490,000 at March 31, 2006 and December 31, 2005, respectively. We recognized a loss of $150,000 and a gain of $420,000 in currency translation adjustment on our consolidated balance sheet for those derivatives for the three-month periods ended March 31, 2006 and 2005, respectively.

In connection with financing agreements, First Shurgard also entered into call options maturing on May 27, 2008, for the purchase of 15 million equating to $18.6 million at a fixed exchange rate. This transaction does not qualify for hedge accounting. These instruments were assets of $1.0 million and $970,000 at March 31, 2006 and December 31, 2005, respectively.

Second Shurgard has entered into interest rate swaps designated as cash flow hedges of interest payments on future borrowings under its credit facility. In March 2006, we determined that one of these EURIBOR swaps, with a 60 million notional amount no longer qualified for hedge accounting. Based on our methodology for determining hedge effectiveness we determined the swap to be no longer effective in offsetting changes in cash flows of the hedged variable rate borrowing. As a result, for the three months ended March 31, 2006, we recognized through earnings a gain of $300,000, representing the change in fair value of the swap from the date the hedge first fell out of effectiveness through the end of the quarter, of which $240,000 was allocated to our joint venture partner. Accordingly, we are reclassifying the remaining related accumulated other comprehensive loss, net of minority interest of 50,000 ($60,000 at March 31, 2006) to earnings through the swap s maturity. Th weighted-average notional amounts and fixed pay rates of these swaps are as follows (euros in millions):

	2006	2007	2008	2009
Notional amounts	91.4	123.3	125.2	69.3
Weighted-average pay rates	3.8%	3.7%	3.7%	3.7%

These swap agreements were liabilities of $810,000 and $3.1 million at March 31, 2006 and December 31, 2005, respectively.

Note 9 Shareholders Equity

We had the following activity with respect to common stock in the quarters ended March 31, 2006 and 2005:

	Three months ended March 31,	
	2006	2005
Shares issued for dividend reinvestment	5,006	8,523
Shares issued for options exercised and employee stock purchase plan	204,650	23,412
Restricted shares issued		1,418

Note 10 Stock-Based Compensation and Benefit Plans

Summary of stock compensation plans

We have several stock-based compensation plans that provide for the granting of options, as well as restricted stock awards, performance awards, stock unit awards and distribution equivalent rights. A more detailed description of these plans can be found in our 2005 annual report on Form 10-K. As of March 31, 2006, awards outstanding consisted of stock options, restricted stock, restricted stock units and stock appreciation rights. Stock options, restricted stock and restricted stock units are settled at exercise or converted upon vesting

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PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

through issuance of new shares; stock appreciation rights are settled in cash. As of March 31, 2006, we had 3.1 million authorized shares available for future grants under our 2004 Long-Term Incentive Plan (the 2004 Plan).

Compensation expense

Effective January 1, 2006, we adopted the provisions of SFAS 123R using the modified prospective method as described in further detail in Note 2. Total stock-based compensation expense for the three months ended March 31, 2006 was $2.0 million, of which $940,000 related to stock options, $600,000 related to restricted stock and restricted stock units, and $490,000 related to stock appreciation rights. Of the $2.0 million compensation expense, $200,000 relates to the effect of the requirement under SFAS 123R to recognize, on a fair value basis, compensation expense for certain awards that had previously been expensed based on the awards intrinsic value, net of the cumulative effect that resulted from applying estimated expected pre-vesting forfeitures. This $200,000 cumulative effect has been reported on our condensed consolidated statement of income as a cumulative effect of change in accounting principle.

The following table illustrates the effect on net income and earnings per share if we had applied the recognition provisions of SFAS 123 to record stock-based compensation in all periods presented:

	For the three months ended March 31, 2005 (in thousands except per share data)
Net income:	
As reported	$ 5,256
Add: Stock based compensation expense included in reported net income	472
Less: Pro forma stock based compensation expense	(862)
Pro forma net income	$ 4,866
Basic and diluted net income per share:	
As reported	$ 0.05
Pro forma	$ 0.04

As of March 31, 2006, we had $12.8 million of unrecognized compensation expense, net of estimated pre-vesting forfeitures, related to unvested awards under our stock-based compensation plans, of which $5.5 million relates to stock options, $5.4 million relates to restricted stock and restricted stock units and $1.9 million relates to stock appreciation rights. We expect to recognize the unrecognized compensation expense over a weighted-average period of 2.0 years.

Stock options

We estimate the fair value of stock option awards using the Black-Scholes option-pricing model. The fair value of option awards is expensed on a straight-line basis over the vesting period of the options. Expected volatility is based on historic volatility of our stock adjusted for current trends. The risk-free interest rate is based on the yield curve of a risk free investment on the grant date with a maturity equal to the expected term of each award.

We use historical data and trends in actual forfeitures to estimate pre-vesting forfeitures; compensation expense is recognized only for the portion of awards that is expected to vest. The expected term of awards is derived from historical experience under our stock-based compensation plans and represents the period of time that awards are expected to be outstanding.

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PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

U.S. stock options: As of March 31, 2006, we had approximately 2.6 million stock options outstanding that were issued to our employees and non-employee directors in the United States. Each stock option provides the recipient the right to purchase shares of our Class A common stock at the fair value of our common stock as of the date of grant. Stock options have a ten-year term from the grant date and vest over a minimum of three years under the 2000 Long-Term Incentive Plan (2000 Plan) and a minimum of four years under the 2004 Plan with a vesting schedule determined by the plan administrator at the time of grant.

The fair value of options granted under our stock option plans is estimated on the date of grant using the Black-Scholes option-pricing model with weighted-average assumptions as follows:

	Three months ended March 31, 2006	2005
Dividend yield	3.88%	5.26%
Expected volatility	20%	22%
Risk free interest rate	4.50%	3.76%
Expected life (in years)	5.5	5.6
Fair value per option	$ 9.23	$ 5.31

The following table summarizes changes in options outstanding under the plans:

	Number of Shares	Weighted average exercise price	Weighted average remaining contractual term	Aggregate Intrinsic Value (in thousands)
Outstanding, January 1, 2006	2,817,587	$ 35.11	6.6 years	$ 60,862
Granted	790	$ 58.33		
Forfeited	(2,681)	$ 51.44		
Exercised	(196,075)	$ 30.55		
Outstanding, March 31, 2006	2,619,621	$ 35.44	6.4 years	$ 81,704
Exercisable, March 31, 2006	1,709,482	$ 28.92	5.1 years	$ 64,460
Vested and expected to vest in the future, at March 31, 2006	2,482,697	$ 34.68	6.3 years	$ 79,312

The total intrinsic value of options exercised during the three months ended March 31, 2006 and 2005, was $6.9 million and $260,000, respectively. Intrinsic value is measured using the fair value of the stock at the date of exercise (for options exercised during the period) or at the specified date (for options outstanding), less the applicable exercise price.

Shurgard Self Storage SCA stock options: Certain of our key employees in Europe receive incentive stock options for shares in our subsidiary, Shurgard Europe, under our Shurgard Self Storage SCA European Share Plan (European Plan). These options have a ten-year contractual term, vest in full at the end of a three-year period from the grant date, and are generally forfeited if a recipient s employment is terminated prior to maturity. Recipients of Shurgard Europe s stock options may exercise options upon vesting and have the right to require Shurgard to repurchase the shares for cash at fair value after the recipient s employment with Shurgard Europe terminates. As a result, the cumulative compensation expense is presented as a liability in our consolidated balance sheet and compensation expense recognized for these awards will equal the appreciation in the fair value of the underlying shares of Shurgard Europe over the exercise price of the option from the date of grant through the date of the redemption of the shares.

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SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of March 31, 2006 and December 31, 2005, options for 4,152 shares were outstanding under our European Plan with a weighted average exercise price of $1,495 per share of Shurgard Europe. At March 31, 2006, these options had a weighted average remaining contractual term of 8.9 years and an aggregate intrinsic value of $910,000. Of the 4,152 options outstanding as of March 31, 2006, 237 were exercisable at a weighted average exercise price of $1,147 per share; vested options had a remaining contractual term of 6.5 years and an aggregate intrinsic value of $130,000.

As of March 31, 2006, the fair value of Shurgard Europe s stock options has been estimated using the Black-Scholes option-pricing model with weighted-average assumptions as follows:

	March 31, 2006
Per-share fair value of Shurgard Europe stock	$ 1,715
Expected volatility	20.0%
Risk free interest rate	3.9%
Expected term (in years)	4.9
Dividend yield	0.0%
Fair value per option	$ 542

Restricted stock and restricted stock units

U.S. restricted stock and restricted stock units: We grant restricted shares and restricted stock units to key employees in the United States and in Europe under our 2000 Plan and 2004 Plan. Restricted shares entitle the grantees to all shareholder rights with respect to voting and receipt of dividends during the restriction period, except restricted stock may not be sold, assigned, transferred, pledged or otherwise disposed of prior to vesting. Awards generally vest ratably over five years. We recognize compensation expense for restricted shares and restricted share units on a straight-line basis over the vesting period based on the grant date fair value of a single share of our Class A common stock multiplied by the number of awards expected to vest. Generally, if a grantee s employment is terminated prior to the end of the five-year period, the unvested shares will be forfeited.

The table below presents the activity for restricted shares and restricted stock units for the three months ended March 31, 2006:

	Restricted Stock		Restricted Stock Units	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Units	Weighted Average Grant Date Fair Value
Outstanding, Jan. 1, 2006	112,753	$ 44.53		$
Granted		$	20,102	$ 60.16
Vested	(270)	$ 38.56		$
Forfeited		$		$
Outstanding, March 31, 2006	112,483	$ 44.55	20,102	$ 60.16
	1.8		2.8	

Weighted average remaining term (years)		
Aggregate intrinsic value (in millions)	$ 7.5	$ 1.3

Shurgard Self Storage SCA restricted stock units: We have granted 286 restricted stock units under our European Plan to certain key employees in Europe. These awards are paid in shares of Shurgard Europe and vest

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SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

in full after three years from the date of grant. After the recipient s employment with Shurgard Europe has terminated, holders of these restricted stock units will have the right to require us to repurchase vested shares at fair value for cash. As a result, the cumulative compensation expense is presented as a liability in our consolidated balance sheet and total compensation expense recognized for these awards will equal the fair value of the underlying shares of Shurgard Europe at the date of the redemption of the shares. During the three months ended March 31, 2006, we recorded $110,000 of stock based compensation expense for these awards. As of March 31, 2006, we estimate the value of these awards at $490,000 based on an estimated value of Shurgard Europe s stock of $1,715 per share. The accrued liability as of March 31, 2006, included in our condensed consolidated balance sheet was $110,000; the unrecognized compensation cost was $380,000; the weighted average remaining term was 2.3 years.

Stock appreciation rights

We grant stock appreciation rights to most of our employees in Europe under our Shurgard Europe Gain Sharing Plan (Gain Sharing Plan). Recipients are entitled to receive a payment at maturity based on the sum of the appreciation of our common stock and dividends paid over the vesting period. The rights vest in full at the end of a three-year term and are generally forfeited if a participant s employment is terminated prior to maturity. Compensation expense is recognized in our financial statements ratably over the three-year vesting period, net of estimated pre-vesting forfeitures. Gain Sharing Plan awards are settled in cash when they vest. As a result, the compensation expense recognized over the vesting period for Gain Sharing Plan awards under SFAS 123R will equal the fair value (i.e., cash value) of an award as of the last day of the vesting period multiplied by the number of awards that are earned. We determine the fair value of stock appreciation rights using a Black-Scholes option-pricing model, using assumptions that are generally consistent with those we used in valuing U.S. stock options, plus dividend rights accrued for all rights outstanding. The expected term of stock appreciation rights is each award s remaining contractual term. As of March 31, 2006, 144,109 stock appreciation rights were outstanding, which had a weighted average remaining contractual term of 1.9 years, and an aggregate intrinsic value of $2.7 million.

