PROLOGIS
Form 10-Q
May 14, 2003

Table of Contents

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

FORM 10-Q

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

For the quarterly period ended March 31, 2003

[ ] **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

(Exact name of registrant as specified in its charter)

Maryland	**74-2604728**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
14100 East 35th Place, Aurora, Colorado	**80011**
(Address or principal executive offices)	**(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 [ ]

Indicate by check mark whether the registrant is accelerated file (as defined in Rule 12b-2 of the Securities Act of 1934).

Yes [X] No [ ]

The number of shares outstanding of the Registrant s common shares as of May 12, 2003 was 178,996,921.

TABLE OF CONTENTS

Table of Contents

PROLOGIS

INDEX

Table of Contents

PROLOGIS

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

	March 31, 2003	December 31, 2002
	(Unaudited)	(Audited)
ASSETS		
Real estate	$5,410,992	$5,395,527
Less accumulated depreciation	744,242	712,319
	4,666,750	4,683,208
Investments in and advances to unconsolidated investees	890,548	821,431
Cash and cash equivalents	111,996	110,809
Accounts and notes receivable	46,427	39,329
Other assets	261,532	268,748
Total assets	$5,977,253	$5,923,525
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Lines of credit	$ 394,335	$ 545,906
Senior unsecured debt	1,910,844	1,630,094
Mortgage notes and other secured debt	523,123	555,978
Accounts payable and accrued expenses	127,525	154,082
Construction costs payable	17,582	27,880
Dividends payable	729	729
Other liabilities	91,907	79,902
Total liabilities	3,066,045	2,994,571
Minority interest	39,739	42,467
Shareholders equity:		
Series C Preferred Shares; at the stated liquidation preference of $50.00 per share; $0.01 par value; 2,000,000 shares issued and outstanding at March 31, 2003 and December 31, 2002	100,000	100,000
Series D Preferred Shares; at the stated liquidation preference of $25.00 per share; $0.01 par value; 10,000,000 shares issued and outstanding at March 31, 2003 and December 31, 2002	250,000	250,000
Series E Preferred Shares; at the stated liquidation preference of $25.00 per share; $0.01 par value; 2,000,000 shares issued and outstanding at March 31, 2003 and December 31, 2002	50,000	50,000
Common shares of beneficial interest; $0.01 par value; 178,726,859 shares issued and outstanding at March 31, 2003 and 178,145,614 shares issued and outstanding at December 31, 2002	1,787	1,781
Additional paid-in capital	3,024,170	3,016,889
Accumulated other comprehensive income	50,586	47,264
Distributions in excess of net earnings	(605,074)	(579,447)
Total shareholders equity	2,871,469	2,886,487
Total liabilities and shareholders equity	$5,977,253	$5,923,525

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

Table of Contents

PROLOGIS

CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME
(Unaudited)
(In thousands, except per share data)

	Three Months Ended March 31,	
	2003	2002
Income:		
Rental income	$115,656	$112,929
Other real estate income	31,051	26,416
Income from unconsolidated investees	12,867	32,345
Interest and other income	369	570
Total income	159,943	172,260
Expenses:		
Rental expenses, net of recoveries of $26,466 in 2003 and $23,628 in 2002	10,124	7,741
General and administrative	15,876	12,927
Depreciation and amortization	41,518	36,231
Interest	37,254	40,830
Other	778	821
Total expenses	105,550	98,550
Earnings from operations	54,393	73,710
Minority interest share in earnings	1,283	1,282
Earnings before gains (losses) on dispositions of real estate and foreign currency exchange losses	53,110	72,428
Gains (losses) on dispositions of real estate, net	383	(153)
Foreign currency exchange losses, net	(5,102)	(339)
Earnings before income taxes	48,391	71,936
Income taxes:		
Current income tax expense	509	1,060
Deferred income tax expense	998	7,701
Total income tax expense	1,507	8,761
Net earnings	46,884	63,175
Less preferred share dividends	8,179	8,179
Net earnings attributable to Common Shares	38,705	54,996
Other comprehensive income (loss):		
Foreign currency translation adjustments	3,322	(18,097)
Comprehensive income	$ 42,027	$ 36,899

Weighted average Common Shares outstanding Basic	178,600	176,523
Weighted average Common Shares outstanding Diluted	181,003	183,182
Basic net earnings attributable to Common Shares	$ 0.22	$ 0.31
Diluted net earnings attributable to Common Shares	$ 0.21	$ 0.31
Distributions per Common Share	$ 0.360	$ 0.355

