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PROLOGIS TRUST  
Form 10-Q  
May 15, 2002

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

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FORM 10-Q

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

For the quarterly period ended March 31, 2002

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 01-12846

PROLOGIS TRUST  
(Exact name of registrant as specified in its charter)

Maryland  
(State or other jurisdiction of  
incorporation or organization)

74-2604728  
(I.R.S. Employer  
Identification No.)

14100 East 35th Place, Aurora, Colorado  
(Address or principal executive offices)

80011  
(Zip Code)

(303) 375-9292  
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year,  
if changed since last report)

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 for the past 90 days.

Yes  No

The number of shares outstanding of the Registrant's common stock as of May 13, 2002 was 177,969,319.

PROLOGIS TRUST

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PROLOGIS TRUST  
 CONSOLIDATED CONDENSED BALANCE SHEETS  
 (In thousands, except share data)

	March 31 2002 (Unaudited)
	-----
ASSETS	
Real estate.....	\$ 4,497,
Less accumulated depreciation.....	605,
	3,892,
Investments in and advances to unconsolidated entities.....	1,348,
Cash and cash equivalents.....	59,
Accounts and notes receivable.....	27,
Other assets.....	169,
	-----
Total assets.....	\$ 5,497,
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
Liabilities:	
Lines of credit.....	\$ 322,
Senior unsecured debt.....	1,651,
Mortgage notes and other secured debt.....	530,
Accounts payable and accrued expenses.....	102,
Construction costs payable.....	10,
Distributions and dividends payable.....	80,
Other liabilities.....	80,
	-----
Total liabilities.....	2,699,
	-----
Minority interest.....	45,

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Shareholder' equity:

Series C Preferred Shares; \$0.01 par value; 2,000,000 shares issued and outstanding at March 31, 2002 and December 31, 2001; stated liquidation preference of \$50.00 per share.....	100,
Series D Preferred Shares; \$0.01 par value; 10,000,000 shares issued and outstanding at March 31, 2002 and December 31, 2001; stated liquidation preference of \$25.00 per share.....	250,
Series E Preferred Shares; \$0.01 par value; 2,000,000 shares issued and outstanding at March 31, 2002 and December 31, 2001; stated liquidation preference of \$25.00 per share.....	50,
Common shares of beneficial interest; \$0.01 par value; 177,477,667 shares issued and outstanding at March 31, 2002 and 175,888,391 shares issued and outstanding at December 31, 2001.....	1,
Additional paid-in capital.....	2,998,
Employee share purchase notes.....	(14,
Accumulated other comprehensive loss.....	(81,
Distributions in excess of net earnings.....	(550,
	-----
Total shareholders' equity.....	2,753,
	-----
Total liabilities and shareholders' equity.....	\$ 5,497,
	=====

The accompanying notes are an integral part of these consolidated condensed financial statements.

PROLOGIS TRUST

CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS  
AND COMPREHENSIVE INCOME

(Unaudited)

(In thousands, except per share data)

	Three Month March	
	2002	
	-----	
Income:		
Rental income.....	\$ 112,929	\$
Other real estate income.....	26,416	
Income from unconsolidated entities.....	32,345	
Interest and other income.....	570	
	-----	

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Total income.....	172,260	
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Expenses:		
Rental expenses, net of recoveries of \$23,628 in 2002 and \$24,864 in 2001, including amounts paid to affiliate of \$89 in 2001.....	7,741	
General and administrative, including amounts paid to affiliate of \$102 in 2002 and \$313 in 2001.....	12,927	
Depreciation and amortization.....	36,231	
Interest.....	40,830	
Other.....	821	
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Total expenses.....	98,550	
<hr style="border-top: 1px dashed black;"/>		
Earnings before minority interest.....	73,710	
Minority interest share in earnings.....	1,282	
<hr style="border-top: 1px dashed black;"/>		
Earnings before loss on disposition of real estate and foreign currency exchange gains (losses).....	72,428	
Loss on disposition of real estate.....	(153)	
Foreign currency exchange gains (losses), net.....	(339)	
<hr style="border-top: 1px dashed black;"/>		
Earnings before income taxes.....	71,936	
Income taxes:		
Current income tax expense.....	1,060	
Deferred income tax expense.....	7,701	
<hr style="border-top: 1px dashed black;"/>		
Total income taxes.....	8,761	
<hr style="border-top: 1px dashed black;"/>		
Net earnings.....	63,175	
Less preferred share dividends.....	8,179	
<hr style="border-top: 1px dashed black;"/>		
Net earnings attributable to Common Shares.....	54,996	
Other comprehensive income:		
Foreign currency translation adjustments.....	(18,097)	
<hr style="border-top: 1px dashed black;"/>		
Comprehensive income.....	\$ 36,899	
<hr style="border-top: 1px dashed black;"/>		
Weighted average Common Shares outstanding-- Basic.....	176,523	
<hr style="border-top: 1px dashed black;"/>		
Weighted average Common Shares outstanding-- Diluted.....	183,182	
<hr style="border-top: 1px dashed black;"/>		
Basic net earnings attributable to Common Shares.....	\$ 0.31	
<hr style="border-top: 1px dashed black;"/>		
Diluted net earnings attributable to Common Shares.....	\$ 0.31	
<hr style="border-top: 1px dashed black;"/>		
Distributions per Common Share.....	\$ 0.355	
<hr style="border-top: 1px dashed black;"/>		

The accompanying notes are an integral part of these consolidated condensed financial statements.

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PROLOGIS TRUST  
 CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
 (Unaudited)  
 (In thousands)

	Three Mo
	Mar
	-----
	2002
	-----
Operating activities:	
Net earnings.....	\$ 63,175
Minority interest share in earnings.....	1,282
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Depreciation and amortization.....	36,231
Loss on disposition of real estate.....	153
Straight-lined rents.....	(1,352)
Amortization of deferred loan costs.....	1,409
Stock-based compensation.....	2,912
Income from unconsolidated entities.....	(26,795)
Foreign currency exchange (gains) losses, net.....	329
Deferred income tax expense.....	7,701
Decrease in accounts receivable and other assets.....	4,636
Increase (decrease) in accounts payable and accrued expenses and other liabilities.....	(1,509)
	-----
Net cash provided by operating activities .....	88,172
	-----
Investing activities:	
Real estate investments.....	(128,642)
Tenant improvements and lease commissions on previously leased space.....	(1,781)
Recurring capital expenditures.....	(7,071)
Proceeds from dispositions of real estate.....	203,484
Net (advances to) amounts received from unconsolidated entities.....	(12,481)
	-----
Net cash provided by investing activities.....	53,509
	-----
Financing activities:	
Net proceeds from Common Share plans.....	35,096
Redemption of Series B Convertible Preferred Shares.....	--
Distributions paid on Common Shares.....	(62,552)
Distributions paid to minority interest holders.....	(1,871)
Distributions paid on preferred shares.....	(8,179)
Principal payments on senior unsecured debt.....	(18,750)
Principal payments received on employee share purchase notes.....	768
Proceeds from settlement of derivative financial instruments.....	160
Proceeds from lines of credit.....	168,675
Payments on lines of credit.....	(221,669)

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Regularly scheduled principal payments on mortgage notes.....	(1,659)
	-----
Net cash used in financing activities.....	(109,981)
	-----
Net increase (decrease) in cash and cash equivalents.....	31,700
Cash and cash equivalents, beginning of period.....	27,989
	-----
Cash and cash equivalents, end of period.....	\$ 59,689
	=====

See Note 8 for information on non-cash investing and financing activities.

The accompanying notes are an integral part of these  
consolidated condensed financial statements.

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### PROLOGIS TRUST

#### NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

March 31, 2002

(Unaudited)

#### 1. General:

##### Business

ProLogis Trust (collectively with its consolidated subsidiaries and partnerships "ProLogis") is a publicly held real estate investment trust ("REIT") that owns, operates and develops industrial distribution facilities in North America (the United States and Mexico), Europe and Asia (Japan). The ProLogis Operating System(R), comprised of the Market Services Group, the Global Services Group, the Global Development Group and the ProLogis Solutions Group, utilizes ProLogis' international network of distribution facilities to meet its customers' distribution space needs globally. ProLogis' business consists of three reportable business segments: property operations, corporate distribution facilities services business ("CDFS business") and temperature-controlled distribution operations. See Note 7.

##### Principles of Financial Presentation

The consolidated condensed financial statements of ProLogis as of March 31, 2002 and for the three months ended March 31, 2002 and 2001 are unaudited and, pursuant to the rules of the Securities and Exchange Commission, certain information and footnote disclosures normally included in financial statements have been omitted. While management of ProLogis believes that the disclosures presented are adequate, these interim consolidated condensed financial statements should be read in conjunction with ProLogis' December 31, 2001 audited consolidated financial statements contained in ProLogis' 2001 Annual Report on Form 10-K, as amended.

