PROLOGIS TRUST
Form 10-Q/A
April 05, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A #1

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM ______________ TO ______________

COMMISSION FILE NUMBER 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 X No ___

The number of shares outstanding of the Registrant's common stock as of November 9, 2001 was 174,953,233.

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CONSOLIDATED CONDENSED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS	SEPTEMBER 30, 2001 (UNAUDITED)
Real estate	$ 4,587,892
Less accumulated depreciation	555,264
	4,032,628
Investments in and advances to unconsolidated entities	1,318,616
Cash and cash equivalents	41,119
Accounts and notes receivable	27,772
Other assets	203,309
Total assets	$ 5,623,444

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:	
Lines of credit	$ 287,553
Senior unsecured debt	1,670,271
Mortgage notes and other secured debt	531,836
Accounts payable and accrued expenses	140,527
Construction payable	18,835
Distributions and dividends payable	729
Other liabilities	99,637
Total liabilities	2,749,388
Minority interest	45,815
Shareholders' equity:	
Series A Preferred Shares; $0.01 par value; 5,400,000 shares issued and outstanding at December 31, 2000; stated liquidation preference of $25.00 per share	--
Series B Preferred Shares; $0.01 par value; 6,256,100 shares issued and outstanding at December 31, 2000; stated liquidation preference of $25.00 per share	--
Series C Preferred Shares; $0.01 par value; 2,000,000 shares issued and outstanding at September 30, 2001 and December 31, 2000; stated liquidation preference of $50.00 per share	100,000
Series D Preferred Shares; $0.01 par value; 10,000,000 shares issued and outstanding at September 30, 2001 and December 31, 2000; stated liquidation preference of $25.00 per share	250,000
Series E Preferred Shares; $0.01 par value; 2,000,000 shares issued and outstanding at September 30, 2001 and December 31, 2000; stated liquidation preference of $25.00 per share	50,000
Common shares of beneficial interest; $0.01 par value; 174,645,388 shares issued and outstanding at September 30, 2001 and 165,287,358 shares issued and outstanding at December 31, 2000	1,746
Additional paid-in capital	2,933,202
Employee share purchase notes	(17,161
Accumulated other comprehensive income	(53,198
Distributions in excess of net earnings	(436,348
Total shareholders' equity	2,828,241
Total liabilities and shareholders' equity	$ 5,623,444

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 MONTHS EN SEPTEMBER 3	
	2001	
Income:		
Rental income	$ 115,947	$ 1
Other real estate income	26,840	
Income from unconsolidated entities	14,621	
Interest and other income	837	
Total income	158,245	1
Expenses:		
Rental expenses, net of recoveries of $23,484 and $72,236 for the three and nine months in 2001, respectively, and $22,426 and $68,163 for the three and nine months in 2000, respectively, and including amounts paid to affiliate of $174 for the nine months in 2001 and $294 and $919 for the three and nine months in 2000, respectively	7,973	
General and administrative, including amounts paid to affiliate of $170 for the nine months in 2001 and $252 and $719 for the three and nine months in 2000, respectively	11,042	
Depreciation and amortization	36,040	
Interest	41,211	
Other	675	
Total expenses	96,941	
Earnings before minority interest	61,304	
Minority interest share in earnings	1,470	
Earnings before gain on disposition of real estate and foreign currency exchange losses	59,834	
Gain on disposition of real estate, net	3,488	
Foreign currency exchange losses, net	(6,545)	
Earnings before income taxes	56,777	
Income taxes:		
Current income tax expense	435	
Deferred income tax expense (benefit)	(748)	
Total income taxes	(313)	
Net earnings	57,090	
Less preferred share dividends	8,179	
Net earnings attributable to Common Shares	48,911	
Other comprehensive income:		
Foreign currency translation adjustments	43,200	(
Comprehensive income	$ 92,111	$
Weighted average Common Shares outstanding - Basic	174,507	1

Weighted average Common Shares outstanding - Diluted	175,586	1
Per Common Share:		
Basic net earnings attributable to Common Shares	$ 0.28	$
Diluted net earnings attributable to Common Shares	$ 0.28	$
Distributions	$ 0.345	$

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

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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(IN THOUSANDS)

	NINE MON SEPTEM
	2001
Operating activities:	
Net earnings	$ 166,600
Minority interest share in earnings	4,304
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Depreciation and amortization	106,403
Gain on disposition of real estate	(863)
Straight-lined rents	(5,392)
Amortization of deferred loan costs	3,689
Stock-based compensation	5,150
Income from unconsolidated entities	(15,673)
Deferred income tax expense	3,507
Foreign currency exchange (gains) losses, net	(251)
Increase in accounts receivable and other assets	(29,730)
Increase in accounts payable, accrued expenses and other liabilities	45,746
Net cash provided by operating activities	283,490
Investing activities:	
Real estate investments	(621,024)
Tenant improvements and lease commissions on previously leased space	(16,379)
Recurring capital expenditures	(23,401)
Proceeds from dispositions of real estate	690,752

Net (advances to) amounts received from unconsolidated entities	176,228
Proceeds from repayment of note receivable	10,424
Cash balances contributed as part of ProLogis European Properties S.a.r.l	--
Net cash provided by (used in) investing activities	216,600
Financing activities:	
Net proceeds from exercised options and dividend reinvestment and share purchase plans	48,575
Repurchase of Common Shares, net of costs	(16,000)
Redemption of Series A preferred shares	(135,000)
Redemption of Series B convertible preferred shares	(4,583)
Debt issuance and other transaction costs incurred	(1,815)
Distributions paid on Common Shares	(177,332)
Distributions paid to minority interest holders	(5,248)
Distributions paid on preferred shares	(29,130)
Principal payments on senior unsecured debt	(30,000)
Principal payments received on employee share purchase notes	1,395
Payments on the purchase of derivative financial instruments	(2,232)
Proceeds from settlement of derivative financial instruments	106
Proceeds from lines of credit	976,406
Payments on lines of credit	(1,128,675)
Regularly scheduled principal payments on mortgage notes	(5,764)
Principal prepayments on mortgage notes	(7,544)
Net cash used in financing activities	(516,841)
Net increase (decrease) in cash and cash equivalents	(16,751)
Cash and cash equivalents, beginning of period	57,870
Cash and cash equivalents, end of period	$ 41,119

See Note 10 for information on non-cash investing and financing activities.

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

PROLOGIS TRUST

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2001
(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 and operates a network of industrial distribution facilities in North America, 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 Integrated Solutions Group, utilizes ProLogis' international network of distribution facilities to meet its customers' distribution space needs globally. ProLogis has organized its business into three operating segments: property operations, corporate distribution facilities services business ("CDFS business") and temperature-controlled distribution operations. See Note 9.

Principles of Financial Presentation

The consolidated condensed financial statements of ProLogis as of September 30, 2001 and for the three and nine months ended September 30, 2001 and 2000 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, 2000 audited consolidated financial statements contained in ProLogis' 2000 Annual Report on Form 10-K, as amended.

In the opinion of management, the accompanying unaudited consolidated 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 and nine months ended September 30, 2001 and 2000 are not necessarily indicative of the results to be expected for the entire year. Certain of the 2000 amounts have been reclassified to conform to the 2001 financial statement presentation.

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

Recently issued Statements of Financial Accounting Standards ("SFAS") that are applicable to ProLogis' business are:

o SFAS No. 142, "Goodwill and Other Intangible Assets" 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 also changes the rules for recognition of acquired intangible assets other than goodwill but continues to require that intangible assets be amortized over their useful lives.

o SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" 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. SFAS No. 144 requires that discontinued operations be measured on the same basis as other long-lived assets (the lower of its carrying amount or fair value less cost to sell) rather than at the net realizable value as previously required. Additionally, future operating losses of discontinued operations are no longer recognized before they occur.

SFAS Nos. 142 and 144 are effective for ProLogis' fiscal year ending December 31, 2002. Management is still evaluating the effects these standards will have, if any, on ProLogis' consolidated financial position, results of operations or financial statement disclosures. For the nine months ended September 30, 2001 and 2000, ProLogis recognized amortization expense related to recognized goodwill of $0.1 million and $1.8 million, respectively, as a component of "Depreciation and Amortization" in its Consolidated Condensed Statements of Earnings and Comprehensive Income.

Interest Expense

Interest expense was $123.4 million and $128.5 million for the nine months in 2001 and 2000, respectively, which is net of capitalized interest of $18.4 million and $12.8 million, respectively. Amortization of deferred loan costs included in interest expense was $3.7 million and $3.0 million for the nine months in 2001 and 2000, respectively. Total interest paid in cash on all outstanding debt was $133.2 million and $123.3 million for the nine months in 2001 and 2000, respectively.

Financial Instruments

In the normal course of business, ProLogis uses certain derivative financial instruments for the purpose of foreign currency exchange rate and interest rate risk management. All derivative financial instruments are accounted for at fair value with changes in fair value recognized immediately in accumulated other comprehensive income or income.

ProLogis adopted SFAS No. 133, "Accounting for Derivative Instruments and for Hedging Activities," as amended, on January 1, 2001. SFAS No. 133 provides comprehensive guidelines for the recognition and measurement of derivatives and hedging activities and, specifically, requires all derivatives to be recorded on the balance sheet at fair value as an asset or liability, with an offset to accumulated other comprehensive income or income. ProLogis' only derivative financial instruments in effect at September 30, 2001 were foreign currency put option contracts. Similar foreign currency put option contracts were marked to market through income in 2000 because they did not qualify for hedge accounting treatment. Under SFAS No. 133, these contracts also do not qualify for hedge accounting treatment. Consequently, ProLogis has continued to mark its foreign currency put option contracts to market through income during the nine months ended September 30, 2001. ProLogis' unconsolidated entities also adopted SFAS No. 133 on January 1, 2001. The effect to ProLogis of their adoption of SFAS No. 133 was immaterial as these entities utilize derivative financial instruments on a limited basis.

In assessing the fair value of its financial instruments, both derivative and non-derivative, ProLogis uses a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date. Primarily, ProLogis uses quoted market prices or quotes from brokers or dealers for the same or similar instruments. These values represent a general approximation of possible value and may never actually be realized.

Foreign Currency Exchange Gains or Losses

ProLogis' consolidated subsidiaries whose functional currency is not the U.S. dollar translate their financial statements into U.S. dollars. Assets and liabilities are translated at the exchange rate in effect as of the financial statement date. Income statement accounts are translated using the average exchange rate for the period. Income statement accounts that represent significant, nonrecurring transactions are translated at the rate in effect as of the date of the transaction. Gains and losses resulting from the translation are included in accumulated other comprehensive income as a separate component of shareholders' equity.

ProLogis and its foreign subsidiaries have certain transactions denominated in currencies other than their functional currency. In these instances, nonmonetary assets and liabilities are remeasured at the historical exchange rate, monetary assets and liabilities are remeasured at the exchange rate in effect at the end of the period, and income statement accounts are remeasured at the average exchange rate for the period. Gains and losses from remeasurement are included in ProLogis' results of operations.

Gains or losses are recorded in the income statement when a transaction with a third party, denominated in a currency other than the functional currency, is settled and the functional currency cash flows realized are more or less than expected based upon the exchange rate in effect when the transaction was initiated.

The net foreign currency exchange gains and losses recognized in ProLogis' results of operations were as follows for the periods indicated (in thousands of U.S. dollars):

	THREE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
Losses from the remeasurement of third party debt and remeasurement and settlement of intercompany debt, net	$ (5,445)	$ (2,661)
Mark to market gains (losses) on foreign currency put option contracts(1)	(817)	(477)
Gains (losses) from the settlement of foreign currency put option contracts, net(1)	(417)	1,427
Other gains (losses), net	134	(218)
Total	$ (6,545)	$ (1,929)

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(1) Upon settlement, the mark to market adjustments are reversed and the total realized gain or loss is recognized.