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

Table of Contents

PROLOGIS

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

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Operating activities:		
Net earnings	$ 46,884	$ 63,175
Minority interest share in earnings	1,283	1,282
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	41,518	36,231
(Gains) losses on dispositions of real estate, net	(383)	153
Straight-lined rents	(2,054)	(1,352)
Amortization of deferred loan costs	1,627	1,409
Stock-based compensation	3,111	2,912
Income from unconsolidated investees	(3,376)	(26,795)
Foreign currency exchange losses, net	4,041	383
Deferred income tax expense	998	7,701
(Increase) decrease in accounts receivable and other assets	(4,711)	6,657
Decrease in accounts payable and accrued expenses and other liabilities	(23,767)	(12,227)
Net cash provided by operating activities	65,171	79,529
Investing activities:		
Real estate investments	(298,730)	(112,896)
Tenant improvements and lease commissions on previously leased space	(9,293)	(7,932)
Recurring capital expenditures	(2,300)	(8,022)
Proceeds from dispositions of real estate	210,359	203,484
Net (advances to) amounts received from unconsolidated investees	15,591	(12,481)
Net cash provided by (used in) investing activities	(84,373)	62,153
Financing activities:		
Net proceeds from sales of Common Shares and issuances of Common Shares under plans	13,301	35,096
Repurchases of Common Shares, net of costs	(9,771)	
Distributions paid on Common Shares	(64,332)	(62,552)
Distributions paid to minority interest holders	(4,023)	(1,871)
Distributions paid on preferred shares	(8,179)	(8,179)
Proceeds from issuance of senior unsecured debt	300,000	
Proceeds from issuance of secured debt	31,000	
Debt issuance costs incurred	(2,856)	
Principal payments on senior unsecured debt	(18,750)	(18,750)
Proceeds from lines of credit	571,136	168,675
Payments on lines of credit	(722,707)	(221,669)
Regularly scheduled principal payments on secured debt	(1,586)	(1,659)
Principal payments on secured debt at maturity and prepayments	(62,094)	
Principal payments on employee share purchase notes		768
Purchases of derivative financial instruments	(750)	
Proceeds from settlement of derivative financial instruments		159

Net cash provided by (used in) financing activities	20,389	(109,982)
Net increase in cash and cash equivalents	1,187	31,700
Cash and cash equivalents, beginning of period	110,809	27,989
Cash and cash equivalents, end of period	$ 111,996	$ 59,689

See Note 9 for information on non-cash investing and financing activities.

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

Table of Contents

PROLOGIS

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
March 31, 2003 and 2002
(Unaudited)

1. General

Business

ProLogis, collectively with its consolidated subsidiaries and partnerships, is a publicly held real estate investment trust (REIT) that owns, operates and develops industrial distribution properties in North America (the United States and Mexico), Europe (11 countries) and Asia (Japan). ProLogis established a representative office in China in April 2003, but owns no real estate assets in China as of March 31, 2003. The ProLogis Operating System®, comprised of the Market Services Group, the Global Services Group, the Global Development Group and the ProLogis Solutions Group, utilizes ProLogis international network of properties to meet its customers distribution space needs globally. ProLogis business consists of two reportable business segments: property operations and corporate distribution facilities services business (CDFS business). See Note 8.

Principles of Financial Presentation

The consolidated condensed financial statements of ProLogis as of March 31, 2003 and for the three months ended March 31, 2003 and 2002 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. Management of ProLogis believes that the disclosures presented are adequate; however, these interim consolidated condensed financial statements should be read in conjunction with ProLogis December 31, 2002 audited consolidated financial statements contained in ProLogis 2002 Annual Report on Form 10-K.

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 months ended March 31, 2003 and 2002 are not necessarily indicative of the results to be expected for the entire year. Certain of the 2002 amounts have been reclassified to conform to the 2003 financial statement presentation.