In the opinion of management, the accompanying unaudited consolidated

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condensed financial statements contain all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of ProLogis' consolidated financial position and results of operations for the interim periods. The consolidated results of operations for the three months ended March 31, 2002 and 2001 are not necessarily indicative of the results to be expected for the entire year. Certain of the 2001 amounts have been reclassified to conform to the 2002 financial statement presentation.

The preparation of consolidated condensed financial statements in conformity with generally accepted accounting principles ("GAAP") in the United States requires management 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Interest Expense

Interest expense recognized after capitalization was \$40.8 million and \$41.5 million for the three months in 2002 and 2001, respectively. Amounts capitalized for the three months in 2002 and 2001 were \$5.5 million and \$5.9 million, respectively. Amortization of deferred loan costs included in interest expense recognized was \$1.4 million and \$1.2 million for the three months in 2002 and 2001, respectively. Total interest paid in cash on all outstanding debt was \$39.5 million and \$38.9 million for the three months in 2002 and 2001, respectively.

### Recently Adopted Accounting Standards

On January 1, 2002, ProLogis adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets".

SFAS No. 142 provides that goodwill is no longer subject to amortization over its estimated useful life. Rather, goodwill will be subject to at least an annual assessment for impairment by applying a fair-value-based-test. The impairment guidance in existing rules for equity method goodwill will continue to apply. SFAS No. 142 requires that goodwill balances be assessed for impairment during 2002. ProLogis had not performed this assessment as of March 31, 2002. SFAS No. 142 also changes the rules for recognition of acquired intangible assets other than goodwill but continues to require that intangibles assets be amortized over their useful lives. ProLogis and its unconsolidated entities do not have any acquired intangibles other than goodwill. Had SFAS No. 142 been applicable for the three months in 2001, ProLogis' net earnings attributable to Common Shares for the three months ended March 31, 2001 would have changed as follows (in thousands except per share amounts):

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Net earnings attributable to Common Shares.....	\$ 44,007
Goodwill amortization(1).....	2,551
	-----
Adjusted net earnings attributable to Common Shares.....	\$ 46,558



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	Basic	Diluted
	-----	-----
Per share net earnings attributable to		
Common Shares.....	\$ 0.26	\$ 0.25
Goodwill amortization(1).....	0.02	0.02
	-----	-----
Adjusted per share net earnings attributable		
to Common Shares.....	\$ 0.28	\$ 0.27
	=====	=====

SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale and provides implementation guidance with respect to accounting for impairment of long-lived assets. In management's opinion, ProLogis' long-lived assets are not carried at amounts in excess of their fair values. Also, SFAS No. 144 requires that discontinued operations be measured at the lower of carrying amount or fair value less cost to sell, similar to the basis used for other long-lived assets, rather than at net realizable value as previously required. Additionally, future operating losses of discontinued operations are no longer recognized before they occur. Under SFAS No. 144, the facilities sold by ProLogis to third parties are considered to be discontinued operations unless such facilities were developed under a pre-sale agreement. Facilities contributed to entities in which ProLogis maintains an ownership interest are not considered to be discontinued operations under SFAS No. 144 due to ProLogis' continuing involvement. Facilities disposed of by ProLogis' unconsolidated entities also are not considered to be discontinued operations under SFAS No. 144. For the three months ended March 31, 2002, ProLogis is not reporting discontinued operations for the one facility sold to a third party during the period as the effect on ProLogis' Consolidated Condensed Statement of Earnings and Comprehensive Income is not material.

2. Real Estate

Real Estate Investments

Real estate investments consisting of income producing industrial distribution facilities, facilities under development and land held for future development, at cost, are summarized as follows (in thousands):

	March 31, 2002	December 31, 2001
	-----	-----
Distribution facilities(1):		
Improved land.....	\$ 632,587	\$ 645,343
Buildings and improvements.....	3,518,283	3,517,859
	-----	-----
	4,150,870	4,163,202
	-----	-----
Facilities under development (including		
cost of land) (2) (3).....	118,234	131,545
Land held for development(4).....	186,529	200,737
Other costs (pre-construction and		
pre-acquisition) (5).....	41,988	92,709
	-----	-----
Total real estate.....	4,497,621	4,588,193
Less accumulated depreciation.....	605,510	574,871

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Net real estate.....	\$ 3,892,111	\$ 4,013,322
	=====	=====

ProLogis' distribution facilities, facilities under development and land held for future development are located in North America (the United States and Mexico), eight countries in Europe and in Japan. No individual market represents more than 10% of ProLogis' real estate assets.

Operating Lease Agreements

ProLogis leases its facilities to customers under agreements that are classified as operating leases. As of March 31, 2002, minimum lease payments on leases with lease periods greater than one year for space in ProLogis' directly owned facilities during each of the years in the five-year period ending December 31, 2006 and thereafter are as follows (in thousands):

Remainder of 2002.....	\$ 306,642
2003.....	339,515
2004.....	255,456
2005.....	179,939
2006.....	120,778
2007 and thereafter.....	211,940
	-----
	\$ 1,414,270
	=====

ProLogis' largest customer (based on rental income) in its directly owned facilities accounted for 0.88% of ProLogis' annualized rental income for the three months ended March 31, 2002. The annualized base rent for ProLogis' 25 largest customers (based on rental income) accounted for 13.8% of ProLogis' annualized rental income for the three months ended March 31, 2002.

3. Unconsolidated Entities:

Investments In and Advances To Unconsolidated Entities

Investments in and advances to unconsolidated entities are as follows (in thousands):

	March 31, 2002	December 31, 2001
	-----	-----
Temperature-controlled distribution companies:		
CSI/Frigo LLC.....	\$ (2,690)	\$ (2,492)
ProLogis Logistics(1).....	209,901	174,295
Frigoscandia S.A.(2).....	175,317	186,168
	-----	-----
	382,528	357,971
	-----	-----
Real estate funds:		
ProLogis California(3).....	123,318	118,846
ProLogis North American Properties Fund I.....	47,291	45,331
ProLogis North American Properties Fund II.....	8,285	8,210
ProLogis North American Properties Fund III.....	6,012	6,273
ProLogis North American Properties Fund IV.....	4,528	4,747
ProLogis North American Properties Fund V(4).....	8,716	--

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ProLogis European Properties Fund(5).....	271,222	263,114
	-----	-----
	469,372	446,521
	-----	-----
CDFS business:		
Kingspark LLC.....	10,057	9,937
Kingspark S.A.....	482,035	490,074
	-----	-----
	492,092	500,011
	-----	-----
Insight.....	2,482	2,479
ProLogis Equipment Services.....	1,680	1,680
GoProLogis(6).....	--	2,073
	-----	-----
Total.....	\$1,348,154	\$1,310,735
	=====	=====

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Income (Loss) from Unconsolidated Entities

ProLogis recognized income (loss) from its investments in unconsolidated entities as follows (in thousands):

9

	Three Months Ended March 31,	
	2002	2001
	-----	-----
Temperature-controlled distribution companies:		
CSI/Frigo LLC(1).....	\$ 233	\$ (509)
ProLogis Logistics(2).....	3,702	(1,730)
Frigoscandia S.A.(2).....	6,741	(7,233)
	-----	-----
	10,676	(9,472)
	-----	-----
Real estate funds:		
ProLogis California(3).....	4,055	3,067
ProLogis North American Properties Fund I(4).....	1,444	1,352
ProLogis North American Properties Fund II(5).....	797	341

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ProLogis North American Properties Fund III(6)...	675	--
ProLogis North American Properties Fund IV(7)....	531	--
ProLogis North American Properties Fund V(8).....	6	--
ProLogis European Properties Fund(9).....	6,748	402
ProLogis European Properties S.a.r.l.(10).....	--	36
	-----	-----
	14,256	5,198
	-----	-----
CDFS business:		
Kingspark LLC(11).....	173	503
Kingspark S.A.(12).....	9,309	9,750
	-----	-----
	9,482	10,253
	-----	-----
Insight.....	4	(10)
GoProLogis(13).....	(2,073)	1,521
ProLogis PhatPipe.....	--	667
	-----	-----
	\$ 32,345	\$ 8,157
	=====	=====

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Temperature-Controlled Distribution Companies

ProLogis' total investment in its temperature-controlled distribution companies as of March 31, 2002 consisted of (in millions of U.S. dollars):

	CSI/Frigo LLC(1)	ProLogis Logistics(2)	Frigoscandia S.A.(3)
	-----	-----	-----
Equity interest.....	\$ 0.4	\$ 263.4	\$ 22.6
ProLogis' share of the earnings of the entity..	(6.0)	(64.9)	(119.9)
	-----	-----	-----
Subtotal.....	(5.6)	198.5	(97.3)
Other (including acquisition costs), net.....	(0.3)	--	(11.1)
	-----	-----	-----
Subtotal.....	(5.9)	198.5	(108.4)
Notes and other receivables.....	3.2	11.4(4)	283.7(5)
	-----	-----	-----
Total.....	\$ (2.7)	\$ 209.9	\$ 175.3
	=====	=====	=====