2. AMENDED QUARTERLY REPORT ON FORM 10-Q/A#1

ProLogis' Quarterly Report on Form 10-Q for the period ended September 30, 2001 originally filed on November 13, 2001 included the financial position and results of operations of ProLogis' subsidiary, Kingspark Holding S.A. and subsidiaries ("Kingspark S.A."), in its unaudited consolidated condensed financial statements on a consolidated basis. Until January 5, 2001, ProLogis owned only the non-voting preferred stock of Kingspark S.A. and reported its investment in Kingspark S.A. under the equity method. On that date, ProLogis acquired an indirect interest in the voting common stock of Kingspark S.A. and began consolidating it in its financial statements along with its other majority-owned and controlled subsidiaries and partnerships. After reconsideration of the facts underlying its ownership position, ProLogis determined that its indirect ownership interest in the voting common stock of Kingspark S.A. does not give it control such that consolidation is the appropriate method of reporting. Therefore, ProLogis has amended its unaudited consolidated condensed financial statements as of and for the three and nine months ended September 30, 2001 included in this Form 10-Q/A#1 to reflect its investment in Kingspark S.A. on the equity method, consistent with its reporting of this investment prior to January 5, 2001. Further, ProLogis has amended its unaudited consolidated condensed financial statements as of and for the three and nine months ended September 30, 2001 included in this Form 10-Q/A#1 to reflect its investments in two other entities, whose sole purpose is to hold preferred stock in technology companies, under the equity method. ProLogis began consolidating these entities in 2001, but as with Kingspark S.A., subsequently determined that its ownership interest did not give it control. These changes in reporting have no effect on ProLogis' shareholders equity as of September 30, 2001 or its net earnings attributable to Common Shares, net earnings attributable to Common Shares per share or comprehensive income for the three and nine months ended September 30, 2001. These changes in reporting did result in changes in certain financial statement amounts. The most significant of which are as follows (in thousands):

	SEPTEMBER 30, 2001	
	AS AMENDED	PREVIOUSLY REPORTED
Real estate	$ 4,587,892	$ 5,005,056
Investments in and advances to unconsolidated entities	$ 1,318,616	$ 820,100

	THREE MONTHS ENDED SEPTEMBER 30, 2001		NINE SEPTE
	AS AMENDED	PREVIOUSLY REPORTED	AS AMENDED
Other real estate income	$ 26,840	$ 36,326	$ 87,0
Income (loss) from unconsolidated entities	$ 14,621	$ (3,101)	$ 27,5
Loss on investment	$ --	$ --	$

3. 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):

	SEPTEMBER 30, 2001	DECEMBER 31, 2000
Operating facilities:		
Improved land	$ 631,085(1)	$ 648,950(1)
Buildings and improvements	3,468,029(1)	3,619,543(1)
	4,099,114	4,268,493
Facilities under development (including cost of land)	186,775(2)(3)	186,020(2)
Land held for development	186,891(4)	187,405(4)
Capitalized preacquisition costs	115,112(5)	47,574(5)
Total real estate	4,587,892	4,689,492
Less accumulated depreciation	555,264	476,982
Net real estate	$ 4,032,628	$ 4,212,510

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(1) As of September 30, 2001 and December 31, 2000, ProLogis had 1,207 and 1,244 operating facilities, respectively, consisting of 121,716,000 and 126,275,000 square feet, respectively.

(2) Facilities under development consist of 36 facilities aggregating 8,736,000 square feet as of September 30, 2001 and 41 facilities aggregating 8,711,000 square feet as of December 31, 2000.

(3) In addition to the September 30, 2001 construction payable of $18.8 million, ProLogis had unfunded commitments on its contracts for facilities under construction totaling $221.2 million.

(4) Land held for future development consists of 1,964 acres as of September 30, 2001 and 2,047 acres as of December 31, 2000.

(5) Capitalized preacquisition costs include $100.9 million and $32.5 million of funds on deposit with title companies for future acquisition of operating facilities as of September 30, 2001 and December 31, 2000, respectively.

ProLogis' operating facilities, facilities under development and land held for future development are located in North America (the United States and Mexico), in nine 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, which are classified as operating leases. The leases generally provide for payment of all or a portion of utilities, property taxes and insurance by the tenant. As of September 30, 2001, minimum lease payments on leases with lease periods greater than one year are as follows (in thousands):

Remainder of 2001	$ 109,458
2002	399,551
2003	323,882
2004	238,799
2005	170,509
2006 and thereafter	330,449
	$ 1,572,648

ProLogis' largest customer (based on rental income) accounted for 0.9% of ProLogis' rental income (on an annualized basis) for the nine months ended September 30, 2001. The annualized base rent for ProLogis' 25 largest customers (based on rental income) accounted for 12.8% of ProLogis' rental income (on an annualized basis) for the nine months ended September 30, 2001.

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4. UNCONSOLIDATED ENTITIES:

Investments In and Advances To Unconsolidated Entities

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

	SEPTEMBER 30, 2001	DECEMBER 31, 2000
Temperature-controlled distribution companies:		
CSI/Frigo LLC(1)	$ 1,994	$ --
ProLogis Logistics(1)(2)	132,257	231,053
Frigoscandia S.A.(1)(3)	185,025	191,981
	319,276	423,034
Distribution real estate entities:		
ProLogis California(4)	119,294	132,243
ProLogis North American Properties Fund I(5)	44,238	10,369
ProLogis North American Properties Fund II(6)	8,642	13,408
ProLogis North American Properties Fund III(7)	6,452	--
ProLogis North American Properties Fund IV(8)	4,315	--
ProLogis European Properties Fund(9)	236,903	147,938
ProLogis European Properties S.a.r.l.(9)	--	84,767
	419,844	388,725

CDFS business:		
Kingspark LLC(10)	8,924	--
Kingspark S. A.(10)	510,025	570,582
	518,949	570,582
Insight(11)	2,459	2,470
ProLogis Equipment Services(12)	1,772	450
GoProLogis(13)	56,316	56,315
ProLogis PhatPipe(14)	--	11,572
Total	$ 1,318,616	$ 1,453,148

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(1) CSI/Frigo LLC, a limited liability company, owns 100% of the voting common stock of both ProLogis Logistics Services Incorporated ("ProLogis Logistics") and Frigoscandia Holding S.A. ("Frigoscandia S.A.). ProLogis directly owns all of the non-voting preferred stock of both ProLogis Logistics and Frigoscandia S.A. representing a 95% interest in the earnings of these entities.

ProLogis owns 89% of the membership interests (all non-voting) in CSI/Frigo LLC and K. Dane Brooksher, ProLogis' chairman and chief executive officer, owns the remaining 11% of the membership interests (all voting) and is the managing member. ProLogis has a note agreement with CSI/Frigo LLC that allows ProLogis to participate in its earnings such that ProLogis recognizes 95% of the earnings of CSI/Frigo LLC. Mr. Brooksher may transfer his membership interest, subject to certain conditions, including the approval of ProLogis. There are no provisions that give ProLogis the right to acquire Mr. Brooksher's membership interest. Mr. Brooksher does not receive compensation in connection with being the managing member. Mr. Brooksher invested $50,000 in CSI/Frigo LLC. Mr. Brooksher's membership interests and the terms of the participating note entitle him to receive dividends equal to 5% of the net cash flow of CSI/Frigo LLC, as defined, if any. ProLogis' ownership interests in CSI/Frigo LLC, ProLogis Logistics and Frigoscandia S.A. do not result in ProLogis having ownership of or control of the voting common stock or voting membership interests of these entities; therefore, they are not consolidated in ProLogis' condensed financial statements. See Note 11.

Prior to January 5, 2001, the common stock of ProLogis Logistics was owned by unrelated third parties and the common stock of Frigoscandia S.A. was owned by a limited liability company in which unrelated third parties owned 100% of the voting interests and Security Capital Group Incorporated ("Security Capital"), ProLogis' largest shareholder, owned 100% of the non-voting interests. On January 5, 2001, the common stock of both ProLogis Logistics and Frigoscandia S.A. was acquired by CSI/Frigo LLC for an aggregate purchase price of $3.3 million.

(2) ProLogis Logistics owns 100% of CS Integrated LLC ("CSI"), a temperature-controlled distribution company operating in the United States. As of September 30, 2001, CSI owned or operated under lease agreements facilities aggregating 178.4 million cubic feet (including 35.5 million cubic feet of dry distribution space located in temperature-controlled facilities).

(3) Frigoscandia S.A., through its wholly owned subsidiaries, owns 100% of Frigoscandia AB, a temperature-controlled distribution company operating in

nine countries in Europe. As of September 30, 2001, Frigoscandia AB owned or operated under lease agreements facilities aggregating 154.7 million cubic feet.

(4) ProLogis California I LLC ("ProLogis California") owns 79 operating facilities aggregating 13.1 million square feet, all located in the Los Angeles/Orange County market. ProLogis has a 50% ownership interest in ProLogis California.

(5) ProLogis North American Properties Fund I LLC owns 36 operating facilities aggregating 9.0 million square feet in 16 markets (including three operating facilities contributed to ProLogis North American Properties Fund I for an additional equity interest of $34.1 million in January 2001). The January contribution increased the combined ownership interests of ProLogis and ProLogis Development Services Incorporated ("ProLogis Development Services") in ProLogis North American Properties Fund I to 41.3% from 20%. ProLogis Development Services is a consolidated taxable subsidiary of ProLogis that engages in CDFS business activities in North America.

(6) ProLogis Iowa LLC ("ProLogis Principal") was formed on June 30, 2000 as a limited liability company whose members were ProLogis with 20% of the membership interests and Principal Financial Group with 80% of the membership interests. ProLogis Principal owned three operating facilities, all acquired from ProLogis, aggregating 440,000 square feet. On March 27, 2001, First Islamic Investment Bank E.C. acquired the membership interest held by Principal Financial Group. Also on that date, this entity, under the name ProLogis First US Properties LP ("ProLogis North American Properties Fund II") acquired 24 additional operating facilities aggregating 4.0 million square feet from ProLogis and ProLogis Development Services, bringing its total portfolio to 27 operating facilities aggregating 4.5 million square feet in 12 markets. ProLogis and ProLogis Development Services continue to have a combined 20% ownership in ProLogis North American Properties Fund II.

(7) ProLogis Second US Properties LP ("ProLogis North American Properties Fund III") was formed on June 15, 2001 as a limited liability company whose members are ProLogis and ProLogis Development Services with 20% of the membership interests (on a combined basis) and First Islamic Investment Bank E.C. with 80% of the membership interests. This entity acquired 34 operating facilities aggregating 4.4 million square feet in 16 markets from ProLogis and ProLogis Development Services in June 2001.

(8) ProLogis Third US Properties LP ("ProLogis North American Properties Fund IV") was formed on September 21, 2001 as a limited liability company whose members are ProLogis and ProLogis Development Services with 20% of the membership interests (on a combined basis) and First Islamic Investment Bank E.C. with 80% of the membership interests. This entity acquired 17 operating facilities aggregating 3.5 million square feet in ten markets from ProLogis and ProLogis Development Services in September 2001.

(9) ProLogis European Properties Fund owns 123 operating facilities aggregating 19.2 million square feet in 23 markets, including facilities owned by ProLogis European Properties S.a.r.l. On January 7, 2001, ProLogis contributed the remaining 49.9% of the common stock of ProLogis European Properties S.a.r.l. to ProLogis European Properties Fund for an additional equity interest. ProLogis had contributed 50.1% of the common stock of this entity to ProLogis European Properties Fund on January 7, 2000. As of September 30, 2001, ProLogis European Properties Fund, in

which ProLogis had a 38.1% ownership at that date, owned 100% of ProLogis European Properties S.a.r.l. ProLogis recognized a gain of $0.5 million related to the January 2001 transaction (total gain of $9.8 million net of $9.3 million which does not qualify for current income recognition due to ProLogis' continuing ownership in ProLogis European Properties Fund).