ProLogis began presenting its investment in ProLogis UK Holdings S.A., formerly Kingspark Holding S.A., (collectively with its subsidiaries Kingspark S.A.), a Luxembourg company that engages in CDFS business activities in the United Kingdom, and its investment in Kingspark LLC, a holding company that holds the voting ownership interests of Kingspark S.A., on a consolidated basis on July 1, 2002. ProLogis began presenting its investment in ProLogis Logistics Services Incorporated (ProLogis Logistics), which owns CS Integrated LLC (CSI), previously a temperature-controlled distribution company operating in the United States, on a consolidated basis on October 24, 2002. Previously, all of these investments were presented under the equity method. ProLogis changes in reporting method with respect to these entities occurred at the time ProLogis acquired (directly or indirectly) 100% of the ownership interests (both voting and non-voting) of Kingspark S.A. and ProLogis Logistics. Generally accepted accounting principles in the United States (GAAP) do not require that previously reported financial information be restated when the reporting method is changed to consolidation from the equity method under these circumstances. ProLogis consolidated shareholders equity and its consolidated net earnings are the same under the two reporting methods. The accompanying consolidated condensed financial statements present ProLogis investments in Kingspark S.A. and Kingspark LLC under the equity method through June 30, 2002 and ProLogis investment in ProLogis Logistics under the equity method through October 23, 2002. From these dates forward, these investments are presented on a consolidated basis. See Note 3.

In January 2003, Interpretation No. 46, Consolidation of Variable Interest Entities , was issued. ProLogis is required to adopt the requirements of this Interpretation for the interim period that begins after June 15, 2003. This Interpretation clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements , and requires that ProLogis present any variable interest entities in which it has a majority variable interest on a consolidated basis in its financial statements. ProLogis is continuing to assess the provisions of this Interpretation and the impact to ProLogis of adopting this Interpretation. Based on its initial assessment, ProLogis believes that, due to the adoption of this Interpretation, it will begin to present its investments in Frigoscandia Holding S.A. (Frigoscandia S.A.) and CSI/Frigo LLC, a holding company that has an ownership interest in Frigoscandia S.A., on a consolidated basis in its financial statements beginning with the consolidated condensed financial statements issued for the quarterly period ended September 30, 2003. Currently, ProLogis presents its investments in Frigoscandia S.A. and CSI/Frigo LLC under the equity method.

6

Table of Contents

ProLogis combined effective ownership in these entities is 99.75% at March 31, 2003. ProLogis expects that it will continue to present all of its other investments under the equity method. See Note 3 for information on ProLogis investments in these entities and for summarized financial information of Frigoscandia S.A. as of and for the three months ended March 31, 2003.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Operations

The U.S. dollar is the functional currency for ProLogis consolidated subsidiaries and unconsolidated investees operating in the United States and Mexico. The functional currency for ProLogis consolidated subsidiaries and unconsolidated investees operating outside North America is the local currency of the country in which the entity is located (euro for members of the European Union that have adopted the euro, krona for Sweden, pound sterling for the United Kingdom, forint for Hungary, koruna for the Czech Republic, zloty for Poland and yen for Japan).

ProLogis consolidated subsidiaries whose functional currency is not the U.S. dollar translate their financial statements into U.S. dollars prior to consolidating their financial statements with those of ProLogis. 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 translates its share of the earnings or losses of its unconsolidated investees whose functional currency is not the U.S. dollar at the average exchange rate for the period.

ProLogis and its consolidated subsidiaries and unconsolidated investees may have transactions denominated in currencies other than their functional currency. In these instances, nonmonetary assets and liabilities are reflected 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 generally included in results of operations. Certain intercompany debt balances are remeasured with the resulting adjustment recognized as a cumulative translation adjustment in accumulated other comprehensive income in shareholders equity. This treatment is given to intercompany debt that is deemed to be a permanent source of capital to the subsidiary or investee.

Gains or losses are also recorded in the income statement when a transaction with a third party, denominated in a currency other than the entity s 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 components of 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 March 31,	
	2003	**2002**
Remeasurement of third party and certain intercompany debt, net(1)	$ (3,596)	$ (278)
Settlement of third party and certain intercompany debt, net(1)	(889)	(9)
Derivative financial instruments put option contracts(2):		
Costs of contracts expiring in each period	(665)	(213)
Mark-to-market gains (losses) on outstanding contracts	220	(51)
Gains realized at expiration, net		159
Transaction gains (losses), net	(172)	53
Totals	$ (5,102)	$ (339)

(1) When certain debt balances are settled, previously recognized remeasurement gains or losses that were recognized in results of operations as unrealized are reversed and the cumulative foreign currency exchange gain or loss realized with respect to the debt balance

is reflected in results of operations as a realized gain or loss.

Table of Contents

(2) ProLogis enters into foreign currency put option contracts related to its operations in Europe and Japan. These put option contracts do not qualify for hedge accounting treatment. Accordingly, the cost of the contract is capitalized at the contract s inception and then marked-to-market by ProLogis as of the end of each accounting period until the contract s expiration. Upon expiration, the mark-to-market adjustments are reversed, the total cost of the contract is expensed and any amounts received at expiration are recognized as gains.