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Real Estate Funds

ProLogis' total investment in real estate funds as of March 31, 2002 consisted of (in millions of U.S. dollars):

ProLogis North	ProLogis North	ProLogis North	ProLogis North	P
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	ProLogis California	American Properties Fund I	American Properties Fund II	American Properties Fund III	American Properties Fund IV	American Properties Fund V
Equity interest.....	\$ 167.5	\$ 56.4	\$ 14.3	\$ 12.1	\$ 8.4	\$ 8.4
Distributions.....	(42.3)	(6.5)	(1.9)	(1.5)	(0.5)	(0.5)
ProLogis' share of the earnings of the entity, excluding fees earned.....	25.1	3.2	0.6	0.2	0.4	0.4
Subtotal.....	150.3	53.1	13.0	10.8	8.3	8.3
Adjustments to carrying value(2)...	(28.7)	(9.5)	(6.5)	(5.9)	(4.6)	(4.6)
Other, net(3).....	1.5	2.0	1.3	1.0	0.7	0.7
Subtotal.....	123.1	45.6	7.8	5.9	4.4	4.4
Other receivables.....	0.2	1.7	0.5	0.1	0.1	0.1
Total.....	\$ 123.3	\$ 47.3	\$ 8.3	\$ 6.0	\$ 4.5	\$ 4.5

Kingspark S.A.

ProLogis owns all of the non-voting preferred stock of Kingspark S.A. and all of the non-voting membership interests of Kingspark LLC. Kingspark LLC owns the voting common stock of Kingspark S.A. The voting membership interest of Kingspark LLC is owned by K. Dane Brooksher, ProLogis' chairman and chief executive officer. These combined investments do not give ProLogis control of these entities. Therefore, ProLogis recognizes its 99.75% share of the combined earnings or losses of these entities under the equity method. Kingspark S.A. owns Kingspark Group Holdings Limited ("ProLogis Kingspark"), a CDFS business in the United Kingdom. In addition to its equity investments and other receivables of \$17.2 million (primarily interest on notes receivable), ProLogis had the following amounts due from Kingspark S.A. and Kingspark LLC as of March 31, 2002:

- o 59.0 million pound sterling (the currency equivalent of approximately \$84.1 million as of March 31, 2002) outstanding on an unsecured revolving loan facility from ProLogis to Kingspark S.A.; interest at 5.5% per annum; due on demand;
- o \$117.3 million unsecured note from Kingspark S.A.; interest at 5.0% per annum; due on demand;
- o 143.5 million pound sterling (the currency equivalent of approximately \$204.5 million as of March 31, 2002) mortgage note from Kingspark S.A.; secured by land parcels; interest at 5.1% per annum; due on demand; and
- o \$7.3 million unsecured note from Kingspark LLC; interest at 8.0% per annum; due in January 2006.

As of March 31, 2002, Kingspark S.A. owned 2.1 million square feet of distribution facilities at an investment of \$187.9 million and 2.1 million square feet of facilities under development with a total budgeted cost of \$233.9 million. Additionally, as of March 31, 2002, Kingspark S.A. owned 243 acres of land and controlled 1,610 acres of land through purchase options, letters of

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intent or contingent contracts. The land owned and controlled by Kingspark S.A. has the capacity for the future development of approximately 26.7 million square feet of facilities.

ProLogis Kingspark has a line of credit agreement with a bank in the United Kingdom. The line of credit agreement provides for borrowings of up to 25.0 million pounds sterling (the currency equivalent of approximately \$35.6 million as of March 31, 2002) and has been guaranteed by ProLogis. As of March 31, 2002, no borrowings were outstanding on the line of credit. However, as of March 31, 2002, ProLogis Kingspark had the currency equivalent of approximately \$4.8 million of letters of credit outstanding that reduce the amount of available borrowings on the line of credit.

### Summarized Financial Information

Summarized financial information for certain of ProLogis' unconsolidated entities as of March 31, 2002 and for the three months then ended is presented below (in millions of U.S. dollars). The information presented is for the entire entity.

	ProLogis Logistics(1)	Frigoscandia S.A.(1)	ProLogis California	ProLogis North American Properties Fund I(3)	ProLogis North American Properties Fund II(4)	ProLogis North American Properties Fund III(4)	ProLogis North American Properties Fund IV(4)
Total assets.....	\$327.9	\$ 246.8	\$ 602.6	\$ 363.9	\$ 233.5	\$ 208.2	\$ 145.3
Total liabilities							
(7)(8).....	\$129.5	\$ 364.9	\$ 302.1	\$ 238.7	\$ 168.0	\$ 152.7	\$ 104.8
Minority interest...	\$ --	\$ 0.2	\$ --	\$ --	\$ --	\$ --	\$ --
Equity.....	\$198.4	\$(118.3)	\$ 300.5	\$ 125.2	\$ 65.5	\$ 55.5	\$ 40.5
Revenues.....	\$ 76.9	\$ 48.3	\$ 17.0	\$ 10.5	\$ 7.0	\$ 6.4	\$ 4.6
Net earnings(9).....	\$ 3.5	\$ 4.3	\$ 6.2	\$ 1.2	\$ 1.1	\$ 0.7	\$ 1.0

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#### 4. Shareholders' Equity:

During the three months ended March 31, 2002, ProLogis generated net proceeds of \$35.1 million from the issuance of 1,325,000 common shares of beneficial interest, \$0.01 par value ("Common Shares") under its 1999 Dividend Reinvestment and Share Purchase Plan and the issuance of 264,000 Common Shares under other Common Share plans.

ProLogis has a Common Share repurchase program under which it may repurchase up to \$100.0 million of its Common Shares. The Common Shares have been and, to the extent these repurchases continue, will be repurchased in the open market and in privately negotiated transactions, depending on market prices and other conditions. As of March 31, 2002, 778,000 Common Shares were repurchased under this program at a total cost of \$16.0 million. No repurchases occurred during the three months ended March 31, 2002.

#### 5. Distributions and Dividends:

##### Common Distributions

On February 28, 2002, ProLogis paid a quarterly distribution of \$0.355 per Common Share to shareholders of record on February 14, 2002. The distribution level for 2002 was set by ProLogis' Board of Trustees in December 2001 at \$1.42

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per Common Share.

### Preferred Dividends

The annual dividend rates on ProLogis' cumulative redeemable preferred shares are \$4.27 per share (Series C), \$1.98 per share (Series D) and \$2.19 per share (Series E).

On January 31, 2002, ProLogis paid a quarterly dividend of \$0.5469 per cumulative redeemable Series E preferred share. On March 29, 2002, ProLogis paid quarterly dividends of \$1.0675 per cumulative redeemable Series C preferred share and \$0.495 per cumulative redeemable Series D preferred share.

Pursuant to the terms of its preferred shares, ProLogis is restricted from declaring or paying any distribution with respect to the Common Shares unless all cumulative dividends with respect to the preferred shares have been paid and sufficient funds have been set aside for dividends that have been declared for the then-current dividend period with respect to the preferred shares.

### 6. Earnings per Common Share:

A reconciliation of the denominator used to calculate basic earnings per Common Share to the denominator used to calculate diluted earnings per Common Share for the periods indicated (in thousands, except per share amounts) is as follows:

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	Three Months Ended March 31,	
	2002	2001
Net earnings attributable to Common Shares.....	\$ 54,996	\$ 44,007
Minority interest share in earnings.....	1,282	--
Series B preferred share dividends.....	--	81
	-----	-----
Adjusted net earnings attributable to Common Shares.....	\$ 56,278	\$ 44,088
	=====	=====
Weighted average Common Shares outstanding--Basic....	176,523	167,297
Weighted average convertible limited partnership units.....	5,063	--
Weighted average convertible Series B preferred shares.....	--	6,263
Incremental weighted average effect of ...potentially dilutive instruments.....	1,596	811
	-----	-----
Adjusted weighted average Common Shares outstanding-- Diluted.....	183,182	174,371
	=====	=====

Per share net earnings attributable to Common Shares:

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Basic.....	\$	0.31	\$	0.26
		=====		=====
Diluted.....	\$	0.31	\$	0.25
		=====		=====

For the three months ended March 31, 2001, weighted average limited partnership units of 5,088,000 were not included in the calculation of diluted per share net earnings attributable to Common Shares as the effect, on an as-converted basis, was antidilutive.

### 7. Business Segments:

ProLogis has three reportable business segments:

- o Property operations represents the long-term ownership (either directly or through investments in unconsolidated real estate funds), management and leasing of distribution facilities in the United States, Mexico and Europe. Each operating facility is considered to be an individual operating segment having similar economic characteristics that are combined within the reportable segment based upon geographic location.
  