(10) ProLogis directly owns all of the non-voting preferred stock of Kingspark S.A., representing a 95% interest in its earnings. Kingspark LLC, a limited liability company owns 100% of the voting common stock of Kingspark S.A. ProLogis owns 95% of the membership interests (all non-voting) in Kingspark LLC and K. Dane Brooksher, ProLogis' chairman and chief executive officer, owns the remaining 5% of the membership interests (all voting) and is the managing member. Mr. Brooksher may transfer his membership interest, subject to certain conditions, including the approval of ProLogis. There are no provisions that give ProLogis the right to acquire Mr. Brooksher's membership interest. Mr. Brooksher does not receive compensation in connection with being the managing member. Mr. Brooksher invested $40,557 in Kingspark LLC which was loaned to him by ProLogis. The recourse loan is payable on January 5, 2006 and bears interest at an annual rate of 8.0%. Mr. Brooksher's membership interests entitle him to receive dividends equal to 5% of the net cash flow of Kingspark LLC, as defined, if any. Neither ProLogis' ownership interests in Kingspark LLC and Kingspark S.A., nor its loan to Mr. Brooksher, result in ProLogis having ownership of or control of the voting common stock or voting membership interests of these entities; therefore, they are not consolidated in ProLogis' financial statements. See Note 11.

Prior to January 5, 2001, the common stock of Kingspark S.A. was owned by a limited liability company in which unrelated third parties owned 100% of the voting interests and Security Capital, ProLogis' largest shareholder, owned 100% of the non-voting interests. On January 5, 2001, the common stock of Kingspark S.A. was acquired by Kingspark LLC for $8.1 million.

(11) Investment represents ProLogis Development Services' equity investment in the common stock of Insight, Inc. ("Insight"), a privately owned logistics optimization consulting company, as adjusted for ProLogis Development Services' share of Insight's earnings or loss. ProLogis Development Services has a 33.3% ownership interest in Insight.

(12) Investment represents ProLogis Development Services' (through a wholly-owned subsidiary) equity investment in ProLogis Equipment Services LLC, a limited liability company whose other member is a subsidiary of Dana Commercial Credit Corporation, as adjusted for ProLogis Development Services' share of ProLogis Equipment Services' earnings or loss. ProLogis Equipment Services began operations on April 26, 2000 for the purpose of acquiring, leasing and selling material handling equipment and providing asset management services for such equipment. ProLogis Development Services has a 50% ownership interest in ProLogis Equipment Services.

(13) ProLogis owns 100% of the non-voting preferred stock ($25.0 million of cash invested and $30.4 million of preferred stock received under a license fee agreement) of GoProLogis Incorporated ("GoProLogis") that has invested $25.0 million in the non-cumulative preferred stock of Vizional Technologies, Inc. (formerly GoWarehouse.com, Inc.) ("Vizional Technologies"), a provider of integrated global logistics network technology services. GoProLogis also received $30.4 million of non-cumulative preferred stock of Vizional Technologies under a license

agreement for the non-exclusive use of the ProLogis Operating System(TM) over a five-year period. Investment amount also includes $0.9 million of other costs associated with this investment. This investment was made on July 21, 2000. The income related to the license agreement was deferred at the inception of the agreement in 2000 and was being recognized over the five-year term of the agreement. ProLogis accounts for its investment in GoProLogis under the equity method. GoProLogis has not received any dividends from its preferred stock investment in Vizional Technologies since the investment was made in 2000. As of September 30, 2001, ProLogis had deferred $24.7 million of income related to the license fee agreement. ProLogis' net investment in GoProLogis was $31.6 million as of September 30, 2001 ($55.4 million of non-cumulative preferred stock and $0.9 million of additional costs offset by $24.7 million of deferred income). ProLogis' investment in the non-voting preferred stock of GoProLogis represents a 98% interest in its earnings. The voting interest of GoProLogis represents a 2% interest in its earnings. K. Dane Brooksher, ProLogis' chairman and chief executive officer, holds the voting interest and is entitled to receive dividends equal to 2% of the net cash flow of GoProLogis, as defined, if any. Mr. Brooksher contributed a $1.1 million recourse promissory note to GoProLogis in exchange for his interest in the entity, which note is payable on July 18, 2005 and bears interest at an annual rate of 8.0%. Mr. Brooksher is not restricted from transferring his ownership interest in Go ProLogis but ProLogis does have an option to acquire his interest beginning in 2001 at a price equal to the principal amount plus accrued interest under the promissory note. See Note 11.

(14) ProLogis owns 100% of the non-voting preferred stock ($6.0 million of cash invested and $6.0 million of preferred stock received under a license fee agreement) of ProLogis Broadband (1) Incorporated ("ProLogis PhatPipe") that has invested $6.0 million in the non-cumulative preferred stock of PhatPipe, Inc. ("PhatPipe"), a real estate technology company. ProLogis PhatPipe also received $6.0 million of non-cumulative preferred stock of PhatPipe and a receivable of $2.0 million, both under a license agreement for the non-exclusive use of the ProLogis Operating System(TM) over a three-year period. Investment amount also includes $50,000 of other costs associated with this investment. The income related to the license fee agreement was deferred at the inception of the agreement in 2000 and was being recognized over the three-year term of the agreement. This investment was made on September 20, 2000. ProLogis accounts for its investment in ProLogis PhatPipe under the equity method and its carrying value of this investment at September 30, 2001 was zero after Prologis recognized its share of an impairment adjustment recorded by Prologis PhatPipe related to its investment in PhatPipe. ProLogis PhatPipe has not received any dividends from its preferred stock investment in PhatPipe since the investment was made in 2000. ProLogis' investment in the non-voting preferred stock of ProLogis PhatPipe represents a 98% interest in its earnings. The voting interest of ProLogis PhatPipe represents a 2% interest in its earnings. K. Dane Brooksher, ProLogis' chairman and chief executive officer, holds the voting interest and is entitled to receive dividends equal to 2% of the net cash flow of ProLogis PhatPipe, as defined, if any. Mr. Brooksher contributed recourse promissory notes with an aggregate of $122,449 principal amount to ProLogis PhatPipe in exchange for his interest in the entity. A promissory note with the principal amount of $71,429 is due September 20, 2005 and a promissory note with the principal amount of $51,020 is due January 4, 2006. Both notes bear interest at an annual rate of 8.0%. Mr. Brooksher is not restricted from transferring his ownership interest in ProLogis PhatPipe but ProLogis does have an option to acquire his interest beginning in 2001 at a price equal to the principal amount plus accrued interest under the promissory notes. See Note 11.

ProLogis' net equity investment in ProLogis PhatPipe was $7.5 million in the second quarter of 2001 (net of $6.6 million of income related to the license fee agreement that had been deferred) when ProLogis, through its investment in ProLogis PhatPipe, recognized its share of an impairment adjustment of $7.5 million, representing the write-down of ProLogis PhatPipe's entire net investment in PhatPipe.

Income (Loss) from Unconsolidated Entities

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

	THREE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
Temperature-controlled distribution companies:		
CSI/Frigo LLC(1)	$ (550)	$ --
ProLogis Logistics(2)	(1,036)	2,196
Frigoscandia S.A.(2)	(8,066)	(5,755)
	(9,652)	(3,559)
Distribution real estate entities:		
ProLogis California(3)	3,067	3,543
ProLogis North American Properties Fund I(4)	967	1,233
ProLogis North American Properties Fund II(5)	728	307
ProLogis North American Properties Fund III(6)	542	--
ProLogis North American Properties Fund IV(7)	(12)	--
ProLogis European Properties Fund(8)	965	4,637
ProLogis European Properties S.a.r.l.(9)	--	2,811
	6,257	12,531
Kingspark S.A.(10)	18,016	11,083
Insight	--	36
ProLogis Equipment Services	--	--
GoProLogis(11)	--	1,171
ProLogis PhatPipe(12)	--	74
	$ 14,621	$ 21,336

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(1) CSI/Frigo LLC recognizes its share of the losses of ProLogis Logistics and Frigoscandia S. A. under the equity method. Amounts represent ProLogis' share of the losses of CSI/Frigo LLC for the periods presented.

(2) Represents ProLogis' share of the income or losses of ProLogis Logistics and Frigoscandia S. A. recognized under the equity method based on its ownership of the preferred stock of each entity.

(3) Income includes management, leasing and development fees of $734,000 and

$657,000 for the three months ended September 30, 2001 and 2000, respectively, and $2,308,000 and $1,940,000 for the nine months ended September 30, 2001 and 2000, respectively. ProLogis has had a 50% ownership interest in ProLogis California since its inception.

(4) ProLogis North American Properties Fund I was formed on June 30, 2000. Income includes management fees of $464,000 and $1,592,000 for the three and nine months ended September 30, 2001, respectively, and $216,000 for both the three and nine months ended September 30, 2000. ProLogis and ProLogis Development Services had a combined 20% ownership interest in ProLogis North American Properties Fund I from its inception on June 30, 2000 to January 14, 2001, and a combined 41.3% ownership interest from January 15, 2001 to September 30, 2001.

(5) ProLogis North American Properties Fund II was originally formed as ProLogis Principal on June 30, 2000. Income includes management fees of $508,000 and $1,054,000 for the three and nine months ended September 30, 2001, respectively, and $24,000 for both the three and nine months ended September 30, 2000. ProLogis (together with ProLogis Development Services since March 27, 2001) has had a 20% ownership interest in ProLogis North American Properties Fund II since its inception on June 30, 2000 to September 30, 2001.

(6) ProLogis North American Properties Fund III was formed on June 15, 2001. Income includes management fees of $501,000 for both the three and nine months ended September 30, 2001. ProLogis and ProLogis Development Services have had a combined 20% ownership interest in ProLogis North American Properties Fund III since its inception.

(7) ProLogis North American Properties Fund IV was formed on September 21, 2001. ProLogis and ProLogis Development Services have had a combined 20% ownership interest in ProLogis North American Properties Fund IV since its inception.

(8) Income or loss includes management fees of $2,509,000 and $1,619,000 for the three months ended September 30, 2001 and 2000, respectively, and $6,013,000 and $3,923,000 for the nine months ended September 30, 2001 and 2000, respectively. ProLogis had a 38.1% ownership interest in ProLogis European Properties Fund as of September 30, 2001.

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(9) Represents income from ProLogis' investment in 49.9% of the common stock of ProLogis European Properties S.a.r.l. in 2000 for the period from January 7, 2000 to June 30, 2000 and in 2001 for the period from January 1, 2001 to January 6, 2001.

(10) Represents ProLogis' share of the earnings recognized of Kingspark LLC and Kingspark S.A. under the equity method based on its ownership of each entity.

(11) Represents ProLogis' share of the income of GoProLogis, primarily license fees earned for the non-exclusive use of the ProLogis Operating System(R) under a license agreement entered into in the third quarter of 2000. ProLogis ceased recognizing income under the agreement in the third quarter of 2001.

(12) Represents ProLogis' share of the losses of ProLogis PhatPipe, primarily

due to the write-down of ProLogis PhatPipe's investment in PhatPipe.

