

PUBLIC STORAGE INC /CA
Form S-3/A
November 27, 2002
Table of Contents

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON NOVEMBER 26, 2002
REGISTRATION NO. 333-101425

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Amendment No. 1 to
Form S-3
Registration Statement
Under
The Securities Act of 1933

Public Storage, Inc.

(Exact Name of Registrant as Specified in its Charter)

California

(State or Other Jurisdiction
of Incorporation or Organization)

95-3551121

(I.R.S. Employer
Identification No.)

701 Western Avenue
Glendale, California 91201-2349
(818) 244-8080

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Harvey Lenkin
Public Storage, Inc.
701 Western Avenue
Glendale, California 91201-2349
(818) 244-8080

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:

David Goldberg, Esq.
Public Storage, Inc.
701 Western Avenue
Glendale, California 91201-2349

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: From time to time after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. "

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If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. x

Table of Contents**CALCULATION OF REGISTRATION FEE**

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Aggregate Price Per Share or Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, \$.10 par value per share	(1)(3)	(2)	(1)(2)(3)	N/A
Preferred Stock, \$.01 par value per share	(1)(4)	(2)	(1)(2)(4)	N/A
Depository Shares Representing Interests in Preferred Stock	(1)(4)	(2)	(1)(2)(4)	N/A
Equity Stock, \$.01 par value per share	(1)(5)	(2)	(1)(2)(5)	N/A
Depository Shares Representing Interests in Equity Stock	(1)(5)	(2)	(1)(2)(5)	N/A
Warrants	(1)(6)	(2)	(1)(2)(6)	N/A
Total	\$900,000,000(7)	(2)	\$900,000,000(7)	\$82,800(8)

- (1) In no event will the aggregate maximum offering price of all securities issued pursuant to this Registration Statement exceed \$900,000,000. Any securities registered hereunder may be sold separately or as units with other securities registered hereunder.
- (2) The proposed maximum offering price per share or per unit will be determined, from time to time, by the Registrant in connection with the issuance by the Registrant of the securities registered hereunder. No separate consideration will be received for any Depository Shares representing shares of Preferred Stock or Equity Stock of the Registrant.
- (3) Subject to Footnote 1, there is being registered hereunder an indeterminate number of shares of Common Stock as may be sold, from time to time, by the Registrant. There is also being registered hereunder an indeterminate number of shares of Common Stock as shall be issuable upon conversion of the Preferred Stock or the Equity Stock or exercise of Warrants registered hereby.
- (4) Subject to Footnote 1, there is being registered hereunder an indeterminate number of shares of Preferred Stock, and Depository Shares representing a fractional interest in a share of Preferred Stock, as may be sold, from time to time, by the Registrant. In the event the Registrant elects to offer to the public fractional interests in shares of the Preferred Stock registered hereunder, Depository Receipts will be distributed to those persons acquiring such fractional interests and the shares of Preferred Stock will be issued to a Depository under a Deposit Agreement. There is also being registered hereunder an indeterminate number of shares of Preferred Stock as shall be issuable upon exercise of Warrants registered hereby.
- (5) Subject to Footnote 1, there is being registered hereunder an indeterminate number of shares of Equity Stock, and Depository Shares representing a fractional interest in a share of Equity Stock, as may be sold, from time to time, by the Registrant. In the event the Registrant elects to offer to the public fractional interests in shares of the Equity Stock registered hereunder, Depository Receipts will be distributed to those persons acquiring such fractional interests and the shares of Equity Stock will be issued to a Depository under a Deposit Agreement. There is also being registered hereunder an indeterminate number of shares of Equity Stock as shall be issuable upon exercise of Warrants registered hereby.
- (6) Subject to Footnote 1, there is being registered hereunder an indeterminate number of Warrants representing rights to purchase Common Stock, Preferred Stock or Equity Stock, as the case may be, registered pursuant to this Registration Statement.
- (7) \$181,060,000 of securities included herein were registered by the Registrant under Registration Statement No. 333-69468 and remain unissued.
- (8) Calculated pursuant to Rule 457(o) of the rules and regulations under the Securities Act of 1933, as amended. \$45,265 of such registration fee was paid by the Registrant in connection with Registration Statement No. 333-69468 with respect to securities registered thereunder that remain unissued and \$27,600 was previously paid in connection with this Registration Statement No. 333-101425. Accordingly, \$9,935 is being paid concurrently in connection with Amendment No. 1 to this Registration Statement.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON

SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

Table of Contents

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, dated November 26, 2002

Prospectus

\$900,000,000

Public Storage, Inc.