Measurement of compensation costs for Gain Sharing Plan awards and stock options of Shurgard Europe

Grants to employees of our European subsidiary of both stock appreciation rights granted under our Gain Sharing Plan and stock options for shares of Shurgard Europe under our European Plan represent awards that are classified and accounted for as liabilities under SFAS 123R. Accordingly, SFAS 123R requires the quarterly compensation expense recognized during the vesting period to be based on the fair value of Shurgard Europe s stock options and Gain Sharing Plan awards as of the end of the most recent accounting period. Prior to the end of the vesting period, compensation costs for these awards are based on the awards most recent fair values, determined as of the end of the accounting period, and the number of months of service rendered during the vesting period.

Modifications of stock-based compensation and benefit plans under our plan of merger

Under the terms of our proposed merger with Public Storage, all U.S. stock options outstanding (except for certain options issued to nonemployee directors) will become fully vested as of the consummation of the merger and will be converted into options to acquire shares of Public Storage common stock. Outstanding stock options granted to our nonemployee directors will terminate as of the consummation of the merger; for 20 days prior to the consummation of the merger, each director will be entitled to exercise all options granted to such director, whether vested or unvested. Any outstanding restricted shares of Shurgard common stock held by employees and directors that were granted under our stock-based compensation plans will be converted into the number of shares of Public Storage common stock obtained by multiplying such number of restricted shares of Shurgard

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SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

common stock by 0.82. In addition, each of our executive officers is a party to a senior management employment agreement that provides for payments in the event that the executive s employment is terminated, within two and a half years after a business combination, including the consummation of the merger with Public Storage, either by the executive for good reason or by Shurgard for any reason other than death, disability or for cause.

Other stock compensation and benefit plans

As required by the Merger Agreement our employee stock ownership plan (the ESOP), which is part of our employee retirement savings plan, and our employee stock purchase plan (the ESPP) were suspended as of March 6, 2006, the date of the Merger Agreement. During the three months ended March 31, 2006, we funded the ESOP contributions that were included in accrued compensation costs as of December 31, 2005, related to amounts earned by employees in 2005. For our ESOP, there will be no further funding in subsequent periods and, as a result, no related expense was incurred during the three months ended March 31, 2006. Related to our ESPP, we issued all shares during the three months ended March 31, 2006, for employee contributions made from January 1, 2006 through March 6, 2006.

Note 11 Income Taxes

We conduct our domestic non-REIT activities primarily through TRSs. Our foreign non-REIT activities are primarily conducted through six European taxable TRSs.

The components of deferred tax assets (liabilities) for Shurgard s taxable operations at March 31, 2006 and December 31, 2005 are included in the table below. As of March 31, 2006 and December 31, 2005, we had established a valuation allowance against the value of our net deferred tax assets. Our domestic TRS entities have started to generate taxable income, which resulted in a reduction of our domestic deferred tax assets as of March 31, 2006 compared to December 31, 2005. However, given the history of losses of our domestic TRS and of our European operations, we have concluded that there is currently insufficient evidence to justify recognition of the benefits of these deferred tax assets on our books. At the time the transaction with Public Storage is consummated, it is possible that certain domestic and European net operating loss carryforwards, could be lost in whole or in part.

	March 31, 2006	December 31, 2005
	(in thousands)	
Domestic	$ 9,483	$ 9,627
Foreign	100,493	95,062
Net deferred tax asset before valuation allowance	109,976	104,689
Valuation allowance	(109,976)	(104,689)
Net deferred tax asset	$	$

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SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12 Restructuring and Exit Costs

In June 2005, when we acquired the remaining minority interest in Shurgard Europe, we announced a plan to change the management structure, including the consolidation of certain national offices, and recorded charges associated with these activities, including certain termination benefits payable to certain involuntarily terminated employees and lease termination costs relating to certain leased office facilities that we ceased using in 2005. Under this plan, we also announced that we would undertake further cost reduction initiatives through the end of 2007. In 2005, we started implementing cost reductions by consolidating certain departments, and we reduced the number of positions in the operations management, real estate and finance groups in various countries. We record the charges related to these cost reduction initiatives as the various initiatives take effect. We also recognized a liability for lease termination costs based on the remaining rental payments under the lease less estimated market sublease payments we might receive should we sublease the space. The operating leases for facilities we have ceased to use expire in 2009. We expect to incur additional expenses in 2006 and 2007 as we make further reorganization decisions. The following table summarizes costs incurred since June 2005 for our plan to change the management structure of Shurgard Europe:

	(in thousands)
Exit costs for lease obligations	$ 342
Exit costs for severance	2,021
Payments made	(1,738)
Total accrued exit costs as of December 31, 2005	625
Exit costs for severance	77
Payments made	(355)
Effect of foreign exchange	45
Total accrued exit costs as of March 31, 2006	$ 392

In December 2001 and 2003, our board of directors approved exit plans to discontinue our containerized storage operations. In connection with these decisions, we accrued incremental costs expected to be incurred during the closing of the warehouses affected by our exit plan. As of March 31, 2006, we had a remaining liability of $590,000 for warehouse operating lease obligations through 2008. The liability is recognized at its fair value for the remaining lease rentals, reduced by estimated sublease rentals and is reevaluated periodically. As of March 31, 2006, we had entered into subleasing agreements for all seven warehouses, including some on a month-to-month basis.

Since 2001, we have incurred $5.4 million of exit costs related to containerized storage operations. During the three months ended March 31, 2006, we incurred $80,000 related to exit costs and we made payments of $260,000.

Additionally, in the first quarter of 2006, we recorded a restructuring liability of approximately $190,000 related to the acquisition of 3S Self-Storage Systems SAS (see Note 4) which was included as part of the costs of the assets.

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SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 13 Net Income (Loss) Per Share

The following summarizes the computation of basic and diluted net income (loss) per share for the three-month periods ended March 31, 2006 and 2005:

	Three months ended March 31, 2006	2005
	(in thousands except share data)	
Results of operations Numerator		
Income (loss) from continuing operations	$ 5,191	$ (1,331)
Preferred dividends and other	(3,037)	(3,042)
Income (loss) from continuing operations available to common shareholders	2,154	(4,373)
Discontinued operations	68	6,587
Cumulative effect of change in accounting principle	(200)	
Net income available to common shareholders	$ 2,022	$ 2,214
Effect of dilutive stock based awards	$	$
Weighted average share amounts Denominator		
Basic weighted average shares outstanding	46,955	46,514
Effect of dilutive stock based awards	1,228	
Diluted weighted average shares outstanding	48,183	46,514
Basic per share amounts		
Income (loss) from continuing operations available to common shareholders	$ 0.04	$ (0.09)
Discontinued operations		0.14
Cumulative effect of change in accounting principle		
Net income available to common shareholders	$ 0.04	$ 0.05
Diluted per share amounts		
Income (loss) from continuing operations available to common shareholders	$ 0.04	$ (0.09)
Discontinued operations		0.14
Cumulative effect of change in accounting principle		
Net income available to common shareholders	$ 0.04	$ 0.05

We have excluded the following non-dilutive stock options and unvested common stock awards for certain periods from the computation of diluted earnings per share, because the options exercise prices were greater than the average market price of the common shares or the Company incurred a loss from continuing operations available to common shareholders during the reporting period:

	For the three months ended	
	March 31, 2006	**March 31, 2005**
Number of options	350,000	2.7 million
Exercise prices	$55.87 to $57.71	$21.63 to $44.01
Expiration on or before	December 2015	February 2015
Unvested common stock awards	113,000	123,000

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PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 14 Foreign Operations

We conduct our foreign operations through Shurgard Europe and other European subsidiaries. Our European revenues amounted to $35.6 million or 28% of our revenues, for the three-month period ended March 31, 2006 compared to $30.4 million or 27% of our total revenues for the three-month period ended March 31, 2005.

As a result of our international operations, we recorded a $125,000 foreign exchange gain and a $3.8 million foreign exchange loss for the three months ended March 31, 2006 and 2005, respectively.

Through July 1, 2005, we were exposed to foreign currency exchange risk related to intercompany debt with or between our European subsidiaries that is not denominated in the functional currency of the subsidiary or the investee. In connection with the acquisition of the remaining interest in Shurgard Europe, we reevaluated our plans and expectations with respect to repayment of certain intercompany debt with our European subsidiaries and determined that it is prospectively a long-term-investment as defined in SFAS 52, Foreign Currency Translation. Accordingly, we do not recognize exchange gains or losses on such intercompany debt in our consolidated statements of income. Rather, beginning July 1, 2005, we report these translation adjustments as a component of other comprehensive income (loss). We had a foreign exchange gain of $120,000 in net income related to this intercompany debt during the first quarter of 2006 compared to a loss of $4.0 million during the first quarter of 2005. We recorded a gain of $1.4 million first quarter of 2006 as a component of other comprehensive income (loss).

Included in accumulated other comprehensive income was a cumulative foreign currency translation adjustment loss of $960,000 and $4.1 million as of March 31, 2006 and December 31, 2005, respectively.

Note 15 Discontinued Operations

In 2005, we sold five storage centers that we designated as discontinued operations as we have no continuing involvements in these properties. Of these storage centers two were sold in the first quarter of 2005 for aggregate proceeds of $14.1 million and at a gain of $6.4 million.

Additionally, in 2006, we designated one European storage center as discontinued. This property was acquired in January 2006 as part of a business acquisition (see Note 4) and has been held for sale since acquired.

We have presented the results of operations and gains on sales of these storage centers as discontinued operations for all periods presented.

The following table summarizes income from discontinued operations:

	Three months ended March 31,	
	2006	**2005**
Discontinued operations:		
Revenue	$ 98	$ 420
Operating expense	(30)	(204)
Depreciation and amortization		(52)

Operating income from discontinued operations	68	164
Gain on sale of properties		6,423
Discontinued operations	$ 68	$ 6,587

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SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 16 Segment Reporting

Shurgard has four reportable segments: Domestic Same Store and New Store, and European Same Store and New Store. Our definition of Same Store includes existing storage centers acquired prior to January 1 of the previous year as well as developed properties that have been operating for a full two years as of January 1 of the current year. We project that newly developed properties will reach stabilization in an average of approximately 24 to 48 months. New Store includes existing facilities that had not been acquired as of January 1 of the previous year as well as developed properties that have not been operating a full two years as of January 1 of the current year.

These reportable segments allow us to focus on improving results from our existing real estate assets and renting up our new facilities. We evaluate each segment s performance based on net operating income (NOI) and NOI after indirect and leasehold expenses. NOI is defined as storage center operations revenue less direct operating expenses and real estate taxes, but does not include any allocation of indirect operating expenses. Indirect operating expenses include certain shared property costs such as bank fees, regional management, purchasing, national contracts, personnel and marketing, as well as certain overhead costs allocated to property operations such as business information technology, legal services, human resources and accounting. Indirect operating expenses are allocated to storage centers based on the number of months in operation during the period and do not include internal real estate acquisition costs or abandoned development expenses.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. There are no inter-segment sales and transfers. We do not allocate development and acquisition expense, depreciation and amortization, general, administrative and other, impairment, interest expense, interest income and other, net or minority interest to the segments.