Temperature-Controlled Distribution Companies

ProLogis' total investment in its temperature-controlled distribution companies as of September 30, 2001 consisted of (in millions of U.S. dollars):

	CSI/FRIGO LLC	PROLOGIS LOGISTICS(1)	FRIGOSCAN S.A.(2
Equity interest	$ 0.4	$ 138.4	$ 2
ProLogis' share of the earnings of the entity	(1.5)	(16.4)	(9
Subtotal	(1.1)	122.0	(7
Other (including acquisition costs), net	--	--	
Subtotal	(1.1)	122.0	(7
Notes and other receivables	3.1	10.2	25
Total	$ 2.0	$ 132.2	$ 18

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(1) ProLogis Logistics has borrowed $125.0 million under ProLogis' $500.0 million unsecured credit agreement as a designated subsidiary borrower. The proceeds from this borrowing were used to repay $125.0 million of the outstanding notes and accrued interest due to ProLogis in January 2001. The remaining amounts due to ProLogis were converted to preferred stock on January 2, 2001. Additionally, ProLogis Logistics had $90.0 million of direct borrowings outstanding under a credit agreement as of September 30, 2001 that have been guaranteed by ProLogis.

(2) Frigoscandia AB has a credit agreement under which 171.0 million euros (the currency equivalent of approximately $156.3 million as of September 30, 2001) is outstanding. All of the borrowings outstanding have been guaranteed by ProLogis. The agreement expires on December 28, 2001.

Distribution Real Estate Entities

ProLogis' total investment in its distribution real estate entities as of September 30, 2001 consisted of (in millions of U.S. dollars):

	PROLOGIS CALIFORNIA	PROLOGIS NORTH AMERICAN PROPERTIES FUND I	PROLOGIS NORTH AMERICAN PROPERTIES FUND II	PROLOG NORTH AMERIC PROPERT FUND I
Equity interest	$ 161.1	$ 52.6	$ 14.3	$
Distributions	(35.5)	(4.6)	(1.2)	
ProLogis' share of the earnings of the entity, excluding fees earned	20.0	2.1	0.2	

Subtotal	145.6	50.1	13.3	
Adjustments to carrying value(3)	(28.0)	(9.4)	(6.4)	
Other (including acquisitions costs), net	1.5	2.3	1.3	
Subtotal	119.1	43.0	8.2	
Other receivables	0.2	1.2	0.4	
Total	$ 119.3	$ 44.2	$ 8.6	$

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(1) As of September 30, 2001, ProLogis North American Properties Fund IV had $103.0 million of short-term borrowings outstanding under an agreement that matures on December 21, 2001. The agreement provides for a 46-day extension at ProLogis North American Properties Fund IV's option. ProLogis North American Properties Fund IV intends to obtain permanent secured financing which will be used to repay these short-term borrowings. ProLogis has guaranteed the entire amount of short-term borrowings outstanding as of September 30, 2001.

(2) Third parties (19 institutional investors) have invested 479.7 million euros (the currency equivalent of approximately $438.6 million as of September 30, 2001) in ProLogis European Properties Fund and have committed to fund an additional 580.6 million euros (the currency equivalent of approximately $530.9 million as of September 30, 2001) through 2002. ProLogis has also entered into a subscription agreement to make additional capital contributions of 74.2 million euros (the currency equivalent of approximately $67.9 million as of September 30, 2001) through 2002.

(3) Reflects the reduction in carrying value for amount of net gain on the disposition of facilities to each entity that does not qualify for current income recognition due to ProLogis' continuing ownership in each entity.

Kingspark S.A.

On August 14, 1998, Kingspark S.A., a Luxembourg company, acquired an industrial distribution facility development company operating in the United Kingdom, Kingspark Group Holdings Limited ("ProLogis Kingspark"). ProLogis had the following investments in Kingspark S.A. and Kingspark LLC accounted for under the equity method as of September 30, 2001:

- Investment in 100% of the non-voting preferred stock of Kingspark S.A. and in 95% of the membership interests (all non- voting) of Kingspark LLC, which owns the voting common stock of Kingspark S.A. These combined investments entitle ProLogis to recognize 99.75% of the combined earnings of these entities.

- 131.0 million pound sterling (the currency equivalent of approximately $191.0 million as of September 30, 2001) outstanding on an unsecured revolving loan facility from ProLogis to Kingspark S.A.; interest at 6.0% per annum for borrowings outstanding at September 30, 2001; due on demand;

- o $130.9 million unsecured note from Kingspark S.A. ; interest at 5.0% per annum; due on demand; and

- o 85.6 million pound sterling (the currency equivalent of approximately $125.3 million as of September 30, 2001) mortgage note from Kingspark S.A.; secured by land parcels and facilities under development; interest at 6.0% per annum for borrowings outstanding at September 30, 2001; due on demand.

As of September 30, 2001, Kingspark S.A. had 1.0 million square feet of operating facilities at an investment of $98.1 million and 3.6 million square feet of facilities under development with a total budgeted cost of $378.7 million. Additionally, as of September 30, 2001, Kingspark S.A. owned 228 acres of land and controlled 1,612 acres of land through purchase options, letters of intent or contingent contracts. The land owned and controlled by Kingspark S.A. has the capacity for the future development of approximately 26.2 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 $36.6 million as of September 30, 2001) and has been guaranteed by ProLogis. As of September 30, 2001, no borrowings were outstanding on the line of credit. However, as of September 30, 2001, ProLogis Kingspark had the currency equivalent of approximately $6.2 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 ProLogis' unconsolidated entities as of and for the nine months ended September 30, 2001 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 (2)	PROLOGIS NORTH AMERICAN PROPERTIES FUND I(3)	PROLOGIS NORTH AMERICAN PROPERTIES FUND II (4)
Total assets	$ 379.9	$ 455.7	$ 592.0	$ 357.3	$ 236.
Total liabilities(7)	$ 257.0	$ 535.0	$ 301.0	$ 238.5	$ 168.
Minority interest	$ --	$ 0.2	$ --	$ --	$ -
Equity	$ 122.9	$ (79.5)	$ 291.0	$ 118.8	$ 67.
Revenues	$ 233.4	$ 274.5	$ 50.6	$ 31.9	$ 14.
Net earnings (loss)(8) ...	$ (3.7)	$ (27.9)	$ 14.7	$ 4.3	$ 1.

	PROLOGIS NORTH AMERICAN PROPERTIES FUND IV(5)	PROLOGIS EUROPEAN PROPERTIES FUND(6)	KINGSPARK S.A.(1)

Total assets	$ 145.6	$ 1,183.7	$ 586.0
Total liabilities(7)	$ 104.7	$ 521.8	$ 524.7
Minority interest	$ --	$ --	$ --
Equity	$ 40.9	$ 661.9	$ 61.3
Revenues	$ 0.2	$ 62.0	$ 38.4
Net earnings (loss)(8) ...	$ --(9)	$ 9.6	$ 18.9

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(1) ProLogis had an ownership interest in excess of 99% in each entity as of September 30, 2001.

(2) ProLogis had a 50% ownership interest in this entity as of September 30, 2001.

(3) ProLogis and ProLogis Development Services had a combined 41.3% ownership interest in this entity as of September 30, 2001.

(4) ProLogis and ProLogis Development Services had a combined 20% ownership interest in each entity as of September 30, 2001.

(5) ProLogis had a 20% ownership interest in this entity as of September 30, 2001.

(6) ProLogis had a 38.1% ownership interest in this entity as of September 30, 2001. Includes the ProLogis European Properties S.a.r.l. which is wholly owned by ProLogis European Properties Fund as of September 30, 2001.

(7) Includes amounts due to ProLogis of $10.2 million from ProLogis Logistics, $256.6 million from Frigoscandia S.A., $0.2 million from ProLogis California, $1.2 million from ProLogis North American Properties Fund I, $0.4 million for ProLogis North American Properties Fund II, $5.5 million from ProLogis European Properties Fund and $470.4 million from Kingspark S.A. Includes loans due to third parties (including accrued interest) of $217.7 million for ProLogis Logistics, $156.6 million for Frigoscandia S.A., $294.9 million for ProLogis California, $233.6 million for ProLogis North American Properties Fund I, $165.0 million for ProLogis North American Properties Fund II, $150.3 million for ProLogis North American Properties Fund III, $103.0 million for ProLogis North American Properties Fund IV, $455.2 million for ProLogis European Properties Fund.

(8) ProLogis' share of the net earnings (loss) of the respective entities and interest income on notes and mortgage notes due to ProLogis are recognized in the Consolidated Condensed Statements of Earnings and Comprehensive Income as "Income (loss) from unconsolidated entities." The net earnings (loss) of each entity includes interest expense on amounts due to ProLogis, as applicable. Includes net foreign currency exchange losses of $8.0 million for Frigoscandia S.A., $3.2 million for ProLogis European Properties Fund and foreign currency exchange losses of $2.4 million from Kingspark S.A.

(9) ProLogis North American Properties Fund IV had a net loss of $6,000 for the period from inception (September 21, 2001) to September 30, 2001.

5. BORROWINGS:

In August 2001, the available commitment under ProLogis' unsecured credit agreement with Bank of America, N.A., Commerzbank AG and Chase Bank of Texas, National Association as Agents for a bank group that provides a revolving line of credit to ProLogis, was increased by $25.0 million to a total of $500.0 million.

In September 2001, ProLogis entered into an unsecured credit agreement that provides for a 24.5 billion yen revolving unsecured line of credit (the currency equivalent of $205.6 million as of September 30, 2001) through a group of 11 banks, on whose behalf Sumitomo Mitsui Banking Corporation acts as agent. Borrowings under the line of credit bear interest at 1.00% over the Tokyo Interbank Offering Rate (TIBOR). Borrowings outstanding as of September 30, 2001 were at a weighted average interest rate of 1.06% per annum. The credit agreement provides for an unused commitment fee of 0.25% per annum. The credit agreement matures on September 13, 2004 and may be extended for an additional year at ProLogis' option. As of September 30, 2001, the currency equivalent of approximately $46.2 million of borrowings were outstanding on the line of credit and ProLogis was in compliance with all covenants contained in the agreement.

6. SHAREHOLDERS' EQUITY:

During the nine months ended September 30, 2001, ProLogis generated net proceeds of $48.6 million from the issuance of 2,116,000 common shares of beneficial interest, $0.01 par value ("Common Shares") under its 1999 Dividend Reinvestment and Share Purchase Plan and issued 165,000 Common Shares upon the exercise of stock options.

On January 11, 2001, ProLogis announced a Common Share repurchase program under which it may repurchase up to $100.0 million of its Common Shares. The Common Shares will be repurchased from time to time in the open market and in privately negotiated transactions, depending on market prices and other conditions. As of September 30, 2001, 778,400 Common Shares had been repurchased at a total cost of $16.0 million.

ProLogis redeemed all of its outstanding Series B cumulative convertible redeemable preferred shares ("Series B preferred shares") as of March 20, 2001. Subsequent to the call for redemption, 5,908,971 Series B preferred shares were converted into 7,575,301 Common Shares. The remaining 183,302 Series B preferred shares outstanding on March 20, 2001 were redeemed at a price of $25.00 per share, plus $0.442 in accrued and unpaid dividends, for an aggregate redemption price of $25.442 per share.

ProLogis redeemed all of its outstanding Series A cumulative redeemable preferred shares of beneficial interest as of May 8, 2001 at the price of $25.00 per share, plus $0.2481 in accrued and unpaid dividends, for an aggregate redemption price of $25.2481 per share.

In May, 2001, ProLogis' shareholders approved the establishment of the ProLogis Trust Employee Share Purchase Plan (the "Plan"). Under the terms of the Plan, employees of ProLogis and its participating subsidiaries may purchase Common Shares, through payroll deductions only, at a discounted price of 85% of the fair market value of the Common Shares. Subject to certain provisions, the aggregate number of Common Shares which may be issued under the Plan may not exceed 5,000,000. ProLogis expects to begin issuing Common Shares under the Plan in January, 2002.