By this prospectus, we may offer

**Common Stock
Preferred Stock
Equity Stock
Depositary Shares
Warrants**

We will provide the specific terms of these securities in supplements to this prospectus. You should read this prospectus and the supplements carefully before you invest.

Please read Risk Factors beginning on page 1 for a discussion of material risks you should consider before you invest.

Our common stock is listed and traded on the New York Stock Exchange and the Pacific Exchange under the symbol PSA.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the securities to be issued under this prospectus or determined if this prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.

This prospectus may not be used to sell securities unless accompanied by a prospectus supplement.

_____, 2002

Table of Contents

You should rely only on the information contained in or incorporated by reference in this prospectus and any accompanying prospectus supplement. We have not authorized anyone to provide you with different information. We are not making an offer to sell these securities in any state where the offer is not permitted. The information contained in or incorporated by reference in this prospectus is accurate only as of the date on the front of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

TABLE OF CONTENTS

	Page
Risk Factors	
<u>The Hughes family could control us</u>	1
<u>Provisions in our organizational documents may prevent changes in control</u>	1
<u>We would incur adverse tax consequences if we fail to qualify as a REIT</u>	1
<u>We may pay some taxes</u>	1
<u>We would incur a corporate level tax if we sell certain assets</u>	1
<u>We and our shareholders are subject to financing risks</u>	2
<u>Debt increases risk of loss</u>	2
<u>Issuing additional shares reduces the interest of existing shareholders</u>	2
<u>Since our business consists primarily of acquiring and operating real estate, we are subject to real estate operating risks</u>	2
<u>Value of our investments may be reduced by general risks of real estate ownership</u>	2
<u>There is significant competition among self-storage facilities</u>	2
<u>We may incur significant environmental costs and liabilities</u>	2
<u>We have no interest in Canadian self-storage facilities owned by the Hughes family</u>	3
<u>Our portable self-storage business has incurred operating losses</u>	3
<u>About This Prospectus</u>	3
<u>Where You Can Find More Information</u>	4
<u>Forward-Looking Statements</u>	5
<u>The Company</u>	5
<u>Use of Proceeds</u>	5
<u>Ratio of Earnings to Fixed Charges</u>	6
<u>Description of Common Stock and Class B Common Stock</u>	6
<u>Common Stock</u>	6
<u>Ownership Limitations</u>	6
<u>Class B Common Stock</u>	8
<u>Description of Preferred Stock</u>	8
<u>Outstanding Preferred Stock</u>	9
<u>Ownership Limitations</u>	9
<u>Future Series of Preferred Stock</u>	9
<u>Description of Equity Stock</u>	13
<u>Outstanding Series of Equity Stock</u>	13
<u>Ownership Limitations</u>	13
<u>Future Series of Equity Stock</u>	13
<u>Description of the Depositary Shares</u>	15
<u>Dividends</u>	15
<u>Liquidation Rights</u>	16
<u>Redemption</u>	16
<u>Conversion</u>	16
<u>Voting</u>	16
<u>Withdrawal of Preferred Stock or Equity Stock</u>	16
<u>Amendment and Termination of Deposit Agreement</u>	16
<u>Charges of Depositary</u>	17

Table of Contents

TABLE OF CONTENTS (Continued)

	Page
<u>Miscellaneous</u>	17
<u>Resignation and Removal of Depositary</u>	17
<u>Federal Income Tax Considerations</u>	17
<u>Description of Warrants</u>	18
<u>Federal Income Tax Consequences</u>	18
<u>Taxation of Public Storage as a REIT</u>	19
<u>Taxation of U.S. Shareholders</u>	28
<u>Taxation of Tax Exempt Shareholders</u>	29
<u>US Taxation of Non-U.S. Shareholders</u>	30
<u>Information Reporting and Backup Withholding Tax Applicable to Shareholders</u>	32
<u>Plan of Distribution</u>	33
<u>Legal Opinions</u>	34
<u>Experts</u>	34

Table of Contents

RISK FACTORS

Before investing in our securities, you should consider the following risks and detriments:

The Hughes family could control us.