The following table illustrates the results of our Same Store and New Store reportable segments as of and for the three-month periods ended March 31, 2006 and 2005. Same Store includes all storage centers acquired prior to January 1, 2005, and developments opened prior to January 1, 2004. New Store represents all storage centers acquired after January 1, 2005, and developments opened after January 1, 2004. Other Stores include properties no longer in service, properties closed in the process of being redeveloped, properties held for sale or disposed properties in which we have no remaining ownership interest as of March 31, 2006.

	For the three months ended March 31, 2006						
	Domestic Same Store	Domestic New Store	Europe Same Store	Europe New Store	Other Stores	Discon-tinued Stores	Total
				(in thousands)			
Storage center operations revenue	$ 87,583	$ 3,548	$ 32,123	$ 3,514	$ 98	$ (98)	$ 126,768
Direct operating expense	30,601	1,580	13,923	4,003	30	(30)	50,107
Net operating income (loss)	56,982	1,968	18,200	(489)	68	(68)	76,661
Indirect operating expense	4,755	227	2,637	857			8,476
Leasehold expense	1,002	163	654	317			2,136
Indirect and leasehold expense	5,757	390	3,291	1,174			10,612

Net operating income (loss) after indirect and leasehold expense	$ 51,225	$ 1,578	$ 14,909	$ (1,663)	$ 68	$ (68)	$ 66,049

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PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	For the three months ended March 31, 2005						
	Domestic Same Store	Domestic New Store	Europe Same Store	Europe New Store	Other Stores	Discon-tinued Stores	Total
	(in thousands)						
Storage center operations revenue	$ 81,141	$ 651	$ 29,717	$ 721	$ 428	$ (420)	$ 112,238
Direct operating expense	29,351	539	15,209	1,653	187	(169)	46,770
Net operating income (loss)	51,790	112	14,508	(932)	241	(251)	65,468
Indirect operating expense	4,399	92	4,507	576	36	(35)	9,575
Leasehold expense	1,129	35	602				1,766
Indirect and leasehold expense	5,528	127	5,109	576	36	(35)	11,341
Net operating income (loss) after indirect and leasehold expense	$ 46,262	$ (15)	$ 9,399	$ (1,508)	$ 205	$ (216)	$ 54,127

The following table reconciles the reportable segments direct and indirect operating expense to consolidated operating expense, for the three-month periods ended March 31, 2006 and 2005:

	Three months ended March 31, 2006	2005
	(in thousands)	
Direct store operating expenses	$ 50,107	$ 46,770
Indirect operating and leasehold expense	10,612	11,341
Other operating	375	967
Operating expense	$ 61,094	$ 59,078

The following table reconciles the reportable segments NOI after indirect and leasehold expense per the table above to consolidated income from continuing operations for the three-month periods ended March 31, 2006 and 2005:

	Three months ended March 31, 2006	2005
	(in thousands)	
NOI after indirect and leasehold expense	$ 66,049	$ 54,127
Other revenue	842	1,386
Other operating expense, net	(375)	(967)
Real estate development expense	(1,670)	(2,930)
Depreciation and amortization	(25,923)	(23,344)
Impairment and abandoned project expense	(545)	(323)

General, administrative and other	(7,453)	(8,029)
Costs related to proposed merger	(1,465)	
Interest expense	(29,404)	(24,125)
Gain (loss) on derivatives, net	691	(359)
Foreign exchange gain (loss)	125	(3,848)
Interest income and other, net	405	960
Minority interest	3,933	6,110
Equity in earnings of other real estate investments, net		21
Income tax expense	(19)	(10)
Income (loss) from continuing operations	$ 5,191	$ (1,331)

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SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 17 Commitments and Contingencies

The following table summarizes our contractual obligations, commitments and contingent liabilities as of March 31, 2006:

	Payments due by period				
	Total	2006	2007-2008	2009-2010	2011 and beyond
			(in thousands)		
Contractual Obligations					
Long-term debt	$ 1,937,285	$ 8,431	$ 918,847	$ 85,513	$ 924,494
Capital and operating lease obligations	232,901	9,740	20,627	16,499	186,035
Totals	$ 2,170,186	$ 18,171	$ 939,474	$ 102,012	$ 1,110,529

	Amount of commitment expiration per period				
	Total amounts committed	2006	2007-2008	2009-2010	2011 and beyond
			(in thousands)		
Other Commercial Commitments & Contingent Liabilities					
Development contract commitments (1)	$ 30,531	$ 30,309	$ 157	$ 65	$
Proposed merger advisory fees (2)	12,900	12,900			
Commitment to purchase interests and property (3)	5,200	5,200			
Outstanding letters of credit and other (4)	3,785	3,767	18		
Totals	$ 52,416	$ 52,176	$ 175	$ 65	$

(1) Includes costs to complete property development and redevelopment projects conducted with contractors. We computed the outstanding commitment based on total estimated project costs less costs incurred to date. This includes $5.3 million of development commitments on our 20% owned European joint ventures.

(2) Includes a commitment to financial advisors on the proposed merger with Public Storage. See further discussion below.

(3) Includes a commitment to purchase the ownership interest of a minority interest and a commitment to purchase a parcel of land. As of March 31, 2006, the commitment to purchase the real estate property was contingent upon the seller satisfying certain conditions prior to closing.

(4) Includes primarily an outstanding letter of credit related to our insurance trust for workmen s compensation and of letters of credit related to properties under construction.

Legal proceedings

On March 7, 2006, a putative class action complaint was filed on behalf of our public shareholders in the Superior Court of the State of Washington, King County, against Shurgard and certain of its directors entitled Staer v. Shurgard Storage Centers, Inc. et al (case no. 06-2-08148-0). The complaint alleges, among other things, that our directors breached their fiduciary duties in connection with the approval of the Merger Agreement with Public Storage, by failing to properly value the Company and by failing to protect against alleged conflicts of interest arising out of certain directors interests in the transaction. Among other things, the complaint seeks an order enjoining Shurgard from consummating the transactions contemplated by the Merger Agreement. We intend to defend the action vigorously. We believe that our actions and the actions of our board of directors were appropriate. We maintain directors and officers insurance, which we believe will provide coverage with respect to this matter.

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SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We are a defendant in litigation filed on September 17, 2002, in the Superior Court of California for Orange County styled as Gary Drake v. Shurgard Storage Centers, Inc. et al (Case No. 02CC00152). The complaint alleges that we misrepresented the size of our storage units, seeks class action status and seeks damages, injunctive relief and declaratory relief against us under California statutory and common law relating to consumer protection, unfair competition, fraud and deceit and negligent misrepresentation. The Court recently ruled that the class of potential members in this lawsuit is limited to our California customers. No class has yet been certified. It is possible that we may incur losses as a result of this litigation, but we currently do not believe that the range of such losses would be material to our financial position, operating results or cash flows. However, we cannot presently determine the potential total damages, if any, or the ultimate outcome of the litigation. We are vigorously defending this action.

In addition, from time to time we are subject to various legal proceedings that arise in the ordinary course of business. Although we cannot predict the outcomes of these proceedings with certainty, we do not believe that the disposition of these matters and the matters discussed above will have a material adverse effect on our financial position, operating results or cash flows. We expense legal costs on legal proceedings as incurred.

Merger proposal

On March 6, 2006, we entered into a Merger Agreement with Public Storage, which contemplates that we will be merged with and into a subsidiary of Public Storage. Each outstanding share of our common stock will be converted into the right to receive 0.82 of a fully paid and non-assessable share of Public Storage common stock. In addition, in connection with the merger, we expect to redeem each outstanding series of our preferred stock in accordance with its terms. Holders of Shurgard s stock options, restricted stock units and shares of restricted stock will receive, subject to adjustments, options exercisable for shares of Public Storage common stock, restricted stock units and restricted shares of Public Storage common stock, respectively.

Our board of directors and the board of directors of Public Storage have approved the Merger Agreement. The proposed merger is subject to our shareholders approval, Public Storage s shareholders approval of the issuanc of shares of Public Storage common stock to be used as merger consideration and other customary closing conditions. On April 20, 2006, Public Storage filed a registration statement on Form S-4 relating to the Public Storage common stock issuable in connection with the merger and containing a joint proxy statement seeking the approvals necessary to consummate the merger and certain other approvals as described in a joint proxy statement/prospectus. We will ask our owners of common stock to approve the Merger Agreement and the transactions contemplated by the Merger Agreement.

We have made certain representations and warranties in the Merger Agreement and have agreed to certain covenants, including, among others, subject to certain exceptions, to permit our board of directors to comply with its fiduciary duties, and not to solicit, negotiate, provide information in furtherance of, approve, recommend or enter into any other acquisition proposal (as defined in the Merger Agreement).

The Merger Agreement contains representations and warranties that the parties have made to each other as of specific dates. The assertions embodied in those representations and warranties were made solely for purposes of the contract between the parties, and may be subject to important qualifications and limitations agreed to by the parties in connection with negotiating its terms. Moreover, the representations and warranties are subject to a contractual standard of materiality that may be different from what may be viewed as material to shareholders, and the representations and warranties may have been intended not as statements of fact, but rather as a way of allocating risk between the parties. This description of certain terms of the Merger Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the Merger Agreement, a copy of which is filed with our current report on Form 8-K dated March 7, 2006.

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SHURGARD STORAGE CENTERS, INC.

PART I, ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2005, we had an accrued liability of $11.4 million for fees that were contingently due to our financial advisors in connection with the proposed merger with Public Storage and our review of strategic alternatives to such proposed merger. During the three months ended March 31, 2006, we paid $10.5 million of these fees plus out of pocket expenses, which became due upon entering into the Merger Agreement on March 6, 2006. Merger related expenses of $1.5 million recognized as incurred during the three months ended March 31, 2006, consisted of legal fees and reimbursements of expenses. As of March 31, 2006, we had commitments to pay our financial advisors additional success fees totaling $12.9 million, which we will recognize when incurred contingent upon the consummation of our merger with Public Storage.

Note 18 Related Party Affiliation

Charles K. Barbo, the chairman of our board of directors, indirectly owns a 0.5% ownership interest in a limited partnership known as Shurgard Institutional Fund L.P. I, a consolidated subsidiary of Shurgard. Shurgard owns a 99% interest in this entity.

Note 19 Subsequent Events

On May 5, 2006, our board of directors declared a first quarter dividend of $0.56 per common share payable on June 15, 2006 to common shareholders of record as of June 2, 2006.

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CONSOLIDATED FINANCIAL STATEMENTS OF SHURGARD SELF STORAGE S.C.A.

INDEPENDENT AUDITORS REPORT

To the Shareholders of

Shurgard Self Storage SCA,

Brussels, Belgium

We have audited the accompanying consolidated balance sheets of Shurgard Self Storage, SCA. and subsidiaries (collectively the Company) as of December 31, 2003, 2002, and 2001 and the related consolidated statements of operations, shareholders equity and comprehensive income, and cash flows for each of three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company s management.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2003, 2002, and 2001 and the results of its operations and cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note E, the accompanying 2002 and 2001 consolidated financial statements have been restated.

DELOITTE & TOUCHE

Reviseurs d Entreprises SC s.f.d. SCRL

Represented by Daniel Kroes

/s/ DANIEL KROES

April 23, 2004

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SHURGARD SELF STORAGE S.C.A.