Other Recently Issued Accounting Standards

In November 2002, Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others as an interpretation of SFAS Nos. 5, 57 and 107 and a rescission of Interpretation No. 34 was issued. This Interpretation elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit and provides that an entity that issues a guarantee must recognize an initial liability for the fair value, or market value, of the obligation it assumes under that guarantee. Further, this Interpretation requires that this information be disclosed in the interim and annual financial statements.

This Interpretation s disclosure requirements were effective for ProLogis December 31, 2002 consolidated financial statements and the initial recognition and measurement provisions of this Interpretation are applicable to guarantees issued or modified after December 31, 2002. ProLogis made all applicable disclosures in its consolidated financial statements included in its 2002 Annual Report on Form 10-K. The application of the recognition and measurement provisions of this Interpretation did not have a material effect on ProLogis financial position, results of operations or cash flows. See Note 3.

In December 2002, SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an amendment of FASB Statement No. 123 was issued. This standard is effective for financial statements for fiscal years ending after December 15, 2002. ProLogis does not account for share-based compensation under the fair value method provided in SFAS No. 123. Rather, ProLogis continues to account for its various share-based compensation plans using Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, as also allowed under SFAS No. 123. Under APB No. 25, if the exercise price of the share options issued equals or exceeds the market price of the underlying share on the date of grant, no compensation expense is recognized. Under SFAS No. 123, the fair value of the share options issued would be recognized as compensation expense. ProLogis issues share options to employees and members of its Board of Trustees (the Board) that have an exercise price that is equal to the average of the high and low market prices on the day the options are issued. Therefore, no compensation expense is recognized. ProLogis does recognize compensation expense when changes to the terms of the share options or other instruments awarded require the use of variable accounting as provided under SFAS No. 123.

Had compensation expense been recognized by ProLogis for the three months ended March 31, 2003 and 2002 using an option valuation model as provided in SFAS No. 123, ProLogis net earnings attributable to Common Shares and net earnings per Common Share for these periods would change as follows (in thousands of U.S. dollars, except per share amounts):

	Three Months Ended March 31,	
	2003	**2002**
Net earnings attributable to Common Shares:		
As reported	$38,705	$54,996
Pro forma	37,980	53,858
Basic and diluted per share net earnings attributable to Common Shares:		
As reported Basic	$ 0.22	$ 0.31
As reported Diluted	0.21	0.31
Pro forma Basic	0.21	0.31
Pro forma Diluted	0.21	0.30

Since share options vest over several years and additional grants are likely to be made in future years, the pro forma compensation expense may not be representative of compensation cost to be expected in future years.

Table of Contents

The pro forma amounts above were calculated using the Black-Scholes model and the following assumptions:

	Three Months Ended March 31,	
	2003	2002
Risk-free interest rate	3.38%	5.09%
Forecasted dividend yield	5.68%	6.19%
Volatility	20.05%	20.18%
Weighted average option life	6.25 years	6.25 years

ProLogis adopted the following accounting standards as of January 1, 2003. Adoption of these standards has not had a material impact on ProLogis financial position, results of operations or cash flows:

SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB statement No. 13, and Technical Corrections . SFAS No. 145 significantly limits the treatment of losses associated with early extinguishment of debt as an extraordinary item and impacts certain sale-leaseback transactions.

SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities . SFAS No. 146 requires that certain expenses associated with restructuring charges be accrued as liabilities in the period in which the liability is incurred.

2. Real Estate

Investments in Real Estate

Real estate assets directly owned by ProLogis consist of income producing industrial distribution properties, properties under development and land held for future development, at cost. ProLogis real estate investments include the following as of the dates indicated (in thousands of U.S. dollars):

	March 31, 2003	December 31, 2002
Operating properties(1):		
Improved land	$ 746,492	$ 735,953
Buildings and improvements	3,900,641	3,831,921
	4,647,133	4,567,874
Properties under development (including cost of land)(2)(3)	312,267	377,384
Land held for development(4)	382,842	386,820
Other investments(5)	68,750	63,449
Total real estate assets	5,410,992	5,395,527
Less accumulated depreciation	744,242	712,319
Net real estate assets	$4,666,750	$4,683,208

(1) At March 31, 2003 and December 31, 2002, ProLogis had 1,239 and 1,230 operating properties, respectively, consisting of 130,178,000 and 127,956,000 square feet, respectively.