The Hughes family owns approximately 33% of our outstanding shares of common stock (approximately 37% upon conversion of our class B common stock). Consequently, the Hughes family could control matters submitted to a vote of our shareholders, including electing directors, amending our organizational documents, dissolving and approving other extraordinary transactions, such as a takeover attempt.

Provisions in our organizational documents may prevent changes in control.

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

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

We believe that we qualify as a REIT for federal income tax purposes. We plan to continue to meet the requirements for taxation as a REIT but we cannot assure shareholders that we will qualify as a REIT. Many of the REIT requirements are highly technical and complex. The determination of whether we qualify as a REIT requires an analysis of various factual matters and circumstances that may not be totally within our control, including factual matters and circumstances relating to corporations that we have acquired. For example, to qualify as a REIT at least 95% of our gross income must come from sources that are itemized in the REIT tax laws. We must also distribute at least 90% of our REIT taxable income to our shareholders, which include not only holders of our common stock and equity stock but also holders of our preferred stock. Failure to pay full dividends on the preferred stock would prevent us from paying dividends on our common stock and could jeopardize our qualification as a REIT. See Federal Income Tax Consequences Taxation of Public Storage as a REIT.

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

We may pay some taxes.

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

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

We will generally be subject to a corporate level tax on any net built-in gain if, within 10 years of a carryover basis transaction, we sell any of the assets acquired in that transaction. For example, we will generally be subject to a corporate level tax if, prior to November 2005, we sell any of the assets we acquired in a November 1995 reorganization.

Table of Contents

We and our shareholders are subject to financing risks.

Debt increases risk of loss. In making real estate investments, we may borrow money, which increases the risk of loss. At September 30, 2002, our debt of \$121.6 million was approximately 2% of our total assets.

Issuing additional shares reduces the interest of existing shareholders. Issuing additional securities can dilute the interest of our shareholders in our company. We intend to issue additional securities under this registration statement. See Description of Common Stock and Class B Common Stock, Description of Preferred Stock and Description of Equity Stock, for a discussion of the terms of the preferred stock, common stock and equity stock.

If we liquidated, holders of our preferred stock and of preferred units in one of our operating partnerships would be entitled to receive, before any distribution of assets to holders of our common stock, liquidating distributions (a total of approximately \$2.3 billion with respect to preferred stock and preferred units outstanding at September 30, 2002), plus any accrued and unpaid distributions. Holders of preferred stock and preferred units are entitled to receive, when declared by our board of directors, cash distributions (a total of approximately \$187.0 million per year with respect to preferred stock and preferred units outstanding at September 30, 2002), in preference to holders of our common stock.

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

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

lack of demand for rental spaces or units in a locale;

changes in general economic or local conditions;

changes in supply of or demand for similar or competing facilities in an area;

the impact of environmental protection laws;

changes in interest rates and availability of permanent mortgage funds which may render the sale or financing of a property difficult or unattractive; and

changes in tax, real estate and zoning laws.

There is significant competition among self-storage facilities. Most of our properties are self-storage facilities, which represented 91% of our total revenues generated during 2001. Competition in the market areas in which many of our properties are located is significant and has affected the occupancy levels, rental rates and operating expenses of some of our properties. The weighted average occupancy level for our same store pool of mini-warehouses (a consistent group of stabilized properties) for the nine months ended September 30, 2002 was 4.3% less than during the nine months ended September 30, 2001. Any increase in availability of funds for investment in real estate may accelerate competition. Recent increases in development of self-storage facilities are expected to further intensify competition among operators of self-storage facilities in certain market areas in which we operate.