CONSOLIDATED BALANCE SHEETS

(in thousands)

(in U.S. dollars)

			As of December 31,	
			2002	2001
	Note	2003	(as restated)	(as restated)
ASSETS				
Storage Centres:				
Land		$ 137,615	$ 83,297	$ 53,623
Buildings & equipment, net		400,397	279,570	171,321
Construction in progress		12,766	87,225	68,839
Total Storage Centres	C	550,778	450,092	293,783
Investment in and receivables from affiliates	D	29,824		
Cash & cash equivalents		11,965	24,978	15,324
Deferred taxation	E			
Other assets	F	31,902	30,103	20,059
Total Assets		$ 624,469	$ 505,173	$ 329,166
LIABILITIES & SHAREHOLDERS EQUITY				
Accounts payable and other liabilities		$ 41,637	$ 35,617	$ 24,676
Liabilities under capital leases	G	11,391	9,469	7,838
Bonds payable to an affiliated company	H	57,287	49,623	
Line of credit	I	376,553	270,936	174,506
Subordinated loan payable to related party	K		127,620	99,534
Total Liabilities		486,868	493,265	306,554
Commitments and contingencies	N			
Shareholders equity	L			
General Partner Interest 160.50 par value; 56 shares issued and outstanding in 2003 and 2002		10	10	10
Class A Limited Liability Partner Interest 160.50 par value; 233,844 shares (2002: 97,733) issued and outstanding		40,948	17,769	17,769
Additional paid in capital		118,653	30	30
Profit Certificates: 219,234 (2002: 219,234) issued		139,754	139,754	139,754
Less: uncalled Profit Certificates		(26,089)	(26,089)	(47,718)
Total shareholders interest		273,276	131,474	109,845
Accumulated loss		(140,287)	(110,421)	(80,590)
Accumulated other comprehensive loss		4,612	(9,145)	(6,643)
Total shareholders equity		137,601	11,908	22,612

Total liabilities & shareholders equity	$ 624,469	$ 505,173	$ 329,166

See Notes to consolidated financial statements

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SHURGARD SELF STORAGE S.C.A.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands)

(in U.S. dollars)

	For the year ended December 31, 2003	2002 (as restated)	2001 (as restated)
Revenue			
Real estate operations	$ 67,318	$ 43,512	$ 26,526
Other revenue	11,376		
Total revenue	78,694	43,512	26,526
Expenses			
Operating expenses	54,383	32,236	24,296
Real estate taxes	3,540	2,193	1,777
Depreciation and amortization	19,433	12,959	9,044
General, administrative and other expenses	6,181	4,798	3,425
Total expenses	83,537	52,186	38,542
Net loss arising from operations	(4,843)	(8,674)	(12,016)
Other Income (Expense)			
Interest income and other	1,520	620	482
Interest and other charges	(21,508)	(13,863)	(9,206)
Interest expense on bonds payable to an affiliated company	(6,889)	(1,403)	
Interest expense on subordinated loan payable to related party	(7,774)	(8,881)	(7,750)
Exchange translation gain on bonds payable to an affiliated company	9,830	2,357	
Net loss before taxation	(29,664)	(29,844)	(28,490)
Income tax (charge) benefit	(202)	13	
Net loss before cumulative effect of a change in accounting principle	(29,866)	(29,831)	(28,490)
Cumulative effect of a change in accounting principle			(1,106)
Net loss	$ (29,866)	$ (29,831)	$ (29,596)

See Notes to consolidated financial statements

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SHURGARD SELF STORAGE S.C.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(in U.S. dollars)

		For the year ended December 31,		
	Note	2003	2002 (as restated)	2001 (as restated)
Operating activities:				
Net loss		$ (29,866)	$ (29,831)	$ (29,596)
Adjustments to reconcile earnings to net cash used in operating activities				
Income tax charge (benefit)		202	(13)	
Share of loss of affiliate		1,135		
(Gains) on disposal of property			(257)	(20)
Cumulative effect of a change in accounting principle				1,106
Derivative expense		192		
Depreciation and amortization		19,433	12,959	9,044
Amortization of financing costs as interest expense		4,651	3,268	2,706
Exchange translation gain on bonds payable to an affiliated company		(9,830)	(2,357)	
Interest and redemption premium accrued on bonds payable to an affiliated company		6,889	539	
Subordinated loan payable to related party	K	7,774	8,893	7,735
Changes in operating accounts:				
Receivables from affiliate	D	(6,307)		
Other assets		2,202	(5,742)	(1,016)
Accounts payable and other liabilities		1,630	4,608	7,429
Net cash used in operating activities		(1,895)	(7,933)	(2,612)
Investing activities:				
Payments for site acquisition and construction		(79,459)	(114,634)	(104,889)
Transfer of assets to affiliate	D	44,139		
Proceeds of derivative contract		2,283		
Investment in affiliate	D	(22,357)		
Proceeds of disposal of property			4,216	43
Payments for other intangible assets		(768)	(666)	(470)
Net cash used in investing activities		(56,162)	(111,084)	(105,316)
Financing activities:				
Proceeds from issue of Profit Certificates	L		21,837	38,339
Proceeds from issue of Partner Interests	L	7,316		
Proceeds from lines of credit		45,494	57,188	76,678
Proceeds from bonds payable to an affiliated company			49,317	
Repayment of subordinated loan payable to related party	K	(7,344)		
Increase in liabilities under capital leases		44	177	(54)
Payment of financing and related costs		(4,134)	(3,207)	(4,809)
Net cash provided by financing activities		41,376	125,312	110,154
Net effect of translation on cash		3,668	3,359	(664)

(Decrease) increase in cash and cash equivalents	(13,013)	9,654	1,562
Cash and cash equivalents at start of year	24,978	15,324	13,762
Cash and cash equivalents at end of year	$ 11,965	$ 24,978	$ 15,324
Supplemental schedule of cash flow information:			
Interest paid net of capitalization	$ 10,114	$ 9,055	$ 6,315
Capital lease obligation incurred on site acquisition	$	$	$ 5,989
Partner Interests issued for contribution in kind of subordinated loan payable to related party	$ 135,548	$	$
Total amount of corporate income taxes paid	$ 202	$ (13)	$

See Notes to consolidated financial statements

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SHURGARD SELF STORAGE S.C.A.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME

(in thousands)

(in U.S. dollars)

	General Partner Interest	Limited Partner Interest and profit certificates	Additional paid-in capital	Accumulated loss	Accumulated other comprehensive loss	Total shareholders equity
Balance January 1, 2001 (as restated)	$ 10	$ 71,902	$ 30	$ (50,994)	$ (6,392)	$ 14,556
Increase in shareholders interest		37,903				37,903
Comprehensive loss:						
Net loss				(29,596)		(29,596)
Other Comprehensive Income (loss):						
Gain on derivative instruments					900	900
Foreign currency translation					(1,151)	(1,151)
Total Comprehensive Loss:				(29,596)	(251)	(29,847)
Balance January 1, 2002 (as restated)	10	109,805	30	(80,590)	(6,643)	22,612
Increase in shareholders interest		21,629				21,629
Comprehensive loss:						
Net loss				(29,831)		(29,831)
Other Comprehensive Income (loss):						
Loss on derivative instruments					(2,483)	(2,483)
Foreign currency translation					(19)	(19)
Total Comprehensive Loss:				(29,831)	(2,502)	(32,333)
Balance January 1, 2003 (as restated)	10	131,434	30	(110,421)	(9,145)	11,908
Increase in shareholders interest cash		1,204	6,074			7,278
Increase in shareholders interest non cash		21,975	112,549			134,524
Comprehensive loss:						
Net Loss				(29,866)		(29,866)
Other Comprehensive Income (loss):						
Gain on derivative instruments					1,795	1,795
Foreign currency translation					11,962	11,962
Total Comprehensive Loss:				(29,866)	13,757	(16,109)

Balance December 31, 2003	$ 10	$ 154,613	$ 118,653	$ (140,287)	$ 4,612	$ 137,601

See Notes to consolidated financial statements

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SHURGARD SELF STORAGE S.C.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A Organization

Shurgard Self Storage S.C.A. (the Company) was incorporated under Belgian Law as a Société en Commandite Simple on December 8, 1994 and reorganized as a Société en Commandite par Actions on September 28, 1999. The Company invests directly or through wholly-owned subsidiaries in Belgium, the Netherlands, France, Sweden, Denmark, the United Kingdom and Germany (Collectively the Group) in the development and operation of self-service storage properties providing month-to-month leases for business and personal use.

Note B Summary of Significant Accounting Policies

Basis of presentation: These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America on the basis described below.

Consolidation: The consolidated financial statements include the accounts of the Company and all of its domestic and foreign subsidiaries and joint ventures in which the Company has effective control as evidenced by, among other factors, holding a majority interest in the investment and having the ability to cause a sale of assets. All investments in joint ventures that do not qualify for consolidation, but in which the Company exercise significant influence, are accounted for under the equity method (See Note D). All inter-company balances and transactions have been eliminated upon consolidation.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

New accounting principles: In November 2002, the FASB issued FASB Interpretation (FIN) 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, which elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor s fiscal year-end. The Group have not entered into any guarantees or modified any existing guarantees subsequent to December 31, 2002 and therefore adoption of this statement has had no effect on its financial position, results of operations or cash flows.

In December 2002, the FASB issued SFAS 148, Accounting for Stock-Based Compensation Transition and Disclosure, which amended SFAS No. 123, Accounting for Stock-Based Compensation . SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation and amends the disclosure requirements of SFAS 123 to require prominent disclosures of the method of accounting for stock-based employee compensation and the effect of the method used on reported results. On December 31, 2002, the Group adopted the disclosure provisions of SFAS 148 and continues to account for stock-based compensation under APB Opinion No. 25 Accounting for Stock Issued to Employees. Therefore, the adoption of SFAS 148 did not have any effect on its financial position or results of operations. The following table reflects pro forma net income as if the Group had recognized stock-based compensation expense using the fair value method in accordance with SFAS 123. As the Group is a non-public

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SHURGARD SELF STORAGE S.C.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

entity, the fair value of options issued in 2003 and 2002 was calculated at their minimum value of $99 (2002: $78) per option granted, applying a risk free interest rate of 2.75% and 2.74%, respectively. All grants of options were made at fair market value and no compensation expense has been recorded in Net Loss for the year ended December 31, 2003, 2002, and 2001.

	Year ended December 31,		
	2003	2002	2001
	(in thousands)		
Net loss as reported	29,866	29,831	29,596
Add: proforma compensation expense	49	12	
Proforma net loss	29,915	29,843	29,596

In January 2003, the FASB issued FIN 46, Consolidation of Variable Interest Entities, which clarifies the application of Accounting Research Bulletin 51, consolidated financial statements , for entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46, as revised by FIN 46R in December 2003, becomes effective for variable interest entities for periods ending after March 15, 2004. The Group is in the process of determining whether First Shurgard SPRL, an entity newly formed in May 2003 (Note D), meets the definition of a Variable Interest Entity under the conditions outlined in FIN 46R.

In April 2003, the FASB issued SFAS 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In May 2003, the FASB issued SFAS 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity which requires that certain financial instruments previously accounted for as equity should be classified as liabilities in statements of financial position. In December 2003, the FASB issued a revised SFAS 132, Employers Disclosures about Pensions and Other Postretirement Benefits an amendment of FASB Statements 87, 88 and 106 . Adoption of these statements has no effect on the Group s financial position, results of operations or cash flows.