- o CDFS business represents the development of distribution facilities by ProLogis and Kingspark S.A. (which is not consolidated in ProLogis' financial statements) in the United States, Mexico, Europe and Japan that are often sold to third parties or contributed to unconsolidated real estate funds in which ProLogis has an ownership interest and acts as manager. Additionally, in the United States, Mexico and Europe, ProLogis and Kingspark S.A. earn fees for development activities on behalf of customers and realize profits from the sale of land parcels when their CDFS business plans no longer include development of these parcels. The operations of this segment are considered to be one operating segment.
  
- o Temperature-controlled distribution operations represents the operation of a temperature-controlled distribution and logistics network through investments in unconsolidated entities in the United States (ProLogis Logistics) and Europe (Frigoscandia S.A.). The operations of these entities are considered to be one operating segment.

Reconciliations of the following items for ProLogis' three reportable segments' are presented below: (i) income from external customers to ProLogis' total income; (ii) net operating income from external customers to ProLogis' earnings before minority interest (ProLogis' chief operating decision makers rely primarily on net operating income and related measures to make decisions about allocating resources and assessing segment performance); and (iii) assets to ProLogis' total assets. All amounts are in thousands of U.S. dollars.



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	2002	2001
Income:		
Property operations:		
United States(1).....	\$ 114,610	\$ 119,091
Mexico.....	5,518	4,230
Europe(1) (2).....	7,057	1,121
Total property operations segment.....	127,185	124,442
CDFS business:		
United States(3).....	18,363	28,253
Mexico(4).....	3,556	(10)
Europe(5) (6).....	13,979	13,134
Total CDFS business segment.....	35,898	41,377
Temperature-controlled distribution operations:		
United States(7).....	3,729	(1,744)
Europe(8).....	6,947	(7,728)
Total temperature-controlled distribution operations segment.....	10,676	(9,472)
Reconciling items:		
Income (loss) from unconsolidated entities.....	(2,069)	2,178
Interest and other income.....	570	1,124
Total reconciling items.....	(1,499)	3,302
Total income.....	\$ 172,260	\$ 159,649

Three Months Ended  
March 31,

	2002	2001
Net operating income:		
Property operations:		
United States(1).....	\$ 105,833	\$ 112,424
Mexico.....	6,686	4,434
Europe(1) (2).....	6,925	822
Total property operations segment.....	119,444	117,680
CDFS business:		
United States(3).....	17,555	27,139
Mexico(4).....	3,554	(72)
Europe(5) (6).....	13,968	13,081
Total CDFS business segment.....	35,077	40,148
Temperature-controlled distribution operations:		
United States(7).....	3,729	(1,744)
Europe(8).....	6,947	(7,728)
Total temperature-controlled distribution operations segment.....	10,676	(9,472)

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Reconciling items:		
Income (loss) from unconsolidated entities.....	(2,069)	2,178
Interest and other income.....	570	1,124
General and administrative expense.....	(12,927)	(14,417)
Depreciation and amortization.....	(36,231)	(37,860)
Interest expense.....	(40,830)	(41,522)
Other expenses.....	--	(14)
	-----	-----
Total reconciling items.....	(91,487)	(90,511)
	-----	-----
Earnings before minority interest.....	\$ 73,710	\$ 57,845
	=====	=====

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	March 31, 2002	December 31, 2001
	-----	-----
Assets:		
Property operations:		
United States(9).....	\$3,688,050	\$3,754,960
Mexico.....	123,705	149,225
Europe(9).....	320,787	316,025
	-----	-----
Total property operations segment.....	4,132,542	4,220,210
	-----	-----
CDFS business:		
United States.....	159,527	189,752
Mexico.....	17,727	17,390
Europe(9).....	622,954	628,764
Japan.....	43,482	43,030
	-----	-----
Total CDFS business segment.....	843,690	878,936
	-----	-----
Temperature-controlled distribution operations:		
United States(9).....	209,877	174,244
Europe(9).....	172,651	183,727
	-----	-----
Total temperature-controlled distribution operations segment.....	382,528	357,971
	-----	-----
Reconciling items:		
Investments in unconsolidated entities (9).....	4,162	6,232
Cash and cash equivalents.....	59,689	27,989
Accounts and notes receivable.....	11,080	1,880
Other assets.....	63,766	66,645
	-----	-----
Total reconciling items.....	138,697	102,746
	-----	-----
Total assets.....	\$5,497,457	\$5,559,863
	=====	=====

8. Supplemental Cash Flow Information

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Non-cash investing and financing activities for the three months ended March 31, 2002, and 2001 are as follows:

- o ProLogis received \$16.2 million and \$49.1 million of the proceeds from its disposition of facilities to unconsolidated real estate funds in the form of an equity interest in these entities during the three months in 2002 and 2001, respectively.
- o ProLogis received \$10.8 million of the proceeds from its disposition of a facility to a third party in the form of a note receivable during the three months in 2001.
- o Series B cumulative convertible redeemable preferred shares aggregating \$151.8 million were converted into Common Shares during the three months in 2001.
- o Net foreign currency translation adjustments of \$(18,097,000) and \$(42,684,000) were recognized for the three months in 2002 and 2001, respectively.
- o ProLogis contributed its 49.9% of the common stock of ProLogis European Properties S.a.r.l. to ProLogis European Properties Fund for an additional equity interest in ProLogis European Properties Fund of \$83.0 million and cash of \$16.8 million during the three months in 2001. ProLogis' basis in this investment prior to contribution was \$84.8 million.

### 9. Related Party Transactions

During the three months ended March 31, 2002, ProLogis paid a fee of \$1.2 million to an affiliate of Security Capital, ProLogis' largest shareholder (see Note 11), related to capital raised in ProLogis North American Properties Fund V (see Note 3).

### 10. Commitments and Contingencies:

#### Environmental Matters

All of the facilities acquired by ProLogis have been subjected to environmental reviews by ProLogis or predecessor owners. While some of these assessments have led to further investigation and sampling, none of the environmental assessments has revealed, nor is ProLogis aware of any environmental liability (including asbestos related liability) that ProLogis believes would have a material adverse effect on ProLogis' business, financial condition or results of operations.

### 11. Subsequent Event:

On May 14, 2002, Security Capital, ProLogis' largest shareholder, became a wholly owned subsidiary of General Electric Capital Corporation ("GE Capital"). Under the terms of the merger agreement, GE Capital made a portion of the ProLogis Common Shares owned by Security Capital a part of the merger consideration to be paid to Security Capital's shareholders. After these Common Shares are distributed, GE Capital is expected to own no more than 9.8% of the total outstanding Common Shares of ProLogis.

Independent Accountants' Review Report

The Board of Trustees and Shareholders  
ProLogis Trust:

We have reviewed the accompanying consolidated condensed balance sheet of ProLogis Trust and subsidiaries as of March 31, 2002, and the related consolidated condensed statement of earnings and comprehensive income and the consolidated condensed statement of cash flows for the three-month period ended March 31, 2002. These consolidated condensed financial statements are the responsibility of the Trust's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated condensed financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

San Diego, California  
May 1, 2002 except as to  
Note 11 which is as of May 14, 2002

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

The following discussion should be read in conjunction with ProLogis' Consolidated Condensed Financial Statements and the notes thereto included in Item 1 of this report. See also ProLogis' 2001 Annual Report on Form 10-K, as amended.

The statements contained in this discussion that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are based on current expectations, estimates and projections about the industry and markets in which ProLogis operates, management's beliefs, and assumptions made by management. Words such as "expects", "anticipates", "intends", "plans", "believes", "seeks", "estimates", variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Specifically, but not limited to, comments concerning Prologis' expectations with respect to the United States economy, its ability to raise private capital and generate income in the CDFS business segment and its plans for its investment in the temperature-controlled distribution operations segment are forward-looking statements. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Factors which may affect outcomes and results

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include: (i) changes in general economic conditions in ProLogis' markets that could adversely affect demand for ProLogis' facilities and the creditworthiness of ProLogis' customers, (ii) changes in financial markets, interest rates and foreign currency exchange rates that could adversely affect ProLogis' cost of capital and its ability to meet its financial needs and obligations, (iii) increased or unanticipated competition for distribution facilities in ProLogis' target market cities; and (iv) those factors discussed in ProLogis' 2001 Annual Report on Form 10-K, as amended.

### Results of Operations

#### Three Months Ended March 31, 2002 and 2001

ProLogis' net earnings attributable to Common Shares were \$55.0 million for the three months in 2002 as compared to \$44.0 million for the same period in 2001. ProLogis adopted SFAS No. 142 on January 1, 2002. Accordingly, ProLogis and its unconsolidated entities did not recognize amortization expense related to goodwill for the three months ended March 31, 2002 of approximately \$1.9 million (\$1.8 million of which represents ProLogis' share of amortization expense related to goodwill of its unconsolidated entities). See Note 1 to ProLogis' Consolidated Condensed Financial Statements in Item 1. For the three months in 2002, basic and diluted per share net earnings attributable to Common Shares were \$0.31 per share. Basic and diluted per share net earnings attributable to Common Shares were \$0.26 and \$0.25 per share, respectively, for the same period in 2001.