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

We have conducted preliminary environmental assessments of most of our properties (and intend to conduct these assessments in connection with property acquisitions) to evaluate the environmental condition of, and potential environmental liabilities associated with, our properties. These assessments generally consist of an investigation of environmental conditions at the property (not including soil or groundwater sampling or analysis), as well as a review of available information regarding the site and publicly available data regarding conditions at other sites in the vicinity. In connection with these property assessments, our operations and recent property acquisitions, we have become aware that

Table of Contents

prior operations or activities at some facilities or from nearby locations have or may have resulted in contamination to the soil or groundwater at these facilities. In this regard, some of our facilities are or may be the subject of federal or state environmental investigations or remedial actions. We have obtained, with respect to recent acquisitions and intend to obtain with respect to pending or future acquisitions, appropriate purchase price adjustments or indemnifications that we believe are sufficient to cover any related potential liabilities. Although we cannot provide any assurance, based on the preliminary environmental assessments, we believe we have funds available to cover any liability from environmental contamination or potential contamination and we are not aware of any environmental contamination of our facilities material to our overall business, financial condition or results of operation.

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

The Hughes family has ownership interests in, and operates, 38 self-storage facilities in Canada under the name Public Storage. Public Storage personnel are engaged, at the expense of the Canadian owners, in the supervision of the operation of these properties. We have a right of first refusal to acquire the stock or assets of the corporation engaged in these operations if the Hughes family or the corporation agree to sell them. However, we have no interest in the operations of that corporation, have no right to acquire that stock or assets unless the Hughes family decides to sell and receive no benefit from the profits and increases in value of the Canadian mini-warehouses. There may be conflicts of interest in allocating the cost of our personnel between our properties and the Canadian properties.

Our portable self-storage business has incurred operating losses.

Public Storage Pickup & Delivery was organized in 1996 to operate a portable self-storage business. We now own directly and indirectly all of Pickup & Delivery. Since Pickup & Delivery will operate profitably only if it can succeed in the relatively new field of portable self-storage, we cannot provide any assurance as to its profitability. Pickup & Delivery incurred operating losses (including losses with respect to discontinued operations) of \$7,396,000 in 1999, \$5,135,000 in 2000, \$2,218,000 in 2001, \$4,674,000 for the first nine months of 2002 and \$1,110,000 for the first nine months of 2001. The operating losses for the first nine months of 2002 includes asset impairment and lease termination charges with respect to discontinued facilities totaling \$4,791,000.

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission using a shelf registration process. Under this shelf process, we may sell from time to time up to \$900,000,000 of our common stock, preferred stock, equity stock, depositary shares and warrants, in any combination. This prospectus provides a general description of the securities that we may offer. Each time we offer any of the types of securities described in this prospectus, we will prepare and distribute a prospectus supplement that will contain a description of the specific terms of the securities being offered and of the offering. The prospectus supplement may also supplement the information contained in this prospectus. You should read both this prospectus and the applicable prospectus supplement, together with the additional information described under the heading Where You Can Find More Information, before purchasing any securities.

Unless otherwise indicated or unless the context requires otherwise, all references in this prospectus to the Company, we, us, our and similar references mean Public Storage, Inc. and its subsidiaries.

Table of Contents**WHERE YOU CAN FIND MORE INFORMATION**

We are subject to the reporting requirements of the Securities Exchange Act of 1934, and are required to file annual, quarterly and special reports with the Securities and Exchange Commission. You may read and copy any of these documents at the Commission's public reference rooms at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's regional offices at 233 Broadway, New York, New York 10279, and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. You may telephone the Commission at 1-800-SEC-0330 for further information on the Commission's public reference facilities. The Commission also maintains a computer site on the World Wide Web (<http://www.sec.gov>) that contains the reports, proxy and information statements and other information that we and other registrants file electronically with the Commission. You can also inspect reports and other information we file at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005, and the Pacific Exchange, 301 Pine Street, San Francisco, California 94104.

This prospectus is a part of a registration statement on Form S-3 filed with the Commission to register offers and sales of the securities described in this prospectus under the Securities Act of 1933, as amended. The registration statement contains additional information about us and the securities. You may obtain the registration statement and its exhibits from the Commission as indicated above or from us.