7. DISTRIBUTIONS AND DIVIDENDS:

Common Distributions

On February 23, 2001, May 25, 2001 and August 24, 2001, ProLogis paid a quarterly distribution of $0.345 per Common Share to shareholders of record on February 9, 2001, May 14, 2001 and August 10, 2001, respectively. The distribution level for 2001 was set by ProLogis' Board of Trustees in December 2000 at $1.38 per Common Share.

Preferred Dividends

The annual dividend rates on ProLogis' preferred shares are $4.27 per Series C cumulative redeemable preferred share, $1.98 per Series D cumulative redeemable preferred share and $2.1875 per Series E cumulative redeemable preferred share.

On January 31, 2001, April 30, 2001 and July 31, 2001 ProLogis paid quarterly dividends of $0.5469 per Series E cumulative redeemable preferred share. On March 30, 2001, ProLogis paid quarterly dividends of $0.5875 per Series A cumulative redeemable preferred share. On March 30, 2001, June 29, 2001 and September 28, 2001, ProLogis paid quarterly dividends of $1.0675 per Series C cumulative redeemable preferred share and $0.495 per Series D cumulative redeemable 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.

8. 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:

	THREE MONTHS ENDED SEPTEMBER 30,		N
	2001	2000	
Net earnings attributable to Common Shares	$ 48,911	$ 48,619	$
Add: Minority interest share in earnings	--	1,228	
Series B preferred share dividends	--	--	
Adjusted net earnings attributable to Common Shares	$ 48,911	$ 49,847	$
Weighted average Common Shares outstanding - Basic	174,507	164,317	
Incremental weighted average effect of common share equivalents and contingently issuable shares	1,079	1,097	
Weighted average convertible limited partnership units	--	5,164	
Weighted average Series B preferred shares	--	--	
Adjusted weighted average Common Shares outstanding - Diluted	175,586	170,578	

Per share net earnings attributable to Common Shares:			
Basic	$ 0.28	$ 0.30	$
Diluted	$ 0.28	$ 0.29	$

For the periods indicated, the following weighted average convertible securities 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 (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
Series B preferred shares	--	8,133	--	8,546
Limited partnership units	5,088	--	5,088	5,435

9. BUSINESS SEGMENTS:

ProLogis has three reportable business segments:

- Property operations represents the long-term ownership and leasing of industrial distribution facilities in the United States (portions of which are owned through ProLogis California, ProLogis North American Properties Fund I, ProLogis North American Properties Fund II, ProLogis North American Properties Fund III and ProLogis North American Properties Fund IV -- See Note 4), Mexico and Europe (portions of which are owned through ProLogis European Properties Fund and ProLogis European Properties S.a.r.l. -- See Note 4); each operating facility is considered to be an individual operating segment having similar economic characteristics which are combined within the reportable segment based upon geographic location;

- CDFS business represents the development of industrial distribution facilities by ProLogis and Kingspark S.A. (which is not consolidated in Prologis' financial statements) in the United States, Mexico, Europe (see Note 4) and Japan that are often disposed of to third parties or entities in which ProLogis has an ownership interest and the development of industrial distribution facilities by ProLogis or Kingspark S.A. on a fee basis for third parties in the United States, Mexico, Europe and Japan; the development activities of ProLogis and Kingspark S.A. are considered to be individual operating segments having similar economic characteristics which are combined within the reportable segment based upon geographic location; and

- 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 segments. See Note 4.

Reconciliations of the three reportable segments': (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 are as follows (in thousands):

	NINE MONTHS ENDED SEPTEMBER 30, 2001	NINE MONTHS ENDED SEPTEMBER 30, 2000
Income:		
Property operations:		
United States(1)	$ 350,349	$ 359,133
Mexico	14,066	11,217
Europe(2)	11,726	19,447
Total property operations segment	376,141	389,797
CDFS business:		
United States(3)	66,965	56,630
Mexico	(10)	1,543
Europe(4)(5)	50,794	27,952
Total CDFS business segment	117,749	86,125
Temperature-controlled distribution operations:		
United States(6)	(3,663)	8,067
Europe(7)	(19,377)	(10,806)
Total temperature-controlled distribution operations segment	(23,040)	(2,739)
Reconciling items:		
Income (loss) from unconsolidated entities	(3,911)	1,279
Interest and other income	3,444	5,554
Total reconciling items	(467)	6,833
Total income	$ 470,383	$ 480,016
Net operating income:		
Property operations:		
United States(1)	$ 326,290	$ 337,742
Mexico	17,272	10,922
Europe(2)	10,924	20,516
Total property operations segment	354,486	369,180

CDFS business:		
United States(3)	64,498	53,826
Mexico	(84)	1,514
Europe(4)(5)	50,671	27,901
Total CDFS business segment	115,085	83,241
Temperature-controlled distribution operations:		
United States(6)	(3,663)	8,067
Europe(7)	(19,377)	(10,806)
Total temperature-controlled distribution operations segment	(23,040)	(2,739)
Reconciling items:		
Income (loss) from unconsolidated entities	(3,911)	1,279
Interest and other income	3,444	5,554
General and administrative expense	(38,153)	(32,174)
Depreciation and amortization	(106,403)	(112,513)
Interest expense	(123,377)	(128,542)
Other expense	(3)	(954)
Total reconciling items	(268,403)	(267,350)
Earnings from operations	$ 178,128	$ 182,332

	SEPTEMBER 30, 2001	DECEMBER 31, 2000
Assets:		
Property operations:		
United States(8)	$ 3,737,656	$ 3,887,601
Mexico	130,903	113,538
Europe(8)	295,599	308,457
Total property operations segment	4,164,158	4,309,596
CDFS business:		
United States	222,412	304,697
Mexico	31,506	26,288
Europe(8)	676,881	637,207
Japan	40,572	--
Total CDFS business segment	971,371	968,192
Temperature controlled distribution operations:		
United States(8)	133,539	231,053
Europe(8)	185,737	191,981
Total temperature controlled distribution operations segment	319,276	423,034
Reconciling items:		
Investment in and advances to unconsolidated entities	60,548	70,807

Cash	41,119	57,870
Accounts and notes receivable	6,294	43,040
Other assets	60,678	73,795
Total reconciling items	168,639	245,512
Total assets	$ 5,623,444	$ 5,946,334

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(1) In addition to the operations of ProLogis that are reported on a consolidated basis, includes amounts recognized under the equity method related to ProLogis' investment in ProLogis California, ProLogis North American Properties Fund I, ProLogis North American Properties Fund II, ProLogis North American Properties Fund III and ProLogis North American Fund IV in 2001 and ProLogis California, ProLogis North American Properties Fund I and ProLogis North American Properties Fund II in 2000. See Note 4 for summarized financial information of ProLogis California, ProLogis North American Properties Fund I, ProLogis North American Properties Fund II, ProLogis North American Properties Fund III and ProLogis North American Properties Fund IV.

(2) In addition to the operations of ProLogis that are reported on a consolidated basis, includes amounts recognized under the equity method related to ProLogis' investment in ProLogis European Properties Fund (including net foreign currency exchange losses of $1.3 million and $1.9 million in 2001 and 2000, respectively) and ProLogis European Properties S.a.r.l. (including net foreign currency exchange gains of $2.0 million in 2000). See Note 4 for summarized financial information of ProLogis European Properties Fund.

(3) In 2001, includes $20.8 million, $21.6 million and $12.9 million of net gains recognized by ProLogis related to the disposition of facilities to ProLogis North American Properties Fund II, ProLogis North American Properties Fund III and ProLogis North American Properties Fund IV, respectively. In 2000, includes $2.9 million, $23.8 million and $1.5 million of net gains recognized by ProLogis related to the disposition of facilities to ProLogis California, ProLogis North American Properties Fund I and ProLogis North American Properties Fund II.

(4) Includes amounts recognized under the equity method related to ProLogis' investment in Kingspark S.A. in 2001 and 2000 (including $2.3 million of net foreign currency exchange losses and $1.0 million of net foreign currency exchange gains in 2001 and 2000, respectively).

(5) Includes $18.0 million and $5.9 million of net gains recognized by ProLogis related to the disposition of facilities to ProLogis European Properties Fund in 2001 and 2000, respectively. In addition, includes $15.3 million and $1.0 million of net gains recognized under the equity method related to the disposition of facilities to ProLogis European Properties Fund by Kingspark S.A. in 2001 and 2000, respectively.

(6) Represents amounts recognized under the equity method related to ProLogis' investments in ProLogis Logistics in 2001 and 2000 and in CSI/Frigo LLC in 2001. CSI/Frigo LLC recognizes income under the equity method based on its common stock investment in ProLogis Logistics. See Note 4 for summarized

financial information of ProLogis Logistics.

(7) Represents amounts recognized under the equity method related to ProLogis' investments in Frigoscandia S.A. in 2001 and 2000 (including $7.9 million of net foreign currency exchange losses in 2001 and $1.1 million of net foreign exchange gains in 2000) and CSI/Frigo LLC in 2001. CSI/Frigo LLC recognizes income under the equity method based on its common stock investment in Frigoscandia S.A. See Note 4 for summarized financial information of Frigoscandia S.A.

(8) Amounts include investments in unconsolidated entities accounted for under the equity method. See also Note 4 for summarized financial information of these unconsolidated entities as of and for the nine months ended September 30, 2001.

10. SUPPLEMENTAL CASH FLOW INFORMATION:

Non-cash investing and financing activities for the nine months ended September 30, 2001, and 2000 are as follows:

- In 2001, 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. In 2000, in connection with ProLogis' initial contribution of 50.1% of the common stock of ProLogis European Properties S.a.r.l. to ProLogis European Properties Fund, ProLogis received an equity interest in ProLogis European Properties Fund of approximately $78.0 million. ProLogis European Properties S.a.r.l. had total assets of $403.9 million and total liabilities of $248.1 million. ProLogis recognized its investment in the remaining 49.9% of the common stock under the equity method from January 7, 2000 through January 6, 2001. See Note 4.

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- ProLogis received $12.4 million, $34.1 million, $13.7 million, $11.7 million and $8.2 million of the proceeds from its disposition of facilities to ProLogis European Properties Fund, ProLogis North American Properties Fund I, ProLogis North American Properties Fund II, ProLogis North American Properties Fund III and ProLogis North American Properties Fund IV, respectively, in the form of an equity interest in these entities during 2001. ProLogis received $5.2 million, $13.8 million, $18.6 million and $0.6 million of the proceeds from its disposition of facilities to ProLogis European Properties Fund, ProLogis California, ProLogis North American Properties Fund I and ProLogis North American Properties Fund II in the form of an equity interest during 2000.

- ProLogis received $13.2 million of the proceeds from its disposition of facilities to North American Properties Fund II in the form of notes receivable from this entity during 2000.

- ProLogis received $2.3 million and $7.4 million of the proceeds from its disposition of facilities to third parties in the form of notes receivable in 2001 and 2000, respectively.

- In connection with the acquisition of a facility, ProLogis assumed a $7.7 million mortgage note in 2001.

- In connection with the agreement for the acquisition of Kingspark S.A., ProLogis issued approximately 67,000 and 602,000 Common Shares valued at $1.5 million and $11.9 million, respectively, in 2001 and 2000, respectively.

- Series B preferred shares aggregating $151.8 million and $17.7 million were converted into Common Shares in 2001 and 2000, respectively.

- Net foreign currency translation adjustments of $(19,430,000) and $(49,613,000) were recognized in 2001 and 2000, respectively.