Accounting for Derivative Instruments and Hedging Activities: The Group has adopted the requirements of SFAS 133, Accounting for Derivative Instruments and Hedging Activities , as amended and interpreted, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. SFAS 133 requires that all derivatives, whether designated in hedging relationships or not, be recorded on the balance sheet at fair value. The accounting for changes in fair value depends upon the purpose of the derivative instrument and whether it is designated and qualifies for hedge accounting. To the extent derivative instruments qualify and are designated as cash flow hedges, the effective portion of the gain or loss on such derivative instruments will generally be reported in Other Comprehensive Income (OCI) and the ineffective portion, if any, will be reported in net income. Such amounts recorded in accumulated OCI will be reclassified into net income when the hedged item affects earnings. To the extent derivative instruments qualify and are designated as hedges of changes in the fair value of an existing asset, liability or firm commitment, the gain or loss on the hedging instrument will be recognized currently in earnings along with the changes in fair value of the hedged asset, liability or firm commitment attributable to the hedged risk.

Foreign exchange: The consolidated financial statements are initially prepared in euro, the primary functional currency of the Group. Assets and liabilities of certain subsidiaries outside the euro zone, whose

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SHURGARD SELF STORAGE S.C.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

functional currencies are the local currencies of the countries in which they are located, are translated in accordance with SFAS 52, Foreign Currency Translation . In accordance with SFAS 52, assets and liabilities of such subsidiaries denominated in local currencies are translated into euro at the exchange rates in effect at the balance sheet date and revenue and expenses are translated at average rates of exchange rate prevailing during the year. Gains or losses arising from such translation, together with gains or losses on translation of intercompany loans to such subsidiaries that are of a long-term nature, are accumulated in OCI as a separate component of shareholders equity.

For presentation, these financial statements have been translated into U.S. dollars. For this purpose, the consolidated balance sheet has been converted at the exchange rate in effect at the balance sheet date and the consolidated statement of operations has been translated at average rates of exchange. Gains or losses arising from this translation are also accumulated in OCI.

The Company has entered into contracts for the hedging of that proportion of investments made in currencies outside the euro through the forward sale of such currencies. In accordance with SFAS 133, the Company records such contracts on the balance sheet at market value. Changes in market values are recorded in OCI in the same manner as for the exchange translation of the related intercompany loans as above.

Gains or losses from transactions denominated in other currencies are included in the determination of net loss.

Storage Centers: Storage centers are recorded at cost. Depreciation on buildings is recorded on a straight-line basis over their estimated useful lives, on average over 30 years and equipment and leasehold improvements are depreciated over 5 years. Repair and maintenance costs are recognized in expense as incurred, unless the costs are incurred for the replacement of existing building infrastructures.

Valuation of long-lived assets: Whenever events or changes in circumstances indicate that the carrying amounts of storage centers or other long lived assets might not be recoverable, the Group reviews the related assets for impairment using best estimates based upon reasonable and supportable assumptions and projections. The Group uses the expected cash flow method to determine if the net book value of the properties exceeds fair value less costs to sell. As at December 31, 2003, no such assets had been written down.

Cash and cash equivalents: Cash equivalents consist of money market instruments and securities with original maturities of 90 days or less.

Financing costs: Financing costs are amortized on the effective interest method over the life of the related debt (See Note I). The related expense is included in interest expense.

Revenue recognition: The majority of the Group s customers rent under month-to-month lease agreements and revenue is recognized at the contracted rate for each month occupied. Revenue related to customers who sign longer period leases is recognized ratably over the term of the lease. Revenue from development fees in respect of stores developed on behalf of First Shurgard SPRL (See Note D) is recognized as earned to the extent of development costs incurred and stores opened, calculated on the basis set out in the joint venture agreements. Revenue from management fees in respect of the operation of those stores is recognized based upon the revenue of those stores.

Financial instruments: The carrying values reflected on the balance sheet at December 31, 2003 reasonably approximate the fair value of cash and cash equivalents, other assets, accounts payable, lines of credit and other liabilities.

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SHURGARD SELF STORAGE S.C.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Income taxes: The Group accounts for income taxes under the provisions of SFAS 109, Accounting for Income Taxes. SFAS 109 requires companies to account for deferred income taxes using the asset and liability method. Deferred taxation liabilities or assets are recognized for the estimated future tax effects, based upon enacted tax law, attributable to temporary differences in the timing of recognition of transactions for reporting and tax purposes. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based upon available evidence, are not expected to be realized.

Comprehensive income: The Group follows SFAS 130, Reporting of Comprehensive Income . SFAS 130 establishes rules for the reporting of comprehensive income and its components. Comprehensive income comprises net income, foreign currency translation adjustments and adjustments to market value of certain derivative instruments and is presented in the consolidated statements of shareholders equity and comprehensive income.

Segment information: The Group has adopted SFAS 131, Disclosures About Segments of an Enterprise and Related Information , which establishes annual and interim reporting standards for an enterprise s business segments and related disclosures about products, services, geographic areas and customers. The segments adopted by the Group and related financial information are set out in Note O.

Environmental costs: Group policy is to accrue environmental assessments and/or remediation costs when it is probable that such efforts will be required and the related costs can be reasonably estimated. The majority of Group real estate facilities have undergone independent environmental investigations and Group policy is to have such investigations conducted on all new real estate acquired. Although there can be no assurance that there is no environmental contamination, the Group is not aware of any such contamination which individually or in aggregate would be material to its business, financial condition or results of operations.

Note C Storage Centers

	2003	2002	2001
		(in thousands)	
Land	137,615	83,297	53,623
Buildings	437,094	299,857	177,551
Properties under capital lease	12,040	5,640	5,297
Equipment and other	16,089	11,249	8,675
Total property, plant & equipment	602,838	400,043	245,146
Less: accumulated depreciation			
(Including $1,393,000 on leased assets)	(64,826)	(37,176)	(20,202)
	538,012	362,867	224,944
Construction in progress	12,766	87,225	68,839
Net book value	550,778	450,092	293,783

As at December 31, 2003, the Group had outstanding commitments under contracts for the acquisition and construction of new storage centers totaling $43,777,000. This amount includes the value of certain contracts for the acquisition of new properties, the completion of which are subject to conditions such as the achievement of planning consents. In 2003, 2002 and 2001, interest of $948,000, $2,149,000 and $1,927,000 respectively relating to the development of storage centers was capitalized.

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SHURGARD SELF STORAGE S.C.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note D Investment in and Receivables from Real Estate Affiliate

This comprises:

	December 31, 2003 (in thousands)
Investment in affiliates	23,615
Amounts receivable from affiliates	7,344
Less: share of losses of affiliates	(1,135)
	29,824

The investment comprises an investment in a 20% interest in the registered capital of First Shurgard SPRL (First Shurgard), a Belgian entity formed in May 2003, together with a 5.2% direct interest in one of its subsidiaries, First Shurgard Deutschland GmBH. These entities were formed under a joint venture agreement with Crescent Euro Self Storage Investments SARL (Crescent) for the development of up to 38 storage centers in the Group s European markets. During the year, the Group transferred ten properties under development into the joint venture at their cost of $44,139,000 plus reimbursement of interest carry cost of $1,283,000, included in Interest Income in the consolidated statements of operations.

First Shurgard has equity commitments of 20,000,000 (Equivalent to $25,104,000 at December 31, 2003) from the Group and 80,000,000 (Equivalent to $100,414,000 at December 31, 2003) from Crescent, of which 15,981,000 (equivalent to $20,059,000 at December 31, 2003) remains to be drawn, and has obtained a non-recourse five year debt facility for 140,000,000 (equivalent to $175,725,000 at December 31, 2003) from a group of commercial banks. Under the terms of this debt facility, a subsidiary of First Shurgard entered into a Subscription Agreement with Shurgard Storage Centers, Inc. (Shurgard) under which Shurgard irrevocably agreed to subscribe to subordinated and unsecured registered bonds in the aggregate principal amount of up to $20,000,000. This commitment may be reduced if certain financial covenants are met and otherwise terminates not later than July 25, 2009. These bonds may generally only be drawn down either to avoid an imminent default or in the event of a default and so applied to repay amounts due under the credit agreement.

Under the joint venture agreement, the Group is responsible for the acquisition and construction of sites on behalf of First Shurgard for which First Shurgard pays development fees equal to 7% of the cost of developed storage centers, together with reimbursement of certain out-of-pocket costs and certain other initial fees in connection with capital raising. In addition, the Group has entered into a 20-year management agreement for the operation of First Shurgard stores, for which the Group receives management fees equal to 7% of revenues subject to a minimum of 50,000 (equivalent to $63,000 at December 31, 2003) per year per store, together with certain other fixed fees. In the year ended December 31, 2003, the Group received a total of $12,108,000 in development and initial fees and $403,000 in management fees from First Shurgard, which amounts are included in Other Revenue in the consolidated statement of operations, net of the Group s share of losses of those affiliate of $1,135,000.

Store personnel of First Shurgard stores are employed either directly by the Group or under joint employment contracts between the Group and First Shurgard. First Shurgard reimburses to the Group the personnel costs of these employees, amounting in total to $801,000 in the year ended December 31, 2003.

The joint venture agreement also provides that, in addition to its initial 20% ownership interest, the Group will receive an additional 20% of First Shurgard s income and cash flow after each of the investors has received an internal rate of return of 12% on its equity investment. First Shurgard owns the developed storage centers

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SHURGARD SELF STORAGE S.C.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

subject to the management agreements. Although the Group has no obligation to purchase the properties, if they are put up for sale, it has a right of first offer at fair market value.

Below is summarized financial information for First Shurgard and its subsidiary companies:

First Shurgard

Unaudited Consolidated Balance Sheet

	December 31, 2003 ($000)
ASSETS	
Storage centers:	
Land	38,201
Buildings and equipment, net	79,887
Construction in progress	13,952
Total storage centers	132,040
Cash and cash equivalents	20,951
Other assets	21,998
Total assets	174,989
LIABILITIES AND SHAREHOLDERS EQUITY	
Accounts payable and other liabilities	11,618
Amounts payable to Shurgard Europe	7,344
Line of credit	55,228
Total liabilities	74,190
Minority interest	948
Shareholders equity	99,851
Total liabilities and shareholders equity	174,989

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SHURGARD SELF STORAGE S.C.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

First Shurgard

Unaudited Consolidated Statement of Operations

	December 31, 2003 $ 000
Revenue	
Rental revenue	596
Total revenue	596
Expenses	
Operating	3,647
Real estate taxes	66
Depreciation and amortization	660
General, administrative and other	1,416
Total expenses	5,789
Loss from operations	(5,193)
Interest expense	(177)
Minority interest	63
Net loss	(5,307)

Note E Income Taxation

The Income tax (charge) benefit comprises:

	2003 $ 000	2002 $ 000	2001 $ 000
Corporate income taxes payable	(202)	13	
	(202)	13	

The net deferred tax asset is made up as follows:

	2003 $ 000	2002 $ 000	2001 $ 000
Net loss before taxation	29,664	29,844	28,490

Deferred tax assets:			
Tax loss carried forward	64,269	44,676	28,560
Other timing assets	2,985	2,430	909
Deferred tax liabilities:			
Accelerated depreciation allowances	(2,569)	(2,791)	(2,067)
Exchange translation on bond payable	(4,664)	(850)	
Other timing liabilities	(5,383)	(3,102)	(1,654)
Net deferred tax asset (Before valuation allowance)	54,638	40,363	25,748
Valuation allowance	(54,638)	(40,363)	(25,748)
Net deferred tax asset			

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SHURGARD SELF STORAGE S.C.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Group has re-evaluated the appropriateness of its deferred tax assets. Based on the fact that it has not demonstrated a history of taxable income in any jurisdiction since inception, the Group has concluded that it is not appropriate to recognize the potential future benefit of these deferred tax assets until such time as it actually begins to realize them. Consequently, in accordance with SFAS 109, a full valuation allowance is necessary. The facts considered have been present since 2001, and as a result, the Group has determined that a full valuation allowance should have been recorded for net deferred tax assets recognized in prior periods. As a result, the accompanying consolidated financial statements for the years ended December 31, 2002 and December 31, 2001 have been restated.