The Commission allows us to provide information about our business and other important information to you by incorporating by reference the information we file with the Commission, which means that we can disclose that information to you by referring in this prospectus to the documents we file with the Commission. Under the Commission's regulations, any statement contained in a document incorporated by reference in this prospectus is automatically updated and superseded by any information contained in this prospectus, or in any subsequently filed document of the types described below.

We incorporate into this prospectus by reference the following documents filed by us with the Commission, each of which should be considered an important part of this prospectus:

SEC Filing (File No. 1-8389)	Period Covered or Date of Filing
Annual Report on Form 10-K	Year ended December 31, 2001 as amended by Form 10-K/A filed July 12, 2002
Quarterly Report on Form 10-Q	Quarters ended March 31, 2002, June 30, 2002 and September 30, 2002
Current Reports on Form 8-K	Dated January 15, 2002, February 13, 2002, and September 4, 2002
Description of our common stock contained in Registration Statement on Form 8-A, as supplemented by the description of our common stock contained in this prospectus	Effective June 30, 1981
All subsequent documents filed by us under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934	After the date of this prospectus and before the termination of the offering

You may request a copy of each of our filings at no cost, by writing or telephoning us at the following address, telephone or facsimile number:

Investor Services Department
Public Storage, Inc.
701 Western Avenue
Glendale, California 91201-2349
Telephone: (800) 807-3055
(800) 421-2856
(818) 244-8080
Facsimile: (818) 241-0627

Exhibits to a document will not be provided unless they are specifically incorporated by reference in that document.

Table of Contents

FORWARD-LOOKING STATEMENTS

This prospectus includes or incorporates by reference forward-looking statements, including those identified by the words expects, believes, anticipates, should, estimates, may, will, seeks, intends, plans, pro forma, or the negative of these words and phrases or similar words to convey the uncertainty of future events or outcomes. Discussions of strategy, plans or intentions also include forward-looking statements.

Forward-looking statements are subject to risks and uncertainties and you should not rely on them as predictions of future events. In addition to the factors described in this prospectus under Risk Factors, some of these factors include:

the impact of competition from new and existing self-storage and commercial facilities which could impact rents and occupancy levels at our facilities;

our ability to evaluate, finance and integrate acquired and developed properties into our existing operations;

our ability to effectively compete in the markets in which we do business;

the impact of the regulatory environment as well as national, state and local laws and regulations, including, without limitation, those governing real estate investment trusts;

profitability of the Pickup and Delivery business;

the impact of general economic conditions upon rental rates and occupancy levels at our facilities; and

the availability of permanent capital at attractive rates.

These factors, as well as changes in the real estate markets and the general economy, could cause future events and actual results to differ materially from those set forth or contemplated in the forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus or in the incorporated documents might not occur and actual results could be substantially different than expected.

THE COMPANY

We are a fully integrated, self-administered and self-managed real estate investment trust or REIT that acquires, develops, owns and operates self-storage facilities which offer self-storage spaces for lease for personal and business use. We are the largest owner and operator of self-storage facilities in the United States with equity interests (through direct ownership, as well as general and limited partnership interests), as of September 30, 2002, in 1,407 storage facilities located in 37 states. We also own an interest in PS Business Parks, Inc., a REIT that, as of September 30, 2002, owned approximately 14.8 million net rentable square feet of space in eight states.

We elected to be taxed as a REIT beginning with our 1981 taxable year. So long as we continue to qualify as a REIT, we will not be taxed, with certain limited exceptions, on the net income that we distribute currently to our shareholders. We were incorporated in California in 1980. Our principal executive offices are located at 701 Western Avenue, Glendale, California 91201-2349. Our telephone number is (818) 244-8080.

USE OF PROCEEDS

We intend to use the net proceeds from the sale of the securities described in this prospectus to make investments in self-storage facilities, including development, interests in partnerships and mortgage loans and for general corporate purposes, including repayment of debt and the redemption of outstanding securities. Pending application, we may invest the net proceeds in short-term, interest bearing securities.

Table of Contents**RATIO OF EARNINGS TO FIXED CHARGES**

We compute our ratio of earnings to combined fixed charges and preferred distributions by dividing our earnings by the sum of our fixed charges and preferred stock and preferred unit distributions. Earnings consists of net income before minority interest in income, plus fixed charges (other than preferred stock dividends) less the portion of minority interest in income which does not contribute to fixed charges.