Net operating income from ProLogis' temperature-controlled distribution operations segment was the primary source of the increase in ProLogis' net earnings for the three months in 2002 over the same period in 2001. Net operating income in this segment increased by \$20.1 million in 2002 over the same period in 2001. This increase is the result of (i) operating profits generated in 2002 as compared to operating losses generated in 2001; (ii) reduced interest expense due to a shifting of third party debt from these entities to ProLogis; (iii) reduced depreciation expense as certain assets are classified as held for sale and are no longer depreciated; and (iv) reduced general and administrative expenses. The CDFS business segment, which provides capital for ProLogis to fund its development activities in addition to generating profits that contribute to ProLogis' net earnings, generated net operating income of \$35.1 million for the three months in 2002 as compared to net operating income of \$40.1 million for the three months in 2001. Net operating income in this segment is dependent on the volume of contributions of facilities developed by ProLogis and Kingspark S.A. to unconsolidated real estate funds in which ProLogis maintains an ownership interest, as well as to third parties. Net operating income from ProLogis' property operations segment increased for the three months in 2002 over the same period in 2001 by \$1.8 million. ProLogis' property operations segment's net operating income consists of rental income and net rental expenses from facilities directly owned by ProLogis, ProLogis' share of the earnings of its unconsolidated real estate funds that engage in property operations segment activities and fees earned from these entities. See "--Property Operations", "-- CDFS Business" and "--Temperature-Controlled Distribution Operations".

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Property Operations

ProLogis owned or had ownership interests in the following distribution facilities as of the dates indicated (square feet in thousands):

	March 31,			
	2002		2001	
	Number	Square Footage	Number	Square Footage
Direct ownership(1).....	1,200	122,846	1,231	125,175
ProLogis California(2).....	78	12,882	78	12,720
ProLogis North American Properties Fund I(3)....	36	8,962	36	8,962
ProLogis North American Properties Fund II(4)....	27	4,477	26	4,163
ProLogis North American Properties Fund III(5)...	34	4,381	--	--
ProLogis North American Properties Fund IV(6)....	17	3,475	--	--
ProLogis North American Properties Fund V(7).....	22	3,851	--	--
ProLogis European Properties Fund(8).....	154	25,579	110	15,959
	1,568	186,453	1,481	166,979

See also Note 3 to ProLogis' Consolidated Condensed Financial Statements in Item 1.

ProLogis' property operations segment income consists of the: (i) net operating income (rental income less net rental expenses) from the distribution facilities that are owned by ProLogis directly and (ii) the income recognized by ProLogis under the equity method from its investments in unconsolidated real estate funds engaged in property operations and fee income earned from these entities. The net operating income from distribution facilities that are developed by ProLogis in its CDFS business segment is included in the net operating income of the property operations segment until the facilities are contributed to an entity in which ProLogis maintains an ownership interest or are sold to a third party. See Note 7 to ProLogis' Consolidated Condensed Financial Statements in Item 1. The amounts recognized under the equity method are based on the net earnings or losses of each unconsolidated entity and include: net operating income, interest income, interest expense, depreciation and amortization expenses, general and administrative expenses, income taxes and foreign currency exchange gains and losses (with respect to ProLogis European Properties Fund). ProLogis' net operating income from the property operations segment is presented below (in thousands). See Note 7 to ProLogis' Consolidated Condensed Financial Statements in Item 1.

Three Months Ended March 31,	
2002	2001

Facilities directly owned by ProLogis and its consolidated

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entities:		
Rental income(1).....	\$ 112,929	\$ 119,244
Property operating expenses(2).....	7,741	6,762
	-----	-----
Net operating income.....	105,188	112,482
	-----	-----
Income from the ProLogis California.....	4,055	3,067
Income from ProLogis North American Properties Fund I.....	1,444	1,352
Income from ProLogis North American Properties Fund II.....	797	341
Income from ProLogis North American Properties Fund III(3).....	675	--
Income from ProLogis North American Properties Fund IV(4).....	531	--
Income from ProLogis North American Properties Fund V(5).....	6	--
Income from ProLogis European Properties Fund(6).....	6,748	402
Income from ProLogis European Properties S.a.r.l.(7).....	--	36
	-----	-----
Total property operations segment.....	\$ 119,444	\$ 117,680
	=====	=====

ProLogis' stabilized distribution facilities (facilities owned by ProLogis and the unconsolidated real estate funds), were 91.0% occupied and 91.9% leased as of March 31, 2002. ProLogis' stabilized occupancy levels have decreased as compared to 2001 (94.6% occupied and 95.6% leased). The term "stabilized" means, for acquisitions, any necessary capital improvements, repositioning, new management and new marketing programs and, in the case of newly developed facilities, construction and marketing, have been in effect for a sufficient period of time (generally 12 months) to achieve stabilized occupancy (typically 93%, but ranging from 90% to 95%, depending on the submarket and product type).

ProLogis believes that the decrease in its stabilized occupancy levels in 2002 is the result of the current economic conditions in the United States that have led to a slowing in customer leasing decisions and in a slowing in the absorption of new distribution facilities in the market. ProLogis does not expect market conditions affected by the United States economy to improve until the end of 2002 and believes that occupancies could continue to decline during the remainder of 2002. However, ProLogis believes that its global operating platform and the ProLogis Operating System (R) will partially mitigate the effects of these occupancy decreases, as they have allowed ProLogis to build strong local market presence and strong customer relationships across many global markets. In Europe, leasing activity has remained constant and 1.4 million square feet of leases were signed during the first quarter of 2002. ProLogis believes the leasing activity in Europe is currently affected more by a shift in distribution patterns of its customers and their need to reduce distribution costs than it is by the effects of general economic conditions.

The average increase in rental rates for both new and renewed leases on previously leased space (9.4 million square feet) for all facilities, including those owned by ProLogis' unconsolidated real estate funds, for the three months in 2002 was 4.4% as compared to 20.2% for the same period in 2001. This decrease is reflective of current economic conditions. For the three months in 2002, the net operating income (rental income less net rental expenses) generated by ProLogis' "same store" portfolio of distribution facilities (facilities owned by ProLogis and the unconsolidated real estate funds that were in operation throughout both three month periods in 2002 and 2001) increased by 0.7% over the same period in 2001 (as compared to an increase of 3.3% during the three months in 2001 as compared to the same period in 2000). The decrease in the growth rate in same store net operating income is due to increased bad debt expense in 2002 and to lower occupancy levels in the same store portfolio in 2002 as compared to



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2001.

CDFS Business

Net operating income from ProLogis' CDFS business segment consists primarily of: (i) the profits from the disposition of land parcels and distribution facilities that were developed by ProLogis and sold to third parties or contributed to unconsolidated real estate funds in which ProLogis maintains an ownership interest; (ii) development management fees earned by ProLogis; and (iii) income recognized under the equity method from ProLogis' investment in Kingspark S.A.

ProLogis recognizes 99.75% of the earnings of Kingspark S.A. under the equity method (including its share recognized through its ownership in Kingspark LLC) which includes net operating income, interest income, interest expense (net of amounts capitalized), general and administrative expense (net of amounts capitalized), income taxes and foreign currency exchange gains and losses. See Note 3 to ProLogis' Consolidated Condensed Financial Statements in Item 1.

Income from the CDFS business segment is dependent on ProLogis' ability to develop and lease distribution facilities that can be disposed of to generate profits and its ability to raise private capital through the formation of real estate funds or other sources. There can be no assurance that ProLogis will be able to maintain the level of profits in this business segment.

The CDFS business segment operations decreased during the three months ended March 31, 2002 from the same period in 2001. The CDFS business segment income is comprised of the following (in thousands):

	Three Months Ended March 31,	
	2002	2001
	-----	-----
Net gains on disposition of land parcels and facilities developed(1).....	\$ 24,952	\$ 28,720
Development management fees.....	517	941
Income from Kingspark S.A.(2)(3).....	9,482	10,253
Miscellaneous fees and other income.....	947	1,463
Other expenses(4).....	(821)	(1,229)
	-----	-----
	\$ 35,077	\$ 40,148
	=====	=====

During 2001, ProLogis began to direct the focus of its CDFS business segment operations from North America to Europe, given the deteriorating economic conditions in North America. As of March 31, 2002, 74% of ProLogis' CDFS business segment assets were located in Europe with 21% located in North America and the remaining 5% located in Japan. ProLogis believes that the continuing demand for state-of-the-art distribution facilities in Europe will continue to provide it with opportunities to expand its CDFS business. Further to this objective, with 2,884 acres of land owned or controlled in Europe including 1,853 acres of land owned and controlled in the United Kingdom by Kingspark S.A., ProLogis believes it will not be affected by land entitlement constraints that currently exist in Europe. ProLogis will continue to monitor leasing activity and general economic conditions in the United States as it pertains to its CDFS business segment operations. In 2001, ProLogis began its first development project in Japan. As in Europe, ProLogis believes that demand

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for state-of-the-art distribution facilities in Japan will provide opportunities for ProLogis to expand its CDFS business.