A summary of the significant effects of the restatement is as follows:

	At December 31, 2002		At December 31, 2001	
	As previously reported $ 000	As restated $ 000	As previously reported $ 000	As restated $ 000
Net deferred tax asset	36,428		24,005	
Shareholder s Equity	48,336	11,908	46,617	22,612

	2002		2001	
	As previously reported $ 000	As restated $ 000	As previously reported $ 000	As restated $ 000
Net loss	(22,501)	(29,831)	(21,292)	(29,596)

Net operating losses carried forward at the end of 2003 amounted to $181,085,000 and they may be carried forward indefinitely in all jurisdictions.

In 2002 and 2001, net operating losses carried forward amounted to $125,860,000 and $90,167,000 respectively.

Note F Other Assets

Other assets are comprised of:

	2003	2002	2001
		(in thousands)	
Accounts receivable, net of allowances	8,710	5,187	2,490
Prepayments and deposits	8,216	10,003	1,810
Value Added Taxes recoverable	4,776	5,234	6,393
Financing costs, net of amortization	7,418	7,553	6,327
Software development and other intangibles, net of amortization	1,472	1,116	953
Other assets	1,310	1,010	2,086
	31,902	30,103	20,059

The risk on our accounts receivable is limited due to the nature of the business which is characterized by a large number of customers and low transaction values per customer.

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SHURGARD SELF STORAGE S.C.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note G Liabilities Under Leases

The Group has a number of operating lease commitments, including ground leases with terms up to 95 years. Under these lease agreements, the Group expensed $2,149,000, $1,416,000 and $1,209,000 in the years ended December 31, 2003, 2002 and 2001, respectively. The Group also leases five properties in Belgium and the Netherlands under capital leases with purchase options on the Belgian properties exercisable in 2011 and 2022 respectively. The liability under these leases was $11,391,000, $9,469,000 and $7,838,000 at December 31, 2003, 2002 and 2001 respectively.

The future minimum payments required under these leases are as follows *(in thousands)*:

Year	Future payments Operating leases	Future payments Capital leases
2004	2,557	879
2005	1,840	884
2006	2,109	886
2007	2,070	889
2008	2,105	892
Following years	32,584	32,036

Note H Bonds payable

In May 2002, the Company entered into a Subscription Agreement with Shurgard under which Shurgard irrevocably agreed to subscribe to registered bonds in the aggregate principal amount of up to $55,000,000 (reduced from $75,000,000 under amendments to the Subscription Agreement dated May and December 2003) to be issued by the Company from time to time in order to meet its development and working capital requirements. These subscription commitments automatically terminate two years following the date of the agreement.

The bonds are unsecured and subordinated to all creditors including other unsecured creditors, although they are senior to all equity distributions or distribution rights of any kind. They bear annual interest at 9.75% with an unused fee of 1% per annum on the undrawn amount. The Company has the option to pay interest in either cash or by the issue of additional bonds that are not taken into account in computing the maximum principal amount of bonds that may be issued as above. As at December 31, 2003, the aggregate face value of bonds issued under the Agreement was $55,274,000, including $6,249,000 in respect of accrued interest. In the year ended December 31, 2002, the Company also paid to Shurgard a commitment fee of 0.5% and a structuring fee of 1.5% of the initial commitment of $50,000,000.

The bonds will be redeemed on December 31, 2004 at 115% of the principal amount of the issued bonds together with accrued interest. The Company has two one year options to extend the redemption date, subject to certain conditions, and may also redeem all or any part of the outstanding bonds at any time. Any bonds so redeemed will be cancelled and may not be re-issued. The Company is accruing the redemption premium payable on the effective interest method assuming the bond will be redeemed on December 31, 2006, taking into account the options to extend the redemption date.

Under the Subscription Agreement, subject to the condition, inter alia, that the Company has already launched an Initial Public Offering on a regulated stock market, Shurgard has undertaken, if so requested, to subscribe to any capital increase in the Company prior to the redemption date to be effected by a contribution in kind of receivables arising from the outstanding bonds held by Shurgard at a price equal to 80% of the trading price of the shares at the time.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note I Line of Credit

This comprises:

	Amount of facility	Amount drawn	Interest rate at December 31, 2003
Bridge credit agreement end 2003	310,000,000	$ 376,553,000	3.8%
Bridge credit agreement end 2002	300,000,000	$ 270,936,000	4.8%

This facility, which was drawn down on 29 December 2003 in order to refinance the Group s existing revolving credit agreement, bears interest at a margin over EURIBOR +2%, is secured by mortgages and other charges on substantially all of the storage centers and certain other assets of group companies. It is subject to customary banking covenants and is repayable on December 31, 2004. The Group is examining proposals for longer term financing.

Note J Derivative instruments and hedging activities

The Group has used interest rate swaps and caps to manage its variable rate debt and forward contracts for the sale of foreign currencies in order to manage its foreign currency investments as described below. These transactions have been accounted for in accordance with SFAS 133 as described in Note B.

Foreign currency risk

In order to minimize the risk of changes in the fair value of assets attributable to fluctuating exchange rates, the Company entered into contracts for the hedging of that proportion of investments made in currencies outside the euro zone and financed by euro denominated debt, through the forward sale of such currencies as at December 31, 2003, the maturity date of the related financing (See note I). Credit risk was minimized through the placing of such contracts only with highly rated banks in major European financial markets. In accordance with SFAS 133, at maturity of the contracts at December 31, 2003, the Company received proceeds of $2,283,000 in respect of the market value of the contracts at that date (2002: liability of $37,000; 2001: liability of $990,000), which was recorded by a credit of $2,327,000 (2002: credit of $1,135,000; 2001: charge of $990,000) to Foreign Currency Translation in OCI.

Interest rate risk

In 2001, the Company entered into an interest rate cap agreement at 6.75% for a notional amount of 64,000,000 ($80,331,000 at December 31, 2003) and an interest rate swap fixing the interest rate at 5.24% for a notional amount of 191,000,000 ($239,739,000 at December 31, 2003), both contracts maturing on December 31, 2003. During 2002, the Company purchased two further interest rate caps at 6.75% for notional amounts of 25,000,000 ($31,379,000 at December 31, 2003) and 20,000,000 ($25,104,000 at December 31, 2003) respectively maturing also on December 31, 2003, for a total cost of 36,000 ($45,000 at December 31, 2003). Although these transactions were designated as cash flow hedges of the interest rate risk attributable to changes in the variable rate interest on the Group s Line of Credit (Note I), the terms differed from the underlying debt in that, at December 31, 2002, the notional value of the contracts exceeded the amount drawn under the Line of Credit by 41,500,000 ($43,496,000 at December 31, 2002) (2001: 58,000,000; $51,377,000 at December 31, 2001). Accordingly, in the years ended December 31, 2001 and 2002, the Company used the hypothetical derivative method to test hedge effectiveness as well as the amount of ineffectiveness to be recorded in earnings. This method compares changes in the value of a hypothetical at market swap for a notional amount

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SHURGARD SELF STORAGE S.C.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

matching the hedged debt to changes in value of the actual swap. Amounts are recorded in net interest expense (see below) to the extent changes in value of the actual swap exceed changes in the value of the hypothetically perfect swap.

The Group adopted SFAS 133 on January 1, 2001 and initially recorded a charge of $1,106,000 in respect of a cumulative effect of a change in accounting principle relating to the adjustment from its book value of $1,421,000 to market value of $315,000 of the Company s interest rate cap at that date. As the above contracts matured at December 31, 2003, their fair market value was reduced to $Nil at that date (2002: A liability of $1,524,000; 2001: An asset of $996,000) by a credit to OCI of $2,017,000 (2002: debit of $2,739,000; 2001: credit of $891,000) and a debit to interest expense of $192,000 (2002: credit of $950; 2001: debit of $761,000).

Note K Subordinated Loan Payable

At December 31, 2002, the Company had drawn 121,763,000, including accrued interest at annual rate of 8.25%, under a 206,000,000 ($258,567,000 at December 31, 2003) Loan Facility Agreement with Recom & Co SNC (Recom), a Belgian holding company with a partnership interest then of 53.83% in the Company. The outstanding loan of 128,766,000 ($142,892,000 at September 8, 2003), including accrued interest, was repaid in full on September 8, 2003 by payment of cash of 6,618,000 ($7,344,000 at September 8, 2003) together with the contribution in kind by Recom of the balance of 122,148,000 ($135,548,000 at 8 September 2003) in consideration for its subscription for shares issued under certain warrants (See Note L).

Note L Shareholders Equity

The registered capital of the Company amounts to 15,695,000 (equivalent to $17,779,000 at historical rates) which is represented by 97,789 Partner Interests, each representing an equal part of the capital. The participants comprise General Partners, who commit themselves with unlimited liability, jointly and severally, to the obligations of the Company and Classes A, B and C Limited Liability Partners, whose liability is limited up to the amount of their contribution, provided that they do not engage in the management of the Company. No Class B or C Partner Interests have yet been issued. The three classes of Partner Interests have in certain circumstances (i) varying preference rights with respect to distributions made by the Company to its partners and (ii) varying rights to give effect to a transfer or sale of their interest.

On October 8, 1999, the Company entered into a Joint Venture Agreement with new partners in order to provide capital to finance the ongoing development of the Group s business. Under this Agreement, the partners subscribed to additional General Partner Interests in the Company for a total amount of $8,500. In addition to the partner interests representing the registered capital of the Company, the Company also issued to the new partners 178,306 Profit Certificates against a commitment to contribute in cash an amount of 684.13 (equivalent to $859 at December 31, 2003) per certificate. At December 31, 2003 and 2002, the Profit Certificates were fully subscribed, amounting in total to 121,984,000 ($113,665,000 at historical rates). Each Profit Certificate entitles its holder to certain voting rights as set out in the Joint Venture Agreement and otherwise to the same rights and obligations as a limited liability partner interest. Each Profit Certificate may be converted into one Class B limited liability partner interest at any time provided that it has been paid up in accordance with the terms of the Joint Venture Agreement.

The Company also issued free of charge to certain of its partners, a total of 136,111 warrants, each to acquire one Class A limited liability partner interest through a capital increase at a predetermined price. These warrants were exercised on September 8, 2003 for a total consideration of 128,740,000 ($142,863,000 at September 8, 2003) of which 6,592,000 ($7,315,000 at September 8, 2003) was paid in cash and 122,148,000

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

($135,548,000 at September 8, 2003) was settled by way of contribution in kind of the Subordinated Loan Payable (Note K). This contribution in kind has not been recorded in the Consolidated Statement of Cash Flow as it represents a non cash transaction.