	For the Nine Months Ended September 30,		For the Year Ended December 31,				
	2002	2001	2001	2000	1999	1998	1997
Ratio of earnings to combined fixed charges and preferred distributions	1.98	2.26	2.24	2.38	2.78	2.73	1.91

DESCRIPTION OF COMMON STOCK AND CLASS B COMMON STOCK

We are authorized to issue up to 200,000,000 shares of common stock and up to 7,000,000 shares of class B common stock. At September 30, 2002, we had outstanding 117,464,122 shares of common stock (excluding shares issuable upon conversion of convertible securities and shares subject to options) and 7,000,000 shares of class B common stock.

Common Stock

The following description of our common stock, par value \$0.10 per share, sets forth certain general terms and provisions of our common stock to which any prospectus supplement may relate, including a prospectus supplement providing that common stock will be issuable upon conversion of preferred stock or equity stock or upon the exercise of warrants. The statements below describing our common stock are in all respects subject to and qualified in their entirety by reference to the applicable provisions of our articles of incorporation and bylaws.

Holders of our common stock will be entitled to receive dividends when, as and if declared by our board of directors, out of funds legally available for distribution. If we fail to pay dividends on our outstanding preferred stock, generally we may not pay dividends on our common stock or repurchase those shares. If we liquidate, dissolve or wind up our affairs, holders of common stock will be entitled to share equally and ratably in any assets available for distribution to them, after payment or provision for payment of our debts and other liabilities and the preferential amounts owing with respect to any of our outstanding preferred stock. Holders of our common stock have no preemptive rights, which means they have no right to acquire any additional shares of common stock that we may issue at a later date. See Description of Preferred Stock.

The holders of our common stock are entitled to cast one vote for each share on all matters presented to our holders for a vote, with the exception that they have cumulative voting rights with respect to the election of our board of directors, in accordance with California law. Cumulative voting means that each holder of our common stock is entitled to cast as many votes as there are directors to be elected multiplied by the number of shares registered in his or her name. A holder of our common stock may cumulate the votes for directors by casting all of the votes for one candidate or by distributing the votes among as many candidates as he or she chooses. The outstanding shares of our common stock are, and additional shares of common stock will be, when issued, fully paid and nonassessable.

The rights, preferences and privileges of holders of our common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of our preferred stock or our equity stock which are outstanding or which we may designate and issue in the future. See Description of Preferred Stock and Description of Equity Stock.

Ownership Limitations

To qualify as a REIT under the Internal Revenue Code of 1986, as amended, no more than 50% in value of our outstanding shares of capital stock may be owned, directly or constructively under the applicable attribution rules of the Internal Revenue Code, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) during the last half of a taxable year. In order to maintain our qualification as a REIT, our organizational documents restrict the number of shares of capital stock that any shareholder may own.

Table of Contents

In a series of transactions among Public Storage Management, Inc. and its affiliates (collectively, "Public Storage Management"), culminating in the November 16, 1995 merger of Public Storage Management into Storage Equities, Inc., Storage Equities became self-administered and self-managed, acquired substantially all of Public Storage Management's United States real estate interests and was renamed "Public Storage, Inc."

Our articles of incorporation and bylaws provide that, subject to certain exceptions, no holder may own, or be deemed to own by virtue of the attribution provisions of the Internal Revenue Code, more than (A) 2.0% of the outstanding shares of our common stock and (B) 9.9% of the outstanding shares of each class or series of shares of our preferred stock or equity stock and that all shares of stock be imprinted with a legend setting forth that restriction. Our articles of incorporation provide, however, that no person will be deemed to exceed the ownership limit solely by reason of the beneficial ownership of shares of any class of stock to the extent that those shares of stock were beneficially owned by the person (including the Hughes family) after the merger with Public Storage Management. Thus, this limitation does not affect the ownership of common stock held by the Hughes family at the time of the merger. The ownership limitation is intended to preserve our REIT status in view of the Hughes family's substantial ownership interest in us. We cannot provide any assurance, however, that this ownership limit will enable us to satisfy the requirement that a REIT not be "closely held" within the meaning of Section 856(h) of the Internal Revenue Code for any given taxable year.