(2) Properties under development consisted of 30 buildings aggregating 6,347,000 square feet at March 31, 2003 and 37 buildings aggregating 9,648,000 square feet at December 31, 2002.

(3) In addition to the March 31, 2003 construction costs payable balance of $17.6 million, ProLogis had aggregate unfunded commitments on contracts for properties under construction of $248.0 million at March 31, 2003.

(4) Land held for future development consisted of 2,564 acres at March 31, 2003 and 2,466 acres at December 31, 2002.

(5) Other investments include: (i) restricted funds that are held in escrow pending the completion of tax-deferred exchange transactions involving operating properties (none at March 31, 2003 and $6.9 million at December 31, 2002); (ii) earnest money deposits associated with potential acquisitions; (iii) costs incurred during the pre-acquisition due diligence process; and (iv) costs incurred during the pre-construction phase related to future development projects.

Table of Contents

ProLogis directly owned real estate assets are located in North America (the United States and Mexico), ten countries in Europe and in Japan. No individual market in any country, as defined by ProLogis and presented in Item 2 of its 2002 Annual Report on Form 10-K, represents more than 10% of ProLogis total real estate assets, before depreciation.

Operating Lease Agreements

ProLogis leases its operating properties to customers under agreements that are generally classified as operating leases. At March 31, 2003, minimum lease payments on leases with lease periods greater than one year for space in ProLogis directly owned properties during the remainder of 2003 and the other years in the five-year period ending December 31, 2007 and thereafter are as follows (in thousands of U.S. dollars):

Remainder of 2003	$ 310,179
2004	338,915
2005	257,482
2006	172,262
2007	119,434
2008 and thereafter	201,273
	$1,399,545

In ProLogis directly owned properties, the largest customer and the 25 largest customers accounted for 1.44% and 14.75%, respectively, of ProLogis annualized base rental income at March 31, 2003.

3. Unconsolidated Investees:

Summary of Investments and Income

Since 1997, ProLogis has invested in various entities that are presented under the equity method in ProLogis consolidated condensed financial statements. Certain of these investments have been structured such that ProLogis ownership interest will allow ProLogis to continue to comply with the requirements of the Internal Revenue Code of 1986, as amended (the Code), to qualify as a REIT. However, with respect to ProLogis investments in property funds, having an ownership interest of less than 50% is part of ProLogis business strategy. This business strategy allows ProLogis to realize a portion of the profits from its development activities and raise private debt and equity capital to fund its future development activities while also allowing ProLogis to maintain an ownership interest in its developed properties.

ProLogis investments in entities that were presented under the equity method are summarized as follows as of the dates indicated (in thousands of U.S. dollars):

	March 31, 2003	December 31, 2002
Property funds	$658,808	$593,479
CDFS entities	43,955	45,183
Temperature-controlled distribution company	185,299	178,459
Other	2,486	4,310
Totals	$890,548	$821,431

ProLogis recognizes income or losses from its unconsolidated investees consisting of its proportionate share of the earnings or losses of these entities recognized under the equity method, interest income on advances to these entities, if any, and fees earned from these entities, if any. Amounts recognized by ProLogis from unconsolidated investees are summarized as follows for the periods indicated (in thousands of U.S. dollars):

	Three Months Ended March 31,	
	2003	2002
Property funds	$10,196	$14,256
CDFS entities	301	9,482
Temperature-controlled distribution companies	2,318	10,676
Other	52	(2,069)
Totals	$12,867	$32,345

Table of Contents

Property Funds

Since 1999, ProLogis has formed eight property funds. ProLogis ownership interests in these property funds range from 14.5% to 50%. The property funds own distribution properties, generally properties that have been contributed to the property funds by ProLogis. ProLogis receives ownership interests in the property funds as part of the proceeds received from these contributions. ProLogis recognizes its proportionate share of the earnings or losses of each property fund under the equity method. ProLogis earns fees for acting as the manager of the property funds and may earn additional fees by providing other services to certain of the property funds including, but not limited to, development and leasing activities performed on their behalf.