### Temperature-Controlled Distribution Operations

ProLogis recognizes income from the temperature-controlled distribution operations segment of its business under the equity method. In March 2002, all of the temperature-controlled distribution operating assets in Sweden, Denmark, Finland, Norway and the Netherlands, and the remaining temperature-controlled distribution operating assets in Germany owned by Frigoscandia S.A. and its wholly owned subsidiaries were sold. Negotiations related to the sale of substantially all of the temperature-controlled distribution operating assets in the United States owned by CSI and the temperature-controlled distribution operating assets in Spain and Italy owned by Frigoscandia S.A. and its wholly owned subsidiaries are continuing. ProLogis' share of the earnings or losses from this operating segment is below (in thousands). See Notes 3 and 7 to ProLogis' Consolidated Condensed Financial Statements in Item 1.

	Three Months Ended March 31,	
	2002	2001
Income (loss) from ProLogis Logistics(1).....	\$ 3,729	\$ (1,744)
Income (loss) from Frigoscandia S.A(1).....	6,947	(7,728)
Total temperature-controlled distribution operations segment.....	\$ 10,676	\$ (9,472)

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Amounts recognized by ProLogis and CSI/Frigo LLC under the equity method from their respective investments in ProLogis Logistics and Frigoscandia S.A. include: net operating income, interest income, interest expense, depreciation and amortization expense, general and administrative expense, income taxes, foreign currency exchange gains and losses (with respect to Frigoscandia S.A.). ProLogis recognized in excess of 99% of the earnings of each entity for the three months in 2002 and 2001.

ProLogis' share of ProLogis Logistics' net earnings (including its share recognized through its ownership in CSI/Frigo LLC) for the three months in 2002 increased over the same period in 2001 by \$5.5 million. This increase is primarily attributable to the classification of CSI's operating assets as held for sale. This classification under GAAP requires that all depreciation and amortization associated with these assets cease. Consequently, CSI recognized no depreciation or amortization expense for the three months in 2002 as compared to the \$5.0 million of depreciation and amortization expense recognized in 2001.

ProLogis' share of Frigoscandia S.A.'s net earnings for the three months in 2002 (including its share recognized through its ownership in CSI/Frigo LLC) includes a net foreign currency exchange gain of \$4.7 million. ProLogis' share of Frigoscandia S.A.'s net loss for the three months in 2001 (including its share recognized through its ownership in CSI/Frigo LLC) includes a net foreign currency loss of \$1.4 million. Excluding these foreign exchange gains and losses, ProLogis recognized \$8.5 million more income under the equity method, in 2002 than it recognized for the three months in 2001 from its investment in Frigoscandia S.A. The increase in ProLogis' share of Frigoscandia S.A.'s net

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earnings in 2002 from 2001 is a function of: (i) improved operating results from assets in service in both periods; (ii) lower interest expense in 2002 due to lower debt balances and lower interest rates; (iii) the recognition of less depreciation and amortization expense in 2002; offset by (iv) lower income from operations due to sales of assets after March 31, 2001. The decrease in depreciation and amortization expense in 2002 is due to the reduced amount of assets in operation in that period and also to the classification of certain assets as held for sale under GAAP. This classification requires that all depreciation and amortization associated with those assets cease.

### Other Income and Expense Items

#### General and Administrative Expense

General and administrative expense was \$12.9 million for the three months in 2002 and \$14.4 million for the three months in 2001. The decrease in general and administrative expense is primarily attributable to the timing of costs incurred. ProLogis does not expect this trend to continue throughout 2002.

#### Depreciation and Amortization

Depreciation and amortization expense was \$36.2 million for the three months in 2002 and \$37.9 million for the three months in 2001. The decrease in this expense is a function of the number of distribution facilities directly owned by ProLogis in each period (see "-- Property Operations") and the adoption of SFAS No. 142 which eliminated amortization related to goodwill beginning on January 1, 2002.

#### Interest Expense

Interest expense is a function of the level of borrowings outstanding and interest rates charged on borrowings, offset by interest capitalization with respect to development activities. Interest cost before capitalization was \$46.3 million for the three months in 2002 and \$47.4 million for the three months in 2001. The decrease in 2002 from 2001 is primarily due to lower average interest rates and lower average borrowings outstanding on ProLogis' lines of credit.

Interest expense recognized on borrowings is offset by interest capitalized with respect to ProLogis' development activities. Capitalized interest was \$5.5 million in 2002 and \$5.9 million in 2001. Capitalized interest levels are reflective of ProLogis' cost of funds and the level of development activity in each year.

#### Other Expenses

Other expenses were \$0.8 million for the three months in 2002 and \$1.2 million for the same period in 2001 and includes land holding costs and the write-off of previously capitalized pursuit costs. Land holding costs were \$0.6 million in 2002 and \$0.5 million in 2001. Pursuit cost write-offs were \$0.2 million in 2002 and \$0.7 million in 2001.

#### Loss on Disposition of Real Estate

Loss on disposition of real estate represents the net losses from the disposition of distribution facilities that were acquired or developed for long-term use in the property operations segment. Generally, ProLogis disposes of facilities in the property operations segment because such facilities are considered to be non-strategic facilities. Non-strategic facilities are assets located in markets or submarkets that are no longer considered target markets as well as assets that were acquired as part of previous portfolio acquisitions that are not consistent with ProLogis' core portfolio based on the asset's size

or configuration. Also, ProLogis will contribute facilities from its operating portfolio to complement the portfolio of developed distribution facilities that are acquired by the unconsolidated real estate funds. During the three months ended March 31, 2002, ProLogis disposed of one operating facility with net sales proceeds of \$1.5 million. This facility was not classified as a discontinued operation under SFAS No. 144 as the effect on ProLogis' Consolidated Condensed Statements of Earnings and Comprehensive Income is not material. See Note 1 to ProLogis' Consolidated Condensed Financial Statements in Item 1.

During the three months ended March 31, 2001, ProLogis disposed of six operating facilities with net sales proceeds of \$62.9 million (four facilities with net sales proceeds of \$58.8 million were contributed to unconsolidated real estate funds in which ProLogis maintains an ownership interest). Also, ProLogis recognized a net gain of \$0.5 million upon the contribution of its 49.9% ownership of ProLogis European Properties S.a.r.l. to ProLogis European Properties Fund in January 2001.

#### Income (Loss) from Unconsolidated Entities

The combined income (loss) from unconsolidated entities, recognized under the equity method, that is not directly attributable to one of ProLogis' three business segments was a loss of \$2,069,000 for the three months in 2002 and income of \$2,178,000 for the three months in 2001. See Note 7 to ProLogis' Consolidated Condensed Financial Statements in Item 1. For 2002, this amount consists of: (i) a \$2,073,000 loss from ProLogis' investment in GoProLogis and (ii) income of \$4,000 from ProLogis' investment in Insight, Inc. The loss recognized by GoProLogis represents ProLogis' share of GoProLogis' impairment adjustment that reduced GoProLogis' remaining investment in Vizional Technologies to zero. For 2001, this amount consists of: (i) income of \$2,188,000 from ProLogis' investment in GoProLogis and ProLogis Broadband (1) Incorporated ("ProLogis PhatPipe") and (ii) a loss of \$10,000 from ProLogis' investment in Insight, Inc. The income recognized by GoProLogis and ProLogis PhatPipe consisted entirely of license fee income for the non-exclusive use of the ProLogis Operating System(R) earned from Vizional Technologies and PhatPipe Inc., respectively. ProLogis PhatPipe and GoProLogis ceased recognizing income under the license fee agreements in the second and third quarters of 2001, respectively. See Note 3 to ProLogis' Consolidated Condensed Financial Statements in Item 1.

#### Foreign Currency Exchange Gains (Losses), Net

ProLogis recognized net foreign currency exchange losses of \$0.3 million and net foreign currency exchange gains of \$2.7 million during the three months 2002 and 2001, respectively. Foreign currency exchange gains and losses are primarily the result of the remeasurement and settlement of intercompany and third party debt of ProLogis' foreign subsidiaries. Fluctuations in the foreign currency exchange gains and losses recognized in each period are a product of movements in certain foreign currency exchange rates, primarily the euro, the pound sterling and the yen and the level of intercompany and third party debt outstanding that is denominated in a currency other than the functional currency of the borrower. Changes in these currency exchange rates against the entity's functional currency are the primary source of the remeasurement losses recognized in these periods.