Our articles of incorporation and bylaws provide that our board of directors, in its sole and absolute discretion, may grant exceptions to the ownership limits, so long as (A) our board has determined that we would not be "closely held" within the meaning of Section 856(h) of the Internal Revenue Code (without regard to whether the event in question takes place during the second half of a taxable year) and would not otherwise fail to qualify as a REIT, after giving effect to an acquisition by an excepted person of beneficial ownership of the maximum amount of capital stock permitted as a result of the exception to be granted, and taking into account the existing and permitted ownership by other persons of stock (taking into account any other exceptions granted) and (B) the excepted persons provide to our board the representations and undertakings as our board may require. In any case, no holder may own or acquire, either directly, indirectly or constructively under the applicable attribution rules of the Internal Revenue Code, any shares of any class of capital stock if the ownership or acquisition (1) would cause more than 50% in value of our outstanding capital stock to be owned, either directly or constructively, under the applicable attribution rules of the Internal Revenue Code, by five or fewer individuals (as defined in the Internal Revenue Code to include certain tax-exempt entities, other than, in general, qualified domestic pension funds), (2) would result in our stock being beneficially owned by less than 100 persons (determined without reference to any rules of attribution), or (3) would otherwise result in our failing to qualify as a REIT.

Our articles of incorporation and bylaws generally provide that if any holder of capital stock purports to transfer shares to a person or there is a change in our capital structure, and either the transfer or the change in capital structure would result in our failing to qualify as a REIT, or the transfer or the change in capital structure would cause the transferee to hold shares in excess of the applicable ownership limit, then the shares causing the violation will be automatically transferred to a trust for the benefit of a designated charitable beneficiary. The purported transferee of those shares will have no right to receive dividends or other distributions with respect to them and will have no right to vote the shares. Any dividends or other distributions paid to the purported transferee prior to our discovery that the shares have been transferred to a trust will be paid to the trustee of the trust for the benefit of the charitable beneficiary upon demand. The trustee will designate a transferee of those shares so long as the shares would not violate the restrictions on ownership or transfer in our articles of incorporation in the hands of the designated transferee. Upon the sale of the shares, the purported transferee will receive out of any proceeds remaining after payment of expenses of the charitable trust and us the lesser of (A)(1) the price per share the purported transferee paid for the stock in the purported transfer that resulted in the transfer of the shares to the trust, or (2) if the transfer or other event that resulted in the transfer of the shares to the trust was not a transaction in which the purported transferee gave full value for the shares, a price per share equal to the market price on the date of the purported transfer or other event that resulted in the transfer of the shares to the trust and (B) the price per share received by the trustee from the sale or other disposition of the shares held in the trust. Each purported transferee will be deemed to have waived any claims the purported transferee may have against the trustee and us arising from the disposition of the shares, except for claims arising from the trustee's or our gross negligence, willful misconduct, or failure to make payments when required by our articles of incorporation.

In addition, our bylaws provide our board of directors with the power to prevent the transfer of shares of capital stock or to redeem shares of capital stock if the board of directors determines in good faith that the action is necessary to preserve our status as a REIT.

Table of Contents

Class B Common Stock

Our class B common stock, par value \$0.10 per share:

- (1) Participates in distributions (other than liquidating distributions) at the rate of 97% of the per share distributions on our common stock, provided that cumulative distributions of at least \$.22 per quarter (beginning with the 4th quarter of 1995) per share have been paid on our common stock;
- (2) Does not participate in liquidating distributions;
- (3) Is not entitled to vote (except as expressly required by California law); and
- (4) Will automatically convert into our common stock, on a share for share basis, on January 1, 2003.

DESCRIPTION OF PREFERRED STOCK

We are authorized to issue up to 50,000,000 shares of preferred stock, par value \$0.01 per share. At September 30, 2002, we had outstanding 9,264,486 shares of preferred stock (of which 69,486 shares were represented by 69,486,000 depositary shares) and had reserved for issuance an additional 14,600 shares of preferred stock. Our articles of incorporation provide that the preferred stock may be issued from time to time in one or more series and give our board of directors broad authority to fix the dividend and distribution rights, conversion and voting rights, if any, redemption provisions and liquidation preferences of each series of preferred stock. Holders of preferred stock have no preemptive rights. The preferred stock will be, when issued, fully paid and nonassessable.