11. RELATED PARTY TRANSACTIONS

Transactions with Chief Executive Officer and Chairman

ProLogis has invested in the non-voting preferred stock of certain entities that have ownership interests in companies that produce income that is not REIT qualifying income (i.e., rental income and mortgage interest income) under the Internal Revenue Code of 1986, as amended (the "Code"). Therefore, the voting common stock of these companies was held by third parties including entities in which Security Capital, ProLogis' largest shareholder, held non-voting interests. The Code, as amended in 2001, allows for ProLogis to have a voting ownership interest in these entities. ProLogis began negotiations to acquire the voting ownership interests in these entities during 2000. Before the acquisitions were completed it was determined that the state income tax laws governing REITs were not all going to be changed to coincide with the amendments to the Code. Therefore, K. Dane Brooksher, ProLogis' chairman and chief executive officer, acquired the voting ownership interests in Frigoscandia S.A., ProLogis Logistics and Kingspark S.A. from the third parties and Security Capital. See Note 4.

Mr. Brooksher's voting ownership interests in the entities in which ProLogis has only non-voting ownership interests are:

- Kingspark LLC, a limited liability company formed on January 5, 2001, acquired the voting common stock of Kingspark S.A. (an entity in which ProLogis owns all of the non-voting preferred stock) for $8.1 million. ProLogis funded the entire purchase price either directly or through loans to Kingspark LLC or Mr. Brooksher. The ProLogis loan to Kingspark LLC is in the principal amount of $7.3 million, is due January 5, 2006 and bears interest at an annual rate of 8.0%. ProLogis made a direct capital contribution to Kingspark LLC in the amount of $770,973. Mr. Brooksher's $40,557 capital contribution to Kingspark LLC was loaned to him by ProLogis, which recourse loan is payable on January 5, 2006 and bears interest at an annual rate of 8.0%. Mr. Brooksher's membership interest entitles him to receive dividends equal to 5% of the net cash flow of Kingspark LLC, as defined, if any. Mr. Brooksher is the managing member and he may transfer his membership interest, subject to certain conditions, including the approval of ProLogis. There are no provisions that give ProLogis the right to acquire Mr. Brooksher's membership interests. Mr. Brooksher does not receive compensation in connection with being the managing member. See Note 4.

- CSI/Frigo LLC, a limited liability company formed on January 5, 2001, acquired the voting common stock of Frigoscandia S.A. and ProLogis Logistics (both entities in which ProLogis owns all of the non-voting preferred stock) for $3.3 million. ProLogis loaned $2.9 million to CSI/Frigo LLC, which loan is due January 5, 2011 and bears interest at an annual rate of 8.0%. ProLogis also made a capital contribution to CSI/Frigo LLC in the amount of $404,545 and Mr. Brooksher made a $50,000 capital contribution to CSI/Frigo LLC. Mr. Brooksher's membership interests (after considering the terms of the participating note from CSI/Frigo LLC to ProLogis) entitles him to receive dividends equal to 5% of the net cash flow of CSI/Frigo LLC, as defined, if any. Mr. Brooksher is the managing member and he may transfer his membership interest, subject to certain conditions, including the approval of ProLogis. There are no provisions that give ProLogis the right to acquire Mr. Brooksher's membership interest. Mr. Brooksher does not receive compensation in connection with being the managing member.

  As a result of the foregoing transactions, Mr. Brooksher has an effective 0.04% interest in the earnings of ProLogis Logistics, an effective 0.25% interest in the earnings of Frigoscandia S.A. and an effective 0.25% interest in the earnings of Kingspark S.A.

In 2000, ProLogis invested in GoProLogis and ProLogis PhatPipe, whose income is not REIT qualifying income under the Code (amendments to the Code and state income tax laws governing REITs were not in effect at this time). These investments were structured whereby ProLogis would have only a non-voting preferred stock ownership interest. To complete the transactions, Mr. Brooksher acquired the voting ownership interest in each entity as noted below.

- GoProLogis owns preferred stock in Vizional Technologies. Mr. Brooksher owns all of the voting common stock of GoProLogis, representing a 2% interest in the earnings of GoProLogis and he is entitled to receive dividends equal to 2% of the net cash flow of GoProLogis, as defined, if any. ProLogis owns all of the non-voting preferred stock of GoProLogis, representing a 98% interest in the earnings of GoProLogis and ProLogis is entitled to receive dividends equal to the remaining 98% of net cash flow, as defined, if any. Mr. Brooksher contributed a $1.1 million recourse promissory note to GoProLogis in exchange for his interest in the entity, which note is payable on July 18, 2005 and bears interest at an annual rate of 8.0%. Mr. Brooksher is not restricted from transferring his ownership interest in GoProLogis and ProLogis has the right to acquire Mr. Brooksher's ownership interest beginning in 2001 for a price equal to the outstanding principal amount of the promissory note plus accrued and unpaid interest. See Note 4.

- ProLogis PhatPipe owns preferred stock in PhatPipe. Mr. Brooksher owns all of the voting common stock of ProLogis PhatPipe, representing a 2% interest in the earnings of ProLogis PhatPipe and he is entitled to receive dividends equal to 2% of the net cash flow of GoProLogis, as defined, if any. ProLogis owns all of the non-voting preferred stock of ProLogis PhatPipe, representing a 98% interest in the earnings of ProLogis PhatPipe and ProLogis is entitled to receive dividends equal to the remaining 98% of net cash flow, as defined, if any. Mr. Brooksher contributed recourse promissory notes with the aggregate principal amount of $122,449 to ProLogis PhatPipe in exchange for his interest in the entity, which note is payable on September 20, 2005 ($71,429 principal amount) and January 4, 2006 ($51,020 principal amount). Both notes bear interest at an annual rate of 8.0%. Mr.

Brooksher is not restricted from transferring his ownership interest in ProLogis PhatPipe and ProLogis has the right to acquire Mr. Brooksher's ownership interest beginning in 2001 for a price equal to the outstanding aggregate principal amount of the promissory notes plus accrued and unpaid interest. See Note 4.

As of September 30, 2001, ProLogis had other loans outstanding from Mr. Brooksher with an aggregate principal amount of $2,096,000. Of these, $1,858,000 was loaned to Mr. Brooksher under ProLogis' employee share purchase plan.

12. 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.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Trustees and Shareholders of
ProLogis Trust:

We have reviewed the accompanying consolidated condensed balance sheets of ProLogis Trust and subsidiaries as of September 30, 2001, and the related consolidated condensed statements of earnings and comprehensive income for the three and nine months ended September 30, 2001 and 2000 and the consolidated condensed statements of cash flows for the nine months ended September 30, 2001 and 2000. These 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, 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 financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of ProLogis Trust and subsidiaries as of December 31, 2000, and in our report dated March 15, 2001, we expressed an unqualified opinion on that statement. In our opinion, the information set forth in the accompanying consolidated condensed balance sheet as of December 31, 2000, is fairly stated in all material respects, in relation to the consolidated balance sheet from which it has been derived.

ARTHUR ANDERSEN LLP

Chicago, Illinois
November 9, 2001
(except with respect to
Note 2 as to which the
date is April 3, 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' 2000 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. 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 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' 2000 Annual Report on Form 10-K, as amended.

RESULTS OF OPERATIONS

Nine Months Ended September 30, 2001 and 2000

ProLogis' net earnings attributable to Common Shares were $137.5 million for the nine months ended September 30, 2001 as compared to $113.1 million for the same period in 2000. For the nine months ended September 30, 2001, basic and diluted per share net earnings attributable to Common Shares were $0.80 and $0.79 per share, respectively. Basic and diluted per share net earnings attributable to Common Shares were $0.69 per share for the same period in 2000.

The CDFS business segment provides capital for ProLogis to redeploy into its development activities in addition to generating profits that contribute to ProLogis' total income. ProLogis' net operating income from this segment increased by $31.8 million in 2001 over 2000, primarily the result of the number of dispositions of facilities developed by ProLogis to entities in which ProLogis maintains an ownership interest, such as ProLogis North American Properties Fund II, ProLogis North American Properties Fund III, ProLogis North American Properties Fund IV and ProLogis European Properties Fund, as well as to third parties. ProLogis' property operations segment net operating income was $354.5 million for 2001 and $369.2 million for 2000, a decrease of $14.7 million. This operating segment's net income includes rental income and net rental expenses from facilities directly owned by ProLogis and also its share of the income of its unconsolidated entities that engage in property operations segment activities. Losses from ProLogis' temperature-controlled distribution operations in 2001 increased from 2000 by $20.3 million. See "--Property Operations", "-- CDFS Business" and "-- Temperature-Controlled Distribution Operations".

Property Operations

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

	SEPTEMBER 30,		
	2001		
	NUMBER	SQUARE FOOTAGE	NUMBER
Direct ownership(1)	1,207	121,716	1,
ProLogis California(2)	79	13,052	
ProLogis North American Properties Fund I(1)(3)	36	8,963	
ProLogis North American Properties Fund II(1)(4)	27	4,477	
ProLogis North American Properties Fund III(1)(5)	34	4,380	
ProLogis North American Properties Fund IV(1)(6)	17	3,475	
ProLogis European Properties Fund and ProLogis European Properties S.a.r.l.(7)	123	19,236	
	1,523	175,299	1,

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(1) Includes operating facilities owned by ProLogis and its consolidated entities. The decrease in 2001 from 2000 is primarily the result of the formation of certain of ProLogis' distribution real estate entities beginning in June 2000 whose entire portfolios consist of operating facilities that were previously directly owned by or developed by ProLogis.

(2) ProLogis has had a 50% ownership interest in ProLogis California since its inception. See Note 4 to ProLogis' Consolidated Condensed Financial Statements in Item 1.

(3) ProLogis had a 41.3% ownership interest in ProLogis North American Properties Fund I as of September 30, 2001. This entity was formed on June 30, 2000. The three operating facilities acquired by this entity in 2001 were previously directly owned by ProLogis. See Note 4 to ProLogis' Consolidated Condensed Financial Statements in Item 1.

(4) ProLogis had a 20% ownership interest in ProLogis North American Properties Fund II as of September 30, 2001. This entity was originally formed on June 30, 2000. The 24 operating facilities acquired by this entity in 2001 were previously directly owned by ProLogis. See Note 4 to ProLogis' Consolidated Condensed Financial Statements in Item 1.

(5) ProLogis had a 20% ownership interest in ProLogis North American Properties Fund III as of September 30, 2001. This entity was formed in June 2001 with the acquisition of 34 operating facilities from ProLogis. See Note 4 to ProLogis' Consolidated Condensed Financial Statements in Item 1.

(6) ProLogis had a 20% ownership interest in ProLogis North American Properties Fund IV as of September 30, 2001. This entity was formed in September 2001 with the acquisition of 17 operating facilities from ProLogis. See Note 4 to ProLogis' consolidated condensed financial statements in Item 1.

(7) As of September 30, 2001, ProLogis' ownership interest in ProLogis European Properties Fund was 38.1%. As of September 30, 2000, ProLogis had a 37.5% ownership interest in the ProLogis European Properties Fund. Includes facilities owned by ProLogis European Properties S.a.r.l. in which ProLogis had a direct 49.9% ownership interest as of September 30, 2000, which is now owned directly by ProLogis European Properties Fund. See Note 4 to ProLogis' Consolidated Condensed Financial Statements in Item 1.