ProLogis investments in the eight property funds, presented under the equity method, were as follows as of the dates indicated (in thousands of U.S. dollars):

	March 31, 2003	December 31, 2002
ProLogis California(1)	$118,092	$118,790
ProLogis North American Properties Fund I(2)	45,432	46,175
ProLogis North American Properties Fund II(3)	6,592	7,070
ProLogis North American Properties Fund III(4)	5,680	5,666
ProLogis North American Properties Fund IV(5)	3,896	3,730
ProLogis North American Properties Fund V(6)	109,893	34,287
ProLogis European Properties Fund(7)	365,060	374,365
ProLogis Japan Properties Fund(8)	4,163	3,396
Totals	$658,808	$593,479

ProLogis total investment in the eight property funds as of March 31, 2003 consisted of the following components (in millions of U.S. dollars):

	ProLogis California(1)	ProLogis North American Properties Fund I(2)	ProLogis North American Properties Fund II(3)	ProLogis North American Properties Fund III(4)	ProLogis North American Properties Fund IV(5)	ProLogis North American Properties Fund V(6)	ProLogis European Properties Fund(7)	ProLogis Japan Properties Fund(8)
Equity interest	$188.6	$ 58.2	$ 14.4	$ 12.1	$ 8.4	$ 43.6	$434.8	$ 3.3
Distributions	(78.4)	(13.7)	(4.1)	(2.5)	(1.9)	(1.4)	(54.4)	
ProLogis share of the earnings of the entity, excluding fees earned	35.0	6.5	1.9	0.9	1.0	3.5	19.9	0.3
Subtotal	145.2	51.0	12.2	10.5	7.5	45.7	400.3	3.6
Adjustments to carrying value(9)	(29.1)	(8.5)	(6.9)	(5.7)	(4.4)	(13.0)	(83.6)	(1.5)
Other, net(10)	1.8	2.5	1.1	0.8	0.7	4.4	43.3	1.9
Subtotal	117.9	45.0	6.4	5.6	3.8	37.1	360.0	4.0
Other receivables	0.2	0.4	0.2	0.1	0.1	72.8	5.1	0.2
Totals	$118.1	$ 45.4	$ 6.6	$ 5.7	$ 3.9	$109.9	$365.1	$ 4.2

ProLogis proportionate share of the earnings of each of the property funds recognized under the equity method, interest income on advances to the property funds, if any, and fees earned from the property funds were as follows for the periods indicated (in thousands of U.S. dollars):

	Three Months Ended March 31,	
	2003	2002
ProLogis California(1)	$ 3,486	$ 4,055
ProLogis North American Properties Fund I(2)	1,289	1,444
ProLogis North American Properties Fund II(3)	678	797
ProLogis North American Properties Fund III(4)	718	675
ProLogis North American Properties Fund IV(5)	482	531
ProLogis North American Properties Fund V(6)	2,356	6
ProLogis European Properties Fund(7)	954	6,748
ProLogis Japan Properties Fund(8)	233	
Totals	$10,196	$14,256

Table of Contents

(1) ProLogis California I LLC (ProLogis California):

Began operations on August 26, 1999;

Members are ProLogis and New York State Common Retirement Fund;

Owned 79 properties aggregating 13.0 million square feet at March 31, 2003;

All but one of the properties owned were acquired from ProLogis or were developed by ProLogis on behalf of the property fund;

Properties are located in the Los Angeles/Orange County market;

ProLogis California has the right of first offer with respect to properties that ProLogis develops, excluding properties developed under build to suit lease agreements, in the Los Angeles/Orange County market;

ProLogis ownership interest has been 50% since the property fund s inception; and

Property management, asset management, leasing and other fees recognized by ProLogis were $0.8 million for both the three months ended March 31, 2003 and 2002.

(2) ProLogis North American Properties Fund I LLC (ProLogis North American Properties Fund I):

Began operations on June 29, 2000;

Members are ProLogis and an affiliate of the State Teachers Retirement Board of Ohio;

Owned 36 properties aggregating 9.4 million square feet at March 31, 2003;

All properties were acquired from ProLogis;

Properties are located in 16 markets in the United States;

ProLogis ownership interest has been 41.3% since January 15, 2001 and was 20% from inception of the property fund to that date; and

Property management, asset management and other fees recognized by ProLogis were $0.5 million and $0.9 million for the three months ended March 31, 2003 and 2002, respectively.

(3) ProLogis First U.S. Properties LP (ProLogis North American Properties Fund II):

Began operations on June 30, 2000;

Members are ProLogis and an affiliate of First Islamic Investment Bank E.C. (First Islamic Bank). First Islamic Bank obtained its initial ownership interest on March 27, 2001 from Principal Financial Group, the original member;

Owned 27 properties aggregating 4.5 million square feet at March 31, 2003;

All properties were acquired from ProLogis;

Properties are located in 13 markets in the United States;

ProLogis ownership interest has been 20% since the property fund s inception; and

Property management, asset management, leasing and other fees recognized by ProLogis were $0.5 million for both the three months ended March 31, 2003 and 2002.