Although the issuance of preferred stock with special voting rights (or common stock) could be used to deter attempts to obtain control of us in transactions not approved by our board of directors, we have no present intention to issue stock for that purpose.

Table of Contents

Outstanding Preferred Stock

At September 30, 2002, we had outstanding 15 series of preferred stock and had reserved for issuance, upon conversion of preferred units in one of our operating partnerships, an additional two series. Each series (1) has a stated value of \$25 per share or depositary share, (2) in preference to the holders of shares of our common stock and any other capital stock ranking junior to our preferred stock as to payment of dividends, provides for cumulative quarterly dividends calculated as a percentage of the stated value (ranging from 7.5% to 10% per year in the case of 15 series of our fixed rate preferred stock and a rate adjustable quarterly ranging from 6.75% to 10.75% per year in the case of a series of our adjustable rate preferred stock) and (3) is subject to redemption, in whole or in part, at our option at a cash redemption price of \$25 per share or depositary share, plus accrued and unpaid dividends (on and after June 30, 1999 in the case of our adjustable rate preferred stock and on or after various dates between August 30, 2002 and September 30, 2007 in the case of the series of our fixed rate preferred stock).

If we voluntarily or involuntarily liquidate, dissolve or wind up, the holders of the preferred stock will be entitled to receive out of our assets available for distribution to shareholders, before any assets are distributed to holders of our common stock or any other shares of capital stock ranking junior to the preferred stock, liquidating distributions equal to \$25 per share or depositary share, plus all accrued and unpaid dividends.

Except as expressly required by law and in certain other limited circumstances, holders of the preferred stock are not entitled to vote. Our board of directors will not, without the consent of holders of at least 66 2/3% of the outstanding shares of the preferred stock, voting as a single class, authorize another class of shares senior to the preferred stock.

Ownership Limitations

For a discussion of the ownership limitations that apply to preferred stock, see Description of Common Stock and Class B Common Stock Ownership Limitations.

Future Series of Preferred Stock

Below is a description of some general terms and provisions of our preferred stock which may be specified in a prospectus supplement. The statements below describing the preferred stock are in all respects subject to and qualified in their entirety by reference to the applicable provisions of our articles of incorporation (including the applicable form of certificate of determination) and bylaws.

You should read the prospectus supplement relating to the preferred stock being offered for specific terms, including:

- (1) the title and stated value of the preferred stock;
- (2) the number of shares of the preferred stock being offered, the liquidation preference per share and the offering price of the preferred stock;
- (3) the dividend rate, period and payment date or method of calculation applicable to the preferred stock;
- (4) the date from which dividends on the preferred stock accumulates, if applicable;
- (5) the provision for a sinking fund, if any, for the preferred stock;
- (6) the provision for redemption, if applicable, of the preferred stock;
- (7) any listing of the preferred stock on any securities exchange;
- (8) the terms and conditions, if applicable, upon which the preferred stock will be convertible into common stock, including the conversion price (or manner of calculation);
- (9) the voting rights, if any, of the preferred stock;
- (10) any other specific terms, preferences, rights, limitations or restrictions of the preferred stock;

Table of Contents

- (11) the relative ranking and preferences of the preferred stock as to dividend rights and rights upon liquidation, dissolution or winding up of our affairs; and
- (12) any limitations on issuance of any series of preferred stock ranking senior to or on a parity with the series of preferred stock as to dividend rights and rights upon liquidation, dissolution or winding up of our affairs.

Ranking. The ranking of the preferred stock will be set forth in the applicable prospectus supplement. Unless otherwise specified in the applicable prospectus supplement, the preferred stock will, with respect to dividend rights and rights upon liquidation, dissolution or winding up of our affairs, rank:

- (1) senior to the common stock, any additional class of common stock, existing and future equity stock and any series of preferred stock junior to the preferred stock;
- (2)