ProLogis' property operations segment income consists of the: (i) net operating income from the operating facilities that are owned by ProLogis directly or through its consolidated entities, and (ii) the income recognized by ProLogis under the equity method from its investments in unconsolidated entities engaged in property operations. See Note 9 to ProLogis' Consolidated Condensed Financial Statements in Item 1. The amounts recognized under the equity method are based on the net earnings of each unconsolidated entity and include: interest income and 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 and ProLogis European Properties S.a.r.l.). ProLogis' net operating income from the property operations segment was as follows (in thousands):

NINE MONTHS END
SEPTEMBER 30,

	2001	2
Facilities directly owned by ProLogis and its consolidated entities:		
Rental income(1)	$ 352,338	$
Property operating expenses(2)	21,655	
Net operating income	330,683	
Income from ProLogis California	10,186	
Income from ProLogis North American Properties Fund I(3)	3,561	
Income from ProLogis North American Properties Fund II(3)	1,634	
Income from ProLogis North American Properties Fund III(4)	582	
Income from ProLogis North American Properties Fund IV(5)	(12)	
Income from ProLogis European Properties Fund(6)	7,816	
Income from ProLogis European Properties S.a.r.l.(6)	36	
Total property operations segment	$ 354,486	$

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(1) The decrease in rental income between the periods presented is due to the changes in the number and composition of the directly owned facilities in each year and to lower average occupancy levels of the directly owned facilities in 2001 as compared to 2000.

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(2) The increase in property operating expenses is a function of: (i) an increase in bad debt expense (bad debt expense was $2.4 million for 2001 and $1.1 million for 2000); (ii) an overall increase in operating costs (rental expenses, excluding bad debt and before recoveries from tenants, were 26.0% of rental income in 2001 as compared to 24.2% of rental income for 2000); offset by (iii) changes in the number of directly owned facilities in 2001 as compared to 2000. The increase in bad debt expense and operating costs is primarily due to general economic conditions in North America.

(3) ProLogis North American Properties Fund I and ProLogis North American Properties Fund II began operations on June 30, 2000.

(4) ProLogis North American Properties Fund III began operations on June 15, 2001.

(5) ProLogis North American Properties Fund IV began operations on September 21, 2001.

(6) In 2001, ProLogis' share of the income of ProLogis European Properties Fund includes net foreign currency losses of $1.3 million. In 2000, ProLogis' share of the income of ProLogis European Properties Fund and ProLogis European Properties S.a.r.l. includes net foreign currency gains of $1.9 million and $2.0 million, respectively. Excluding net foreign currency exchange gains and losses, ProLogis' share of the income of ProLogis European Properties Fund would have been $9.3 million and $7.0 million for 2001 and 2000, respectively. Excluding net foreign currency exchange gains and losses, ProLogis' share of the income of ProLogis

European Properties S.a.r.l. would have been $5.7 million for 2000. The decrease in ProLogis' combined share of the income of ProLogis European Properties Fund and ProLogis European Properties S.a.r.l. in 2001 from 2000 is due to: (i) higher effective interest costs in 2001; (ii) changes in ProLogis' ownership interests between periods; and (iii) the effects of a decrease in the foreign currency exchange rates at which the income of these entities is translated to U. S. dollars. ProLogis recognized income under the equity method related to ProLogis European Properties S.a.r.l. in 2001 for only six days. See Note 4 to ProLogis' Consolidated Condensed Financial Statements in Item 1.

Pre-stable facilities are generally newly developed or acquired facilities that are usually underleased at the time they are completed or acquired. ProLogis, utilizing its ProLogis Operating System(R), has been successful in increasing occupancies on such facilities during their initial months of operation. ProLogis' stabilized operating facilities (facilities owned by ProLogis and its consolidated and unconsolidated entities) were 93.3% occupied and 94.3% leased as of September 30, 2001. ProLogis' stabilized occupancy levels have decreased during the first nine months of 2001 (95.4% occupied and 96.2% leased as of December 31, 2000).

ProLogis believes that occupancies may continue to decline over the next several quarters. However, ProLogis believes that the decrease in its stabilized occupancy levels in 2001 is the result of the current economic conditions in North America which have led to a slowing in customer leasing decisions and in the absorption of new facilities in the market. However, ProLogis believes that its global operating platform and the ProLogis Operating System(R) will partially mitigate 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 throughout 2001, with 2.0 million and 6.0 million square feet of leases signed in the three and nine month periods, respectively. ProLogis believes the leasing activity in Europe is currently affected more by a shift in distribution patterns of its customers and the need to reduce distribution costs, rather than by the effects of general economic conditions.

The average increase in rental rates for both new and renewed leases on previously leased space (28.7 million square feet) for all facilities including those owned by ProLogis' consolidated and unconsolidated entities during 2001 was 17.9% (up from 15.5% for all of 2000). During the nine months ended September 30, 2001, the net operating income (rental income less net rental expenses) generated by ProLogis' "same store" portfolio of operating facilities (facilities owned by ProLogis and its consolidated and unconsolidated entities that were in operation throughout both nine month periods in 2001 and 2000) increased by 2.0% over the same period in 2000 (as compared to an increase of 6.57% during the nine months ended September 30, 2000 as compared to the same period in 1999). The decrease in the growth in same store net operating income is due to increased bad debt expense in 2001 and to lower occupancy levels in the same store portfolio in 2001 as compared to 2000. During the three months ended September 30, 2001, the same store net operating income increased by 0.7% over the same period in 2000 (as compared to an increase of 6.02% during the three months ended September 30, 2000 as compared to the same period in 1999). Although the average increase in rental rates for new and renewed leases was 18.1% for ProLogis' same store operating portfolio in 2001, only 18.2 million square feet (of a total of 144.7 million square feet) were signed during the nine months of 2001. Therefore, the rental rate growth did not have a significant effect on same store net operating income.

CDFS Business

Net operating income from ProLogis' CDFS business segment consists primarily of: (i) profits from the disposition of land parcels and facilities that were developed by ProLogis and disposed of to customers or to entities in which ProLogis has an ownership interest; (ii) development fees earned by ProLogis; and (iii) income recognized under the equity method from ProLogis' investment in Kingspark S.A. Kingspark S.A. engages in CDFS business activities in the United Kingdom similar to those activities performed directly by ProLogis in other locations. ProLogis recognizes 99.75% of the net earnings of Kingspark S.A. under the equity method that includes: interest income and interest expense (net of capitalized amounts), general and administrative expense (net of capitalized amounts), income taxes and foreign currency exchange gains and losses.

The CDFS business segment income increased for the nine months in 2001 over the same period in 2000, due to an increase in sales volume. The CDFS business segment's net operating income is comprised of the following (in thousands):

	NINE MONTHS ENDED SEPTEMBER 30, 2001	NINE MONTHS ENDED SEPTEMBER 30, 2000
Net gains on disposition of land parcels and facilities developed(1)	$ 81,245	$ 60,615
Development fees and other, net	2,499	2,842
Income from Kingspark S.A.(2)(3)	30,704	20,411
Miscellaneous income	3,301	2,257
Other expenses(4)	(2,664)	(2,884)
	$ 115,085	$ 83,241

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(1) Represents gains from the disposition of land parcels and facilities developed as follows:

- 2001: 152 acres; 12.1 million square feet; $590.0 million of proceeds, and
- 2000: 188 acres; 9.5 million square feet; $429.6 million of proceeds.

(2) Kingspark S.A.'s income in 2001 includes:

- Gains from the disposition of land parcels and facilities developed (2.4 acres; 2.1 million square feet; $203.3 million of proceeds; net gains of $21.4 million);
- Development fees and other miscellaneous net income of $7.6 million;
- Deferred and current income tax expense of $50,000; and
- Foreign currency exchange losses of $2.3 million.

(3) Kingspark S. A.'s income in 2000 includes:

- Gains from the disposition of land parcels and facilities developed (11 acres; 0.7 million square feet; $91.8 million of proceeds; net gains of $13.2 million);

- Development fees and other miscellaneous net income of $5.2 million;

- Deferred and current income tax expense of $2.6 million; and

- Foreign currency exchange gains of $1.0 million.

(4) Includes land holding costs of $1.7 million in 2001 and $1.5 million in 2000 and the write-off of previously capitalized pursuit costs related to potential CDFS business segment projects of $1.0 million in 2001 and $1.4 million in 2000.

Temperature-Controlled Distribution Operations

ProLogis recognizes net operating income from the temperature-controlled distribution operations segment of its business under the equity method. ProLogis' share of the total income or loss of CSI/Frigo LLC, ProLogis Logistics and Frigoscandia S.A. was as follows (in thousands) (see Notes 4 and 8 to ProLogis' Consolidated Condensed Financial Statements in Item 1):

	NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
Loss from CSI/Frigo LLC	$ (1,343)	$ --
Income (loss) from ProLogis Logistics	(3,636)	8,067
Loss from Frigoscandia S.A.	(18,061)	(10,806)
Total temperature-controlled distribution operations segment	$ (23,040)	$ (2,739)

Amounts recognized under the equity method from CSI/Frigo LLC include ProLogis' share of this entity's share of the income or loss of ProLogis Logistics and Frigoscandia S.A. Amounts recognized under the equity method for ProLogis Logistics and Frigoscandia S.A. include interest income and interest expense, depreciation and amortization expense, general and administrative expense, income taxes and foreign currency exchange gains and losses (with respect to Frigoscandia). ProLogis recognizes in excess of 99% the net earnings of each entity in 2001 as compared to 95% in 2000.

CSI's operating capacity was comparable in both nine-month periods. The decrease in ProLogis' share of ProLogis Logistics' net earnings from 2000 to 2001 of $11.7 million is attributable to: (i) higher interest expense as a result of increasing external debt of this entity by $125.0 million and using the proceeds to repay debt to ProLogis, and (ii) a decrease in operating income as a result of lower occupancy levels in certain markets in 2001.

Frigoscandia's operating capacity was 171.5 million cubic feet as of September 30, 2001 and 192.1 million cubic feet as of September 30, 2000. The decrease reflects the disposition of the directly owned facilities in Germany and the Czech Republic in May 2001 and September 2001, respectively. ProLogis' share of Frigoscandia S.A.'s net losses includes net foreign currency exchange losses of $7.9 million and net foreign currency exchange gains of $1.1 million in 2001 and 2000, respectively. Excluding these foreign currency exchange gains and losses, ProLogis recognized $1.7 million more income under the equity method in 2001 than it recognized in 2000 from its investment in Frigoscandia S.A. The increase in Frigoscandia S.A.'s net income in 2001 from the loss recognized in 2000 is primarily attributable to lower general and administrative expense in 2001 as compared to 2000, offset by a net loss recognized on the disposal of Frigoscandia's directly owned facilities located in Germany and the Czech Republic of approximately $3.9 million. The disposition of these facilities was completed as the mix of facilities and customers no longer met ProLogis' strategic objective in this business segment, which is to concentrate on the distribution and logistics part of the supply chain rather than on storage. ProLogis is continuing to evaluate its temperature-controlled distribution operations in light of this strategic objective.

ProLogis believes that the factors that contributed to the decline in operating performance of CSI and Frigoscandia are temporary and can be partially mitigated in the short-term by reductions in general and administrative costs and other operating costs. However, there is no assurance that these factors are temporary or that some or all of these factors will not continue past 2001.

Other Income and Expense Items

Income (Loss) from Unconsolidated Entities

Income (loss) from unconsolidated entities that is not directly attributable to any of ProLogis' three business segments was a loss of $3.9 million for the nine months ended September 30, 2001. See Note 9 to ProLogis' Consolidated Condensed Financial Statements in Item 1. This amount is made up of the following:

- ProLogis PhatPipe: a loss of $6.8 million ($0.7 million of income recognized in the first quarter and a loss of $7.5 million recognized in the second quarter); the loss represents ProLogis' share of ProLogis PhatPipe's impairment adjustment from the write-down of its preferred stock investment in PhatPipe, offset by $0.7 million of license fee income recognized under an agreement for the non-exclusive use of the ProLogis Operating System(TM); no additional license fee income will be recognized by ProLogis PhatPipe;

- GoProLogis: income of $3.0 million represents ProLogis' share of GoProLogis' income, primarily license fee income recognized under an agreement for the non-exclusive use of the ProLogis Operating System(TM) ($1.5 million of income recognized in each of the first and second quarters); GoProLogis recognized license fee income from Vizional Technologies only for the first six months of 2001, as GoProLogis is monitoring this investment in light of the current economy's effects on the technology industry and Vizional Technologies business plan;

- ProLogis Equipment Services: a loss of $155,000 (all recognized in the second quarter); and

- Insight: a loss of $10,000 (all recognized in the first quarter).