(4) ProLogis Second U.S. Properties LP (ProLogis North American Properties Fund III):

Began operations on June 15, 2001;

Members are ProLogis and an affiliate of First Islamic Bank;

Owned 34 properties aggregating 4.4 million square feet at March 31, 2003;

All properties were acquired from ProLogis;

Properties are located in 15 markets in the United States;

ProLogis ownership interest has been 20% since the property fund s inception; and

Property management, asset management, leasing and other fees recognized by ProLogis were $0.6 million and $0.5 million for the three months ended March 31, 2003 and 2002, respectively.

(5) ProLogis Third U.S. Properties LP (ProLogis North American Properties Fund IV):

Began operations on September 21, 2001;

Members are ProLogis and an affiliate of First Islamic Bank;

Owned 17 properties aggregating 3.5 million square feet at March 31, 2003;

All properties were acquired from ProLogis;

Properties are located in ten markets in the United States;

ProLogis ownership interest has been 20% since the property fund s inception; and

Property management, asset management, leasing and other fees recognized by ProLogis were $0.3 million for both the three months ended March 31, 2003 and 2002.

(6) ProLogis North American Properties Fund V:

Began operations on March 28, 2002;

Ownership interests (direct and indirect) of the ProLogis-Macquarie Fund at March 31, 2003 are held directly or indirectly by ProLogis, Macquarie ProLogis Trust (MPR), a listed property trust in Australia, and a company that was formed to act as manager of the ProLogis-Macquarie Fund that is owned by ProLogis and a United States subsidiary of Macquarie Bank Limited (Macquarie Bank). ProLogis and Macquarie Bank each have a 50% ownership interest in the management company;

MPR s effective ownership interest in the ProLogis-Macquarie Fund was 82.4% at March 31, 2003 through its 93.0% weighted ownership interest in two entities that collectively own 88.6% of the ProLogis-Macquarie Fund;

ProLogis effective ownership interest in the ProLogis-Macquarie Fund was 14.5% at March 31, 2003 through its 11.4% direct ownership interest in the ProLogis-Macquarie Fund and its 50% ownership interest in the management company that has a weighted ownership interest of 7.0% in two entities that collectively own 88.6% of the ProLogis-Macquarie Fund;

Macquarie Bank s effective ownership interest in the ProLogis-Macquarie Fund was 3.1% at March 31, 2003 through its 50% ownership interest in the management company that has a weighted ownership interest of 7.0% in two entities that collectively own 88.6% of the ProLogis-Macquarie Fund;

ProLogis refers to the combined entities in which it has direct or indirect ownership interests (ProLogis-Macquarie Fund and the management company) as one property fund named ProLogis North American Properties Fund V. ProLogis combined ownership interest in this property fund has ranged from 14.5% to 16.9% since its inception in March 2002.

Owned 70 properties aggregating 17.2 million square feet at March 31, 2003 (including 13 properties aggregating 5.2 million square feet that were acquired from ProLogis in March 2003);

All properties were acquired from ProLogis;

Properties are located in 24 markets in the United States and three markets in Mexico;

ProLogis is committed to offer to contribute all of its properties developed and stabilized in North America (excluding properties in the Los Angeles/Orange County market) through December 2003 to ProLogis North American Properties Fund V, subject to the property meeting certain criteria, including leasing criteria, and subject to ProLogis North American Properties Fund V having the capital to acquire the property;

Fees recognized by ProLogis were $1.8 million for the three months ended March 31, 2003 (consisting of $0.8 million in management fees, $0.3 million in long-term debt placement fees and $0.7 million in acquisition and other fees).

(7) ProLogis European Properties Fund:

Began operations on September 23, 1999;

ProLogis and 21 third party institutional investors own units in the property fund;

Owned 195 properties aggregating 38.0 million square feet at March 31, 2003 (including three properties aggregating 0.6 million square feet that were acquired from ProLogis in March 2003 and five properties aggregating 1.7 million square feet that were acquired from third parties in January 2003);

Properties have been acquired from ProLogis (152 properties, 28.2 million square feet) or acquired from third parties (43 properties, 9.8 million square feet);

Properties are located in 26 markets in 11 countries in Europe;

ProLogis is committed to contribute all of its stabilized properties developed in Europe through September 2019 to ProLogis European Properties Fund, subject to the property meeting certain criteria, including leasing criteria, and subject to ProLogis European Properties Fund having the capital to acquire the properties;

ProLogis ownership interest was 29.8% and 33.1% at March 31, 2003 and 2002, respectively; and

Property management and asset management fees recognized by ProLogis were $5.2 million and $3.3 million for the three months ended March 31, 2003 and 2002, respectively.