#### Income Taxes

ProLogis is taxed as a REIT for federal income tax purposes and is not generally required to pay federal income taxes if minimum distribution and income, asset and shareholder tests are met. Not all of ProLogis' consolidated subsidiaries in the United States are qualified REIT subsidiaries for tax

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purposes. Also, the foreign countries in which ProLogis operates do not recognize REITs under their respective tax laws. Accordingly, ProLogis recognizes income taxes as appropriate and in accordance with GAAP with respect to the taxable earnings of certain of its taxable subsidiaries.

Current income tax expense recognized during the three months in 2002 and 2001 was \$1.1 million and \$1.6 million, respectively. Current income tax expense is generally a function of the level of income recognized by ProLogis' taxable subsidiary operating in the CDFS business segment. ProLogis recognized deferred income tax expense of \$7.7 million for the three months in 2002 and \$0.9 million for the three months in 2001. ProLogis' deferred income tax component of total income taxes is a function of each period's temporary differences (items that are treated differently for tax purposes than for book purposes) and the utilization of previously generated tax net operating losses that have been recognized as deferred tax assets

### Environmental Matters

ProLogis has not experienced any environmental condition on its facilities, which materially adversely affected its results of operations or financial position nor is ProLogis aware of any environmental liability that ProLogis believes would have a material adverse effect on its business, financial condition or results of operations.

### Liquidity and Capital Resources

#### Overview

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ProLogis considers its liquidity and ability to generate cash from operations as well as its financing capabilities (including proceeds from the disposition of distribution facilities) to be adequate and expects it to continue to be adequate to meet its anticipated development, acquisition, operating and debt service needs as well as its shareholder distribution requirements.

ProLogis' future investing activities are expected to consist of: (i) the acquisition of land for future development and the development of distribution facilities in the CDFS business segment for future disposition and (ii) acquisitions of existing distribution facilities in key distribution markets in the property operations segment. ProLogis' future investing activities are expected to be funded with:

- o cash generated by operations;
- o the proceeds from the disposition of facilities developed by ProLogis to third parties;
- o the proceeds from the contribution of facilities to unconsolidated real estate funds in which ProLogis maintains an ownership interest;
- o the proceeds from the disposition of ProLogis' investment in the temperature-controlled distribution operations segment;
- o the proceeds from the sale of Common Shares under ProLogis' Common Share plans; and
- o utilization of ProLogis' U.S. dollar denominated and multi-currency denominated lines of credit.

In the short-term, borrowings on and subsequent repayments of, ProLogis' line of credit are expected to provide ProLogis with adequate liquidity and

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financial flexibility to efficiently respond to market opportunities. As of May 13, 2002, on a combined basis, ProLogis had approximately \$479.0 million of short-term borrowings outstanding resulting in additional short-term borrowing capacity available of \$542.6 million (see "-- Borrowing Capacity and Debt Maturities"). ProLogis has \$608.0 million of shelf-registered securities which can be issued in the form of debt securities, preferred shares, Common Shares, rights to purchase Common Shares and preferred share purchase rights on an as-needed basis, subject to ProLogis' ability to effect an offering on satisfactory terms. ProLogis will continue to evaluate the public debt markets with the objective of reducing its short-term borrowings and extending debt maturities should favorable terms be available.

Within ProLogis European Properties Fund, ProLogis has access to 350.9 million euros (the currency equivalent of approximately \$305.8 million as of March 31, 2002) of additional third party equity capital in Europe that has been committed primarily by institutional investors through September 2002. The capital is committed to fund acquisitions of ProLogis' completed stabilized European developments and acquisitions of facilities from third parties.

### Cash Operating Activities

Net cash provided by operating activities was \$88.2 million for the three months in 2002 and \$104.8 million for the three months in 2001. See "-- Results of Operations -- Property Operations". Cash provided by operating activities exceeded the cash distributions paid on Common Shares and cash dividends paid on preferred shares for both three-month periods in 2002 and 2001. See ProLogis' Consolidated Condensed Statements of Cash Flows in Item 1.

### Cash Investing and Cash Financing Activities

For the three months in 2002, ProLogis' investing activities provided net cash of \$53.5 million and its financing activities used net cash of \$110.0 million (financing activities used net cash of \$39.3 million excluding cash distributions on Common Shares and cash dividends on preferred shares). Proceeds received from dispositions of real estate were used to fund ProLogis' real estate investments and, along with the proceeds from sales of Common Shares, were used to fund ProLogis' net repayment of borrowings on its lines of credit. For the three months in 2001, ProLogis' investing activities provided net cash of \$253.3 million and its financing activities used net cash of \$382.5 million (financing activities used net cash of \$313.9 million excluding cash distributions on Common Shares and cash dividends on preferred shares). Proceeds received from dispositions of real estate and the repayments of loans by and distributions received from ProLogis' unconsolidated entities were used to fund ProLogis' real estate investments and were the primary sources of funds used to repay borrowings on ProLogis' lines of credit. See ProLogis' Consolidated Condensed Statements of Cash Flows in Item 1.

### Borrowing Capacity and Debt Maturities

ProLogis has over \$1.0 billion of short-term borrowing capacity under four revolving lines of credit. These borrowings are available in four currencies and are summarized below (dollar amounts in millions of U.S. dollars):

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	Outstanding as of			
Total Commitment	March 31, 2002	May 13, 2002	Weighted Average Interest Rate(1)	Expiration

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\$ 500.0	\$ 107.0	\$ 109.0	2.66%	06/06/03(2)
60.0(3)	--	44.6	--	06/06/02
283.4(4)(5)	226.8(4)(5)	276.7(4)(5)	4.28%	12/17/03
184.9(6)	46.8(6)	48.7(6)	1.15%	09/13/04(2)
-----	-----	-----	-----	-----
1,028.3(7)	\$ 380.6	\$ 479.0	3.44%	
=====	=====	=====	=====	
-----				

ProLogis has senior unsecured notes and secured debt (mortgage notes, assessment bonds and securitized debt) outstanding as of March 31, 2002 with annual principal payments during each of the years in the five-year period ending December 31, 2006 and thereafter as follows (in thousands):

Remainder of 2002.....	\$ 28,678
2003.....	185,214
2004.....	316,554
2005.....	111,579
2006.....	319,995
2007 and thereafter.....	1,222,011
	-----
Total principal due.....	2,184,031
Less: Original issue discount.....	(2,051)
	-----
Total carrying value.....	\$ 2,181,980
	=====

### Liquidity and Capital Resources of ProLogis' Unconsolidated Entities

ProLogis has investments and advances to unconsolidated entities of \$1.3 billion as of March 31, 2002. Summarized financial information for certain of these unconsolidated entities is presented below (in millions of U.S. dollars). The information presented is for the entire entity.

	ProLogis North American	ProLogis North American	ProLogis North American	ProLogis North American	ProLogis North American	ProLogis North American	
	ProLogis Logistics(1)	Frigoscandia S.A.(1)	ProLogis California(2)	Properties Fund I(3)	Properties Fund II(4)	Properties Fund III(4)	Properties Fund IV(4)
	-----	-----	-----	-----	-----	-----	-----
Total assets.....	\$327.9	\$ 246.8	\$602.6	\$363.9	\$233.5	\$ 208.2	\$145.3
Total liabilities..	\$129.5(7)	\$ 364.9(8)	\$302.1(9)	\$238.7(10)	\$168.0(11)	\$ 152.7(12)	\$104.8(13)
Minority interest..	\$ --	\$ 0.2	\$ --	\$ --	\$ --	\$ --	\$ --
Equity.....	\$198.4	\$(118.3)	\$300.5	\$125.2	\$ 65.5	\$ 55.5	\$ 40.5

### Distribution and Dividend Requirements

ProLogis' current distribution policy is to pay quarterly distributions to shareholders based upon what it considers to be a reasonable percentage of cash flow and at the level that will allow ProLogis to continue to qualify as a REIT

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for tax purposes. Because depreciation is a non-cash expense, cash flow typically will be greater than earnings from operations and net earnings. Therefore, annual distributions are expected to be consistently higher than annual earnings.

On February 28, 2002, ProLogis paid a quarterly distribution of \$0.355 per Common Share to shareholders of record on February 14, 2002, respectively. The distribution level for 2002 was set by ProLogis' Board of Trustees in December 2001 at \$1.42 per Common Share. The payment of distributions is subject to the discretion of the Board and is dependent upon the financial condition and operating results of ProLogis and may be adjusted at the discretion of the Board of Trustees during the year.

As of March 31, 2002, ProLogis had three series of cumulative redeemable preferred shares of beneficial interest outstanding. The annual dividend rates on ProLogis' cumulative redeemable preferred shares are \$4.27 per share (Series C), \$1.98 per share (Series D) and \$2.19 per share (Series E).

On January 31, 2002, ProLogis paid quarterly dividends of \$0.5469 per cumulative redeemable Series E preferred share. On March 29, 2002, ProLogis paid quarterly dividends of \$1.0675 per cumulative redeemable Series C preferred share and \$0.495 per cumulative redeemable Series D preferred share.