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 expense was $123.4 million in 2001 and $128.5 million in 2000. Capitalized interest was $18.4 million in 2001 and $12.8 million in 2000. Capitalized interest levels are reflective of ProLogis' cost of funds and the level of development activity in each year.

Gain on Disposition of Real Estate

Gain on disposition of real estate represents the net gains or losses from the disposition of operating facilities that were acquired or developed within the property operations segment. Generally, ProLogis disposes of facilities in the property operations segment because such facilities are considered to be non-strategic facilities or to complement the portfolio of developed facilities that are acquired by entities in which ProLogis maintains an ownership interest. 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.

Property operations segment dispositions were as follows:

- 2001: 4.7 million square feet; $180.9 million of proceeds; net gain of $0.4 million (a net loss of $1.7 million was recognized in the first quarter, a net loss of $1.4 million was recognized in the second quarter and a net gain of $3.5 million was recognized in the third quarter); and a net gain of $0.5 million recognized upon the contribution of ProLogis' 49.9% investment in the common stock of ProLogis European Properties S.a.r.l. to ProLogis European Properties Fund in January 2001; and

- 2000: 3.5 million square feet; $133.7 million of proceeds; net gains of $1.0 million (a net gain of $5.1 million was recognized in the first quarter, a net loss of $4.8 million was recognized in the second quarter and a net gain of $0.7 million was recognized in the third quarter).

Foreign Currency Exchange Losses

ProLogis recognized net foreign currency exchange losses of $2.2 million and $20.4 million for 2001 and 2000, respectively. Foreign currency exchange gains and losses are primarily the result of the remeasurement and settlement of intercompany debt and the remeasurement of 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 and the pound sterling and the level of intercompany and third party debt outstanding that is denominated in currencies other than the U.S. dollar.

Income Taxes

ProLogis is taxed as a REIT for federal income tax purposes and is not required to pay federal income taxes if minimum distribution and income, asset and shareholder tests are met. ProLogis Development Services is not a qualified REIT subsidiary for tax 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 ProLogis Development Services and its foreign subsidiaries.

Current income tax expense recognized in 2001 and 2000 was $2.3 million and $1.1 million, respectively. Current income tax expense is higher in 2001 primarily due to the increased level of income recognized by ProLogis' taxable subsidiaries in the CDFS business segment. Deferred income tax expense was $3.5 million and $1.7 million in 2001 and 2000, respectively. ProLogis' deferred tax component of total income taxes is a function of each year's temporary differences (items that are treated differently for tax purposes than for book purposes) as well as the need for a deferred tax valuation allowance to adjust certain deferred tax assets (primarily deferred tax assets created by tax net operating losses) to their estimated realizable value.

Three Months Ended September 30, 2001 and 2000

The changes in net earnings attributable to Common Shares and its components for the three months ended September 30, 2001 compared to the three months ended September 30, 2000 are similar to the changes for the nine month periods ended on the same dates and the three-month period changes are attributable to the same reasons discussed under "--Nine Months Ended September 20, 2001 and 2000" except as specifically discussed under "--Property Operations", "Income (Loss) from Unconsolidated Entities", "--Gain on Disposition of Real Estate".

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

ProLogis considers its liquidity and ability to generate cash from operations as well as its financing capabilities (including proceeds from the disposition of facilities) to be adequate and ProLogis expects to be able to continue 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) acquisitions of existing facilities in key distribution markets in the property operations segment and (ii) the acquisition of land for future development and the development of distribution facilities in the CDFS business segment for future disposition to entities in which ProLogis maintains an ownership interest or to third parties. ProLogis' future investing activities are expected to be primarily funded with:

- cash generated by operations;
- the proceeds from the disposition of facilities developed by ProLogis to third parties;
- the proceeds from the disposition of facilities to entities in which ProLogis maintains an ownership interest, such as ProLogis European

Properties Fund or other real estate distribution entities that may be formed in the future; and

- utilization of ProLogis' U. S. dollar denominated and multi-currency revolving credit facilities.

In the short-term, borrowings on and subsequent repayments of ProLogis' unsecured revolving credit facilities will provide ProLogis with adequate liquidity and financial flexibility to efficiently respond to market opportunities. As of November 9, 2001, on a combined basis, ProLogis had approximately $320.4 million of short-term borrowings outstanding resulting in additional short-term borrowing capacity available of $609.0 million. ProLogis will continue to evaluate the public debt markets with the objective of reducing its short-term borrowings and extending debt maturities on favorable terms.

Cash Operating Activities

Net cash provided by operating activities for the nine months ended September 30, 2001 and 2000 was $283.5 million and $286.4 million, respectively. See "--Results of Operations -- Property Operations". Cash provided by operating activities exceeded the cash distributions paid on Common Shares in 2001 and 2000. See ProLogis's Consolidated Condensed Statements of Cash Flows in Item 1.

Cash Investing and Cash Financing Activities

In 2001, ProLogis' investing activities provided net cash of $216.6 million and financing activities used net cash of $516.8 million. Proceeds received from the dispositions of real estate and the repayments of loans by and distributions received from ProLogis' unconsolidated entities were used to fund real estate investments and repay borrowings on ProLogis' lines of credit. In 2000, ProLogis used net cash of $153.4 million in its investing activities and $58.5 million in its financing activities. Investing activities in 2000 were primarily funded by lines of credit borrowings and proceeds from dispositions of real estate. See ProLogis' Consolidated Condensed Statements of Cash Flows in Item 1.

ProLogis Logistics and ProLogis Development Services may also borrow under the $500.0 million credit agreement, with such borrowings guaranteed by ProLogis. As of September 30, 2001, ProLogis Logistics, an unconsolidated entity, had borrowed $125.0 million under the credit agreement and ProLogis Development Services had no borrowings under the credit agreement.

Commitments

As of September 30, 2001, ProLogis had letters of intent or contingent contracts, subject to ProLogis' final due diligence, for the acquisition of 3.1 million square feet of operating facilities at an estimated acquisition cost of $109.0 million. The foregoing transactions are subject to a number of conditions, and ProLogis cannot predict with certainty that they will be consummated. ProLogis has sufficient funds escrowed as the result of tax-deferred exchange transactions to acquire these assets. In addition, as of September 30, 2001, ProLogis had $397.8 million of budgeted development costs for developments in process, of which $221.2 million was unfunded.

On January 11, 2001, ProLogis announced a Common Share repurchase program under which it may repurchase up to $100.0 million of its Common Shares. The Common Shares will be repurchased from time to time in the open market and in privately negotiated transactions, depending on market prices and other conditions. As of September 30, 2001, 778,400 Common Shares had been repurchased at a total cost of $16.0 million.

ProLogis has entered into a subscription agreement to make additional capital contributions to ProLogis European Properties Fund of 74.2 million euros (the currency equivalent of approximately $67.9 million as of September 30, 2001) through 2002.

As of September 30, 2001, ProLogis Logistics had $90.0 million of direct borrowings outstanding under a credit agreement that has been guaranteed by ProLogis.

Frigoscandia AB has a credit agreement under which 171.0 million euros (the currency equivalent of approximately $156.3 million as of September 31, 2001) is outstanding. All of the borrowings outstanding have been guaranteed by ProLogis. The agreement has been extended until December 28, 2001.

ProLogis Kingspark has a line of credit agreement with a bank in the United Kingdom that has been guaranteed by ProLogis and provides for borrowings of up to 25.0 million pounds sterling (the currency equivalent of approximately $36.6 million as of September 30, 2001). As of September 30, 2001, no borrowings were outstanding on the line of credit. However, ProLogis Kingspark had the currency equivalent of approximately $6.2 million of letters of credit outstanding that reduce the amount of available borrowings on the line of credit.

As of September 30, 2001, ProLogis North American Properties Fund IV had $103.0 million of short-term borrowings outstanding under an agreement that matures on December 21, 2001. The agreement provides for a 46-day extension at ProLogis North American Properties Fund IV's option. ProLogis North American Properties Fund IV intends to obtain permanent secured financing which will be used to repay these short-term borrowings. ProLogis has guaranteed the entire amount outstanding.

ProLogis has guaranteed a 30.0 million French franc (the currency equivalent of approximately $4.2 million as of September 30, 2001) unsecured loan outstanding of ProLogis European Properties Fund.

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 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 23, 2001, May 25, 2001 and August 24, 2001, ProLogis paid a quarterly distribution of $0.345 per Common Share to shareholders of record on February 9, 2001, May 14, 2001 and August 10, 2001, respectively. The distribution level for 2001 was set by ProLogis' Board of Trustees in December 2000 at $1.38 per Common Share.

The annual dividend rates on ProLogis' preferred shares are $4.27 per Series C cumulative redeemable preferred share, $1.98 per Series D cumulative redeemable preferred share and $2.1875 per Series E cumulative redeemable preferred share.

On January 31, 2001, April 30, 2001 and July 31, 2001 ProLogis paid quarterly dividends of $0.5469 per Series E cumulative redeemable preferred share. On March 30, 2001, ProLogis paid quarterly dividends of $0.5875 per Series A cumulative redeemable preferred share. On March 30, 2001, June 29, 2001 and September 28, 2001, ProLogis paid quarterly dividends of $1.0675 per Series C cumulative redeemable preferred share and $0.495 per Series D cumulative redeemable 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.

FUNDS FROM OPERATIONS

Funds from operations attributable to Common Shares increased $23.3 million to $302.6 million for 2001 from $279.3 million for 2000.

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 Statements of Cash Flows 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):

	NINE MONTHS END SEPTEMBER 30,	
	2001	
Net earnings attributable to Common Shares	$ 137,470	$
Add (Deduct):		
Real estate related depreciation and amortization	101,780	
Gain (loss) on disposition of non-CDFS business segment assets	(863)	
Foreign currency exchange losses, net	1,216	
Deferred income tax expense	3,507	
ProLogis' share of reconciling items of unconsolidated entities:		
Real estate related depreciation and amortization	50,031	
Loss on disposition of non-CDFS business segment assets	3,965	
Foreign currency exchange gains, net	12,618	
Deferred income tax expense benefit	(7,159)	
Funds from operations attributable to Common Shares	$ 302,565	$

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of September 30, 2001, no significant change had occurred in ProLogis' interest rate risk or foreign currency risk as discussed in ProLogis' 2000 Annual Report on Form 10-K.

PART II

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITIES HOLDERS

None.

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ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

4.1* Third Amendment to Rights Agreement, dated as of December 31, 1993, between ProLogis and Fleet National Bank, as Rights Agent, to amend the agreement and appoint EquiServe Trust Company, N.A.

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 Arthur Andersen LLP regarding unaudited financial information dated April 2, 2002

99.1 Letter dated April 3, 2002 to United States Securities and Exchange Commission related to the review performed by Arthur Andersen

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* Previously filed.

(b) Reports on Form 8-K:

DATE	ITEMS REPORTED	FINANCIAL STATEMEN
July 10, 2001	5	No

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

BY: /s/ LUKE A. LANDS
Luke A. Lands
Senior Vice President and Controller

BY: /s/ SHARI J. JONES
Shari J. Jones
Vice President
(Principal Accounting Officer)

Date: April 5, 2002

EXHIBIT INDEX

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