On February 27, 2001, as part of arrangements for additional financing, the Company and its partners entered into a further agreement under which the partners agreed to subscribe for a further 40,928 New Profit Certificates at 684.13 (equivalent to $859 at December 31, 2003) per New Profit Certificate, amounting in total to 28,000,000 ($35,145,000 at December 31, 2003). Subsequent to December 31, 2002, the partners are only required at the discretion of the Company to pay up the New Profit Certificates in the event the Company defaults (or threatens to default) on the terms of any material indebtedness or in the event of bankruptcy, insolvency or liquidation, irrespective of other conditions. When it is fully paid, each New Profit Certificate may be converted into one Class C limited liability partner interest at any time.

Note M Compensation and Benefit Plans

On 6 December 2001, the Group adopted the Shurgard Self Storage SCA European Share Plan that provides for the granting of options to eligible employees of Group companies to acquire limited liability Class A Partner Interests in the Company up to a maximum of 7% of the issued ordinary share capital. The options vest after three years. Under the Plan, option holders irrevocably grant to Shurgard a call option with right of first refusal to purchase shares and Shurgard grants option holders a put option to sell to Shurgard any shares acquired under the Plan at a price based upon an independent valuation of the Group. The following table summarizes the number of options issued, none of which are yet exercisable:

	Number of options	Weighted average exercise price	$ equivalent as at Dec 31, 2003
Granted in 2002	1,836	950	$ 1,192
Forfeit or refused	(78)	950	$ 1,192
Outstanding at December 31, 2002	1,758	950	$ 1,192
Granted in 2003	955	1,010	$ 1,268
Forfeit or refused	(430)	991	$ 1,244
Outstanding at December 31, 2003	2,283	967	$ 1,214

Exercise price	Options outstanding at December 31, 2003	Weighted average remaining life
950	1,624	1.9 years
1,010	659	2.9 years
	2,283	

In 1999, the Group established a Phantom Share Incentive Plan in which certain employees are eligible to participate. Under this Plan, annual awards are made to eligible employees of rights to receive a compensation benefit calculated according to a predetermined formula based upon the increase in value of the business of the Group between the date of the award and the date of exercise of the rights. Under the terms of the Plan, rights generally vest on the third anniversary of the date of grant only if the employee has remained with the Group and may only be exercised thereafter either (i) on the date of an initial public offering, (ii) if any participant ceases to be an employee or (iii) otherwise on December 31, 2005. In the year ended December 31, 2003, payments of

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SHURGARD SELF STORAGE S.C.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

$27,000 were made under the Plan. A provision was recorded for the estimated cost of the benefit payable under the Plan for awards granted prior to the balance sheet date based upon the estimated increase in value of the business up to that date, calculated according to the predetermined formula, on the assumption that all awards that have not otherwise lapsed will vest in due course. This provision amounted to $768,000 and $419,000 as at December 31, 2003 and 2002 respectively.

Certain group companies make defined contributions to pension plans according to local employment law and practice. The cost of contributions to such plans, which is expensed as incurred, was $750,000, $450,000 and $335,000 in the years ended December 31, 2003, 2002 and 2001 respectively.

Note N Commitments and Contingent liabilities

There are no material contingencies or litigation known to the Group. Commitments are disclosed in Notes C and G.

Note O Segment Reporting

The Group has adopted two reportable segments: Same and New Stores. The definition of Same Stores incl existing stores acquired prior to January 1st of the previous year as well as developed properties that have been operating for a full two years as of January 1st of the current year. All other facilities are defined as New Stores.

The performance of properties is evaluated based upon Net Operating Income (NOI), which is defined as rental revenue less direct operating expenses and real estate taxes. These segments allow management to focus separately on increasing NOI from existing properties and renting up new facilities. The accounting policies applicable to segments are as described in Note B above. There are no inter-segment sales and transfers. Depreciation and amortization, other operating expenses and net interest expense are not allocated to segments.

The following table illustrates the results for these segments for the years ended December 31, 2003 and 2002 using the Same Store and New Store data for the 47 stores meeting the above criteria as at December 31, 2003.

	Same Stores	**New Stores**	**TOTAL**
		(in thousands)	
Year ended December 31, 2003			
Rental revenue	42,930	24,388	67,318
Direct store operating expenses(1)	(15,747)	(17,563)	(33,310)
NOI	27,183	6,825	34,008
Total land, buildings & equipment	216,745	318,374	535,119
Year ended December 31, 2002			
Rental revenue	34,372	9,140	43,512
Direct store operating expenses(1)	(12,525)	(9,730)	(22,255)
NOI	21,847	(590)	21,257
Total land, buildings & equipment	192,179	168,363	360,542

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table illustrates the results for these segments for the years ended December 31, 2002 and 2001 using the Same Store and New Store data for the 28 stores meeting the above criteria as at December 31, 2002.

	Same Stores	New Stores (in thousands)	TOTAL
Year ended December 31, 2002			
Rental revenue	23,153	20,359	43,512
Direct store operating expenses(1)	(7,734)	(14,521)	(22,255)
NOI	15,419	5,838	21,257
Total land, buildings & equipment	105,161	255,381	360,542
Year ended December 31, 2001			
Rental revenue	17,849	8,677	26,526
Direct store operating expenses(1)	(7,012)	(8,466)	(15,478)
NOI	10,837	211	11,048
Total land, buildings & equipment	92,957	130,503	223,460

(1) Including real estate taxes and leasehold expense

The following table reconciles the reported segments revenue to consolidated total revenue for the years ended December 31, 2003, 2002 and 2001:

	2003	2002 (in thousands)	2001
Total segment revenue	67,318	43,512	26,526
Other income	11,376		
Total revenue	78,694	43,512	26,526

Of the total segment revenue, $10,829,000 (2002: $8,550,000) was attributed to Belgium and $56,489,000 (2002: $34,962,000) to other European markets.

The following table reconciles the reported segments NOI to consolidated net loss for the years ended December 31, 2003, 2002 and 2001:

2003	2002 (in thousands)	2001

Total segment NOI	34,008	21,251	11,048
Other income	11,376		
Depreciation and amortization	(19,433)	(12,959)	(9,044)
Other operating expenses	(30,794)	(16,966)	(14,020)
Effect of change in accounting principle			(1,106)
Net financial expense	(34,651)	(23,527)	(16,474)
Exch. transl. gain on bonds payable	9,830	2,357	
Provision for taxes	(202)	13	
Net loss	(29,866)	(29,831)	(29,596)

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SHURGARD SELF STORAGE S.C.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table reconciles the reported segments assets to consolidated assets as at December 31, 2003, 2002 and 2001:

	2003	2002	2001
		(in thousands)	
Total segment assets	535,119	360,542	223,460
Construction in progress	12,766	87,225	68,839
Other fixed assets	2,893	2,325	1,485
Other assets	73,691	91,509	59,387
Consolidated total assets	624,469	541,601	353,171

Of the total segment assets, $68,409,000 (2002: $55,822,000) was attributed to Belgium and $466,710,000 (2002: $304,720,000) to other European markets.

Note P Related Party Transactions

Related Party Transactions are disclosed in Notes D, H and K. Additionally (i) on October 8, 1999, the Company entered into a license agreement with Shurgard whereby the Company was granted an exclusive license for the use of proprietary marks and know-how for establishing, owning and operating self-storage facilities in countries within Western Europe. As from October 8, 1999, the Company pays the costs in connection with registering proprietary marks within its territory, and (ii) the Group also reimburses Shurgard and two partners for the services of certain key executives. These charges amounted to $838,000, $1,293,000 and $1,064,000 in the years ended December 31, 2003, 2002 and 2001 respectively. Finally, (iii), in Other Revenue, the amount of $11.4 million in 2003 is comprised of development fees, management fees and other initial financing fees invoiced to First Shurgard less our share of losses in the joint venture of $1.1 million.

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. Other Expenses of Issuance and Distribution.

The estimated expenses, other than underwriting discounts and commissions, in connection with the offerings of the Securities, are as follows:

Registration Fee Securities and Exchange Commission	$ 128,400(1)
Transfer Agent, Depositary and Trustee Fees	200,000
Rating Agency Fees	400,000
Printing and Engraving Expenses	300,000
Legal Fees and Expenses	200,000
Accounting Fees and Expenses	200,000
Miscellaneous	31,600
Total	$ 1,460,000

(1) Includes $40,392 previously paid in connection with registration statement 333-130137. Additional fees will be paid subsequently in advance of a particular offering.

Item 15. Indemnification of Directors and Officers.

Our Articles of Incorporation provide that we may indemnify our agents to the maximum extent permitted under California law. See Article V of the Certificate of Amendment of Articles of Incorporation (Exhibit 3.16) and Article VII of the Bylaws (Exhibit 3.61) which are incorporated herein by this reference. We have also entered into indemnity agreements with our management and non-management directors and executive officers. The agreements permit us to indemnify directors and executive officers to the maximum extent permitted under California law and prohibit us from terminating our indemnification obligations as to acts or omissions of any director or executive officer occurring before the termination. The indemnification and limitations on liability permitted by the Articles of Incorporation and the agreements are subject to the limitations set forth by California law. We believe the indemnification agreements will assist it in attracting and retaining qualified individuals to serve as our directors and executive officers. We also maintain liability insurance on behalf of our agents.

Item 16. Exhibits

Exhibit No.	Description
1.1	Form of Underwriting Agreement.(1)
3.1	Restated Articles of Incorporation. Filed with Registrant s Registration Statement No. 33-54557 and incorporated herein by reference.
3.2	Certificate of Determination for the 10% Cumulative Preferred Stock, Series A. Filed with Registrant s Registration Statement No. 33-54557 and incorporated herein by reference.
3.3	Amendment to Certificate of Determination for the 10% Cumulative Preferred Stock, Series A. Filed with Registrant s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004 and incorporated herein by reference.
3.4	Certificate of Determination for the 9.20% Cumulative Preferred Stock, Series B. Filed with Registrant s Registration Statement No. 33-54557 and incorporated herein by reference.

3.5	Amendment to Certificate of Determination for the 9.20% Cumulative Preferred Stock, Series B. Filed with Registrant s Registration Statement No. 33-56925 and incorporated herein by reference.

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Exhibit No.	Description
3.6	Certificate of Determination for the 8.25% Convertible Preferred Stock. Filed with Registrant s Registration Statement No. 33-54557 and incorporated herein by reference.
3.7	Certificate of Determination for the Adjustable Rate Cumulative Preferred Stock, Series C. Filed with Registrant s Registration Statement No. 33-54557 and incorporated herein by reference.
3.8	Amendment to Certificate of Determination for the Adjustable Rate Cumulative Preferred Stock Series C. Filed with Registrant s Form 10-Q for the quarterly period ended September 30, 2004 and incorporated herein by reference.
3.9	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.
3.10	Amendment to Certificate of Determination of Preferences of 9.50% Cumulative Preferred Stock, Series D. Filed with Registrant s Annual Report on Form 10-K for the year ended December 31, 2004 and incorporated herein by reference.
3.11	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.
3.12	Amendment to Certificate of Determination for the 10% Cumulative Preferred Stock, Series E. Filed with Registrant s Current Report on Form 8-K dated April 25, 2005 and incorporated herein by reference.
3.13	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.
3.14	Amendment to Certificate of Determination for 9.750% Cumulative Preferred Stock, Series F. Filed as Exhibit 3.2 to Registrant s Current Report on Form 8-K on August 17, 2005 and incorporated herein by reference.
3.15	Certificate of Determination for the Convertible Participating Preferred Stock. Filed with Registrant s Registration Statement No. 33-63947 and incorporated herein by reference.
3.16	Certificate of Amendment of Articles of Incorporation. Filed with Registrant s Registration Statement No. 33-63947 and incorporated herein by reference.
3.17	Certificate of Determination for the 8-7/8% Cumulative Preferred Stock, Series G. Filed with Registrant s Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8-7/8% Cumulative Preferred Stock, Series G and incorporated herein by reference.
3.18	Certificate of Determination for the 8.45% Cumulative Preferred Stock, Series H. Filed with Registrant s Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8.45% Cumulative Preferred Stock, Series H and incorporated herein by reference.
3.19	Certificate of Determination for the Convertible Preferred Stock, Series CC. Filed with Registrant s Registration Statement No. 333-03749 and incorporated herein by reference.
3.20	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.