Pursuant to the terms of its preferred shares, ProLogis is restricted from declaring or paying any distribution with respect to the Common Shares unless and until all cumulative dividends with respect to the Preferred Shares have been paid and sufficient funds have been set aside for dividends for the then current dividend period with respect to the preferred shares.

### Other Commitments

As of March 31, 2002, ProLogis had letters of intent or contingent contracts, subject to ProLogis' final due diligence, for the acquisition of 1.5 million square feet of distribution facilities at an estimated acquisition cost of \$39.3 million. The foregoing transactions are subject to a number of conditions, and ProLogis cannot predict with certainty that they will be consummated. As of March 31, 2002, ProLogis had \$1.0 million of funds on deposit with title companies that can be used to acquire these assets. In addition, as of March 31, 2002, ProLogis had facilities under development with an expected cost at completion of \$222.2 million of which \$104.0 million was unfunded.

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ProLogis has a Common Share repurchase program under which it may repurchase up to \$100.0 million of its Common Shares. The Common Shares have been and, to the extent these repurchases continue, will be purchased in the open market and in privately negotiated transactions, depending on market prices and other conditions. As of March 31, 2002, 778,400 Common Shares were repurchased under this program at a total cost of \$16.0 million. No repurchases occurred during the three months ended March 31, 2002. ProLogis intends to fund the Common Share repurchase program through borrowings on its lines of credit.

### Funds from Operations

Funds from operations attributable to Common Shares increased by \$5.5 million to \$106.2 million for the three months in 2002 from \$100.7 million for the three months in 2001.

Funds from operations does not represent net income or cash from operating activities in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs, which is presented in the Consolidated Condensed Statement of Cash Flows in ProLogis' Consolidated Condensed Financial Statements



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in Item 1. Funds from operations should not be considered as an alternative to net income as an indicator of ProLogis' operating performance or as an alternative to cash flows from operating, investing or financing activities as a measure of liquidity. Additionally, the funds from operations measure presented by ProLogis will not necessarily be comparable to similarly titled measures of other REITs. ProLogis considers funds from operations to be a useful supplemental measure of comparative period operating performance and as a supplemental measure to provide management, financial analysts, potential investors and shareholders with an indication of ProLogis' ability to fund its capital expenditures and investment activities and to fund other cash needs.

Funds from operations is defined by the National Association of Real Estate Investment Trusts ("NAREIT") generally as net income (computed in accordance with GAAP), excluding real estate related depreciation and amortization, gains and losses from sales of properties, except those gains and losses from sales of properties upon completion or stabilization under pre-sale agreements and after adjustments for unconsolidated entities to reflect their funds from operations on the same basis. ProLogis includes gains and losses from the disposition of its CDFS business segment assets in funds from operations.

Funds from operations, as used by ProLogis, is modified from the NAREIT definition. ProLogis' funds from operations measure does not include: (i) deferred income tax benefits and deferred income tax expenses of ProLogis' taxable subsidiaries; (ii) foreign currency exchange gains and losses resulting from debt transactions between ProLogis and its consolidated and unconsolidated entities; (iii) foreign currency exchange gains and losses from the remeasurement (based on current foreign currency exchange rates) of third party debt of ProLogis' foreign consolidated and unconsolidated entities; and (iv) mark to market adjustments related to derivative financial instruments utilized to manage ProLogis' foreign currency risks. These adjustments to the NAREIT definition are made to reflect ProLogis' funds from operations on a comparable basis with the other REITs that do not engage in the types of transactions that give rise to these items.

Funds from operations is as follows (in thousands):

	Three Months Ended March 31,	
	2002	2001
Net earnings attributable to Common Shares.....	\$ 54,996	\$ 44,007
Add (Deduct):		
Real estate related depreciation and amortization.....	34,502	36,377
Loss on disposition of non-CDFS business segment assets.....	153	1,198
Foreign currency exchange (gains) losses, net.....	339	(2,884)
Deferred income tax expense.....	7,701	909
ProLogis' share of reconciling items of unconsolidated entities:		
Real estate related depreciation and amortization..	9,490	18,147
Gain on disposition of non-CDFS business segment assets.....	(814)	(5)
Foreign currency exchange (gains) losses, net.....	(3,930)	8,874
Deferred income tax expense (benefit) expense.....	3,732	(5,918)
	-----	-----
Funds from operations attributable to Common Shares.....	\$106,169	\$100,705
	=====	=====

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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As of March 31, 2002, no significant change had occurred in ProLogis' interest rate risk or foreign currency risk as discussed in ProLogis' 2001 Annual Report on Form 10-K, as amended.

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PART II

Item 4. Submission of Matters to Vote of Securities Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

12.1 Computation of Ratio of Earnings to Fixed Charges

12.2 Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Share Dividends

15.1 Letter from KPMG LLP regarding unaudited financial information dated May 14, 2002

(b) Reports on Form 8-K:

Date	Items Reported	Financial Statements
-----	-----	-----
None		

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PROLOGIS TRUST

By: /s/ WALTER C. RAKOWICH

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Walter C. Rakowich  
Managing Director and  
Chief Financial Officer  
(Principal Financial Officer)

By: /s/ LUKE A. LANDS

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Luke A. Lands  
Senior Vice President and Controller

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By: /s/ SHARI J. JONES

-----  
Shari J. Jones  
Vice President  
(Principal Accounting Officer)

Date: May 14, 2002

PROLOGIS TRUST  
 COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES  
 (Dollar amounts in thousands)

	Three Months Ended March 31,		Year Ended		
	2002	2001	2001	2000	1999
Net Earnings from Operations	\$ 72,428	\$ 56,469	\$ 126,582	\$ 236,221	\$ 161,000
Add:					
Interest Expense	40,830	41,522	163,269	172,191	170,000
Earnings as Adjusted	\$ 113,258	\$ 97,991	\$ 289,851	\$ 408,412	\$ 332,000
Fixed Charges:					
Interest Expense	\$ 40,830	\$ 41,522	\$ 163,269	\$ 172,191	\$ 170,000
Capitalized Interest	5,489	5,904	24,276	18,549	15,000
Total Fixed Charges	\$ 46,319	\$ 47,426	\$ 187,545	\$ 190,740	\$ 186,000
Ratio of Earnings, as Adjusted to Fixed Charges	2.4	2.1	1.5	2.1	

EXHIBIT 12.2

PROLOGIS TRUST  
 COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES  
 AND PREFERRED SHARE DIVIDENDS  
 (Dollar amounts in thousands)

	Three Months Ended March 31,		Year Ended		
	2002	2001	2001	2000	1999
Net Earnings from Operations	\$ 72,428	\$ 56,469	\$ 126,582	\$ 236,221	\$ 161,000
Add:					
Interest Expense	40,830	41,522	163,269	172,191	170,000
Earnings as Adjusted	\$ 113,258	\$ 97,991	\$ 289,851	\$ 408,412	\$ 331,000
Combined Fixed Charges and Preferred Share Dividends:					
Interest Expense	\$ 40,830	\$ 41,522	\$ 163,269	\$ 172,191	\$ 170,000
Capitalized Interest	5,489	5,904	24,276	18,549	15,000
Total Fixed Charges	46,319	47,426	187,545	190,740	185,000
Preferred Share Dividends	8,179	11,432	37,309	56,763	56,000

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Combined Fixed Charges and Preferred Share Dividends	\$ 54,498	\$ 58,858	\$ 224,854	\$ 247,503	\$ 243
	=====	=====	=====	=====	=====
Ratio of Earnings, as Adjusted to Combined Fixed Charges and Preferred Share Dividends	2.1	1.7	1.3	1.7	
	=====	=====	=====	=====	=====

(a) Due to a one-time, non-recurring, non-cash charge of \$75.4 million relating to the costs incurred in acquiring the management companies from a related party, earnings were insufficient to cover combined fixed charges and preferred share dividends for the year ended December 31, 1997 by \$14.9 million.

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Board of Trustees and Shareholders of ProLogis Trust  
Denver, Colorado

Re: Registration Statement Nos. 33-91366, 33-92490, 333-31421, 333-38515,  
333-26597, 333-74917, 333-75893, 333-79813, 333-69001, 333-86081,  
333-46700, 333-46698, 333-43546, 333-43544, 333-36578, 333-04961,  
333-60374, 333-63992, 333-70274, 333-95737, 333-75722 and 333-88150.

With respect to the subject registration statements, we acknowledge our awareness of the use therein of our report dated May 1, 2002 (except as to Note 11, which is as of May 14, 2002) related to our review of interim financial information.

Pursuant to Rule 436 under the Securities Act of 1933 (the Act), such report is not considered part of a registration statement prepared or certified by an accountant, or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of the Act.

KPMG LLP

San Diego, California