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

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Exhibit No.	Description
3.36	Certificate of Determination for 8.600% Cumulative Preferred Stock, Series, Q. Filed with Registrant s Form 8-A/A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8.600% Cumulative Preferred Stock, Series Q and incorporated herein by reference.
3.37	Amendment to Certificate of Determination for Equity Stock, Series A. Filed with Registrant s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001 and incorporated herein by reference.
3.38	Certificate of Determination for 8.000% Cumulative Preferred Stock, Series R. Filed with Registrant s Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 8.000% Cumulative Preferred Stock, Series R and incorporated herein by reference.
3.39	Certificate of Determination for 7.875% Cumulative Preferred Stock, Series S. Filed with Registrant s Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 7.875% Cumulative Preferred Stock, Series S and incorporated herein by reference.
3.40	Certificate of Determination for 7.625% Cumulative Preferred Stock, Series T. Filed with Registrant s Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 7.625% Cumulative Preferred Stock, Series T and incorporated herein by reference.
3.41	Certificate of Determination for 7.625% Cumulative Preferred Stock, Series U. Filed with Registrant s Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 7.625% Cumulative Preferred Stock, Series U and incorporated herein by reference.
3.42	Amendment to Certificate of Determination for 7.625% Cumulative Preferred Stock, Series T. Filed with Registrant s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002 and incorporated herein by reference.
3.43	Certificate of Determination for 7.500% Cumulative Preferred Stock, Series V. Filed with Registrant s Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 7.500% Cumulative Preferred Stock, Series V and incorporated herein by reference.
3.44	Certificate of Determination for 6.500% Cumulative Preferred Stock, Series W. Filed with Registrant s Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 6.500% Cumulative Preferred Stock, Series W and incorporated herein by reference.
3.45	Certificate of Determination for 6.450% Cumulative Preferred Stock, Series X. Filed with Registrant s Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 6.450% Cumulative Preferred Stock, Series X and incorporated herein by reference.
3.46	Certificate of Determination for 6.850% Cumulative Preferred Stock, Series Y. Filed with Registrant s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004 and incorporated herein by reference.
3.47	Certificate of Determination for 6.250% Cumulative Preferred Stock, Series Z. Filed with Registrant s Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 6.250% Cumulative Preferred Stock, Series Z and incorporated herein by reference.

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Exhibit No.	Description
3.48	Certificate of Determination for 6.125% Cumulative Preferred Stock, Series A. Filed with Registrant s Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 6.125% Cumulative Preferred Stock, Series A and incorporated herein by reference.
3.49	Certificate of Determination for 6.40% Cumulative Preferred Stock, Series NN. Filed with Registrant s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004 and incorporated herein by reference.
3.50	Certificate of Determination for 7.125% Cumulative Preferred Stock, Series B. Filed with Registrant s Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 7.125% Cumulative Preferred Stock, Series B and incorporated herein by reference.
3.51	Certificate of Determination for 6.60% Cumulative Preferred Stock, Series C. Filed with Registrant s Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 6.60% Cumulative Preferred Stock, Series C and incorporated herein by reference.
3.52	Certificate of Determination for 6.18% Cumulative Preferred Stock, Series D. Filed with Registrant s Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 6.18% Cumulative Preferred Stock, Series D and incorporated herein by reference.
3.53	Certificate of Determination for 6.75% Cumulative Preferred Stock, Series E. Filed with Registrant s Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 6.75% Cumulative Preferred Stock, Series E and incorporate herein by reference.
3.54	Certificate of Determination for 6.45% Cumulative Preferred Stock, Series F. Filed with Registrant s form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 6.45% Cumulative Preferred Stock, Series F and incorporated herein by reference.
3.55	Amendment to Certificate of Determination for 6.45% Cumulative Preferred Stock, Series F. Filed with Registrant s Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 6.45% Cumulative Preferred Stock, Series F and incorporated herein by reference.
3.56	Certificate of Determination for 7.00% Cumulative Preferred Stock, Series G. Filed with Registrant s Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1,000 of a Share of 7.00% Cumulative Preferred Stock, Series G and incorporated herein by reference.
3.57	Certificate of Determination of Preferences of 6.95% Cumulative Preferred Stock, Series H. Filed with Registrant s Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1000 of a Share of 6.95% Cumulative Preferred Stock, Series H and incorporated herein by reference.
3.58	Certificate of Determination of Preferences of 7.25% Cumulative Preferred Stock, Series I. Filed with Registrant s Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1000 of a Share of 7.25% Cumulative Preferred Stock, Series I and incorporated herein by reference.

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Exhibit No.	Description
3.59	Certificate of Determination of Preferences of 7.25% Cumulative Preferred Stock, Series J. Filed with Registrant s Form 8-A Registration Statement relating to the Depositary Shares Each Representing 1/1000 of a Share of 7.25% Cumulative Preferred Stock, Series J and incorporated herein by reference.
3.60	Amendment to Certificate of Determination of Preferences for its Cumulative Preferred Stock, Series G (8.875%), H (8.45%), I (8.625%), J (8%), K (8.25%), L (8.25%), M (8.75%), N (9.5%), O (9.125%) and P (8.75%) . Filed as Exhibit 3.1 to Registrant s Current Report on Form 8-K dated November 7, 2005 and incorporated herein by reference.
3.61	Bylaws, as amended. Filed with Registrant s Registration Statement No. 33-64971 and incorporated herein by reference.
3.62	Amendment to Bylaws adopted on May 9, 1996. Filed with Registrant s Registration Statement No. 333-03749 and incorporated herein by reference.
3.63	Amendment to Bylaws adopted on June 26, 1997. Filed with Registrant s Registration Statement No. 333-41123 and incorporated herein by reference.
3.64	Amendment to Bylaws adopted on January 6, 1998. Filed with Registrant s Registration Statement No. 333-41123 and incorporated herein by reference.
3.65	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.
3.66	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.
3.67	Amendment to Bylaws adopted on May 6, 1999. Filed with Registrants Form 10-Q for the quarterly period ended March 31, 1999 and incorporated herein by reference.
3.68	Amendment to Bylaws adopted on November 7, 2002. Filed with Registrant s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002 and incorporated herein by reference.
3.69	Amendment to Bylaws adopted on May 8, 2003. Filed with Registrant s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003 and incorporated herein by reference.
3.70	Amendment to Bylaws adopted on August 5, 2003. Filed with Registrant s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003 and incorporated herein by reference.
3.71	Amendment to Bylaws adopted on March 11, 2004. Filed with Registrant s Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference.
4	Form of Certificate of Determination for additional series of Preferred Stock. (1)
4.2	Form of Deposit Agreement. (1)
4.3	Form of Certificate of Determination for additional series of Equity Stock. (1)
4.4	Form of Warrant Agreement. (1)
4.5	Form of Indenture for Debt Securities. (1)
5.1	Opinion of Stephanie Heim as to the legality of the securities being registered. Filed herewith.
8.1	Opinion of Hogan & Hartson L.L.P. re tax matters. Filed herewith.
12.1	Statement on computation of ratio of earnings to fixed charges. Filed as Exhibit 12 with Registrant s Form 10-Q for the quarterly period ended March 31, 2006 and incorporated herein by reference.

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Exhibit No.	Description
23.1	Consent of Ernst & Young LLP. Filed herewith.
23.2	Consent of PricewaterhouseCoopers LLP. Filed herewith.
23.3	Consent of Deloitte & Touche. Filed herewith.
23.4	Consent of Stephanie Heim (included in Exhibit 5.1).
23.5	Consent of Hogan & Hartson L.L.P. (included in exhibit 8.1).
25.1	Statement of Eligibility of Trustees. (1)

(1) To be filed by amendment or incorporated by reference in connection with the offering of Securities.

Item 17. Undertakings.

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in this registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in this registration statement or any material change to such information in this registration statement;

Provided, however, that subparagraphs (i), (ii) and (iii) of this section do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in reports filed with or furnished to the Commission by the registrant pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the Securities being registered which remains unsold at the termination of the offering.

(4) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:
(A) Each prospectus filed by the registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

(B) Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii), or (x) for the purpose of providing the information required by section 10(a) of

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the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date.

(5) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities:

The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

The undersigned registrant hereby further undertakes:

(1) That for purposes of determining any liability under the Securities Act, each filing of the registrant s annual report pursuant to Section 13(a) or 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan s annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in the Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof,

(2) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such

indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue. the payment by the registrant of expenses incurred or paid

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by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(3) To file an application for the purpose of determining the eligibility of the trustee to act under subsection (a) of Section 310 of the Trust Indenture Act in accordance with the rules and regulations prescribed by the Commission under Section 305(b)(2) of the Act.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Glendale, State of California, on the 28th day of July 2006.

PUBLIC STORAGE, INC.

By: /s/ RONALD L. HAVNER, JR.
Ronald L. Havner, Jr.

President & Chief Executive Officer

Each person whose signature appears below hereby authorizes John Reyes, John S. Baumann, David Goldberg, and Stephanie Heim, and each of them, as attorney-in-fact, to sign on his behalf, individually and in each capacity stated below, any amendment, including post-effective amendments to this Registration Statement, and to file the same, with all exhibits thereto, and all documents in connection therewith, with the Securities and Exchange Commission.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Name	Title	Date
/s/ B. WAYNE HUGHES **B. Wayne Hughes**	Chairman of the Board and Director	July 28, 2006
/s/ RONALD L. HAVNER, JR. **Ronald L. Havner, Jr.**	Vice Chairman of the Board, Chief Executive Officer, President and Director (principal executive officer)	July 28, 2006
/s/ JOHN REYES **John Reyes**	Senior Vice President and Chief Financial Officer (principal financial officer and principal accounting officer)	July 28, 2006
/s/ ROBERT J. ABERNETHY **Robert J. Abernethy**	Director	July 28, 2006
/s/ DANN V. ANGELOFF **Dann V. Angeloff**	Director	July 28, 2006
/s/ WILLIAM C. BAKER **William C. Baker**	Director	July 28, 2006
/s/ JOHN T. EVANS **John T. Evans**	Director	July 28, 2006

/s/ URI P. HARKHAM	Director	July 28, 2006
Uri P. Harkham		

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Name	Title	Date
/s/ B. Wayne Hughes, Jr.	Director	July 28, 2006
B. Wayne Hughes, Jr.		
/s/ Harvey Lenkin	Director	July 28, 2006
Harvey Lenkin		
/s/ Daniel C. Staton	Director	July 28, 2006
Daniel C. Staton		