(8) PLD/RECO Japan TMK Property Trust (ProLogis Japan Properties Fund):

Began operations on September 24, 2002;

Partners are ProLogis and a real estate investment subsidiary of the Government of Singapore Investment Corporation (GIC);

The total capital commitment of GIC, through its real estate investment subsidiary, is $300.0 million, of which $286.8 million is unfunded at March 31, 2003;

Owned one 0.2 million square foot property at March 31, 2003;

Table of Contents

Property was acquired from ProLogis;

Property is located in Tokyo;

ProLogis is committed to contribute all of its properties developed and stabilized in Japan through June 2006 to ProLogis Japan Properties Fund, subject to the property meeting certain criteria, including leasing criteria, and subject to ProLogis Japan Properties Fund having the capital to acquire the property;

ProLogis ownership interest has been 20% since the property fund s inception; and

Property management and asset management fees recognized by ProLogis were $0.1 million for the three months ended March 31, 2003.

(9) Under GAAP, portions of the gains resulting from the contribution of properties to the property funds do not qualify for current income recognition due to ProLogis continuing ownership in the property fund. The amount of the gain that cannot be recognized upon contribution is recorded as a reduction to ProLogis balance sheet investment in the property fund. The gain not recognized is eventually realized when ProLogis proportionate share of the earnings of the property fund, recognized under the equity method, is increased to reflect lower depreciation expense within the property fund. The lower depreciation expense is the result of ProLogis reduced investment in the property fund and, accordingly, its lower basis in the real estate assets that ProLogis has contributed to the property fund. The gain not recognized is also eventually realized if the property fund disposes of a property that was acquired from ProLogis or if ProLogis disposes of its ownership interest in the property fund.

(10) Includes acquisition costs and ProLogis proportionate share of the cumulative translation adjustments recognized by ProLogis European Properties Fund and ProLogis Japan Properties Fund.

ProLogis, from time to time, enters into Special Limited Contribution Agreements (SLCA) in connection with certain of its contributions of properties to certain of its property funds. Under the SLCAs, ProLogis is obligated to make an additional capital contribution to the respective property fund under certain circumstances, the occurrence of which ProLogis believes to be remote. ProLogis would be required to make an additional capital contribution if the property fund s third-party lender, whose loans to the property fund are generally secured and non-recourse, does not receive a specified minimum level of debt repayment. However, the proceeds received by the third-party lender from the exhaustion of all of the assets of the property fund combined with the debt repayments received directly from the property fund will reduce ProLogis obligations under the SLCA on a dollar-for-dollar basis. ProLogis potential obligations under the respective SLCAs, as a percentage of the assets in the property funds, range from 28% to 2%. Accordingly, the value of the assets of the respective property funds would have to decline by between 72% and 98% before ProLogis would be required to make an additional capital contribution. ProLogis believes that the likelihood of declines in the values of the assets that support the third-party loans of the magnitude necessary to require an additional capital contribution is remote, especially in light of the geographically diversified portfolios of properties owned by the property funds. Accordingly, these potential obligations have not been recognized as a liability by ProLogis at March 31, 2003. The potential obligations under the SLCAs aggregate $288.9 million at March 31, 2003 and the assets in the respective property funds were valued at approximately $3.4 billion. ProLogis did not enter into any new SLCAs during the three months ended March 31, 2003.

Summarized financial information of the property funds as of and for the period ended March 31, 2003 is presented below (in millions of U.S. dollars). The information presented is for the entire entity, not ProLogis proportionate share of the entity.

	ProLogis California	ProLogis North American Properties Fund I	ProLogis North American Properties Fund II	ProLogis North American Properties Fund III	ProLogis North American Properties Fund IV	ProLogis North American Properties Fund V	ProLogis European Properties Fund	ProLogis Japan Properties Fund
Total assets	$587.8	$359.5	$230.7	$205.1	$142.9	$735.9	$2,799.7	$ 68.1
Total liabilities(1)(2)	$297.4	$238.6	$169.8	$152.9	$104.8	$425.0	$1,382.1	$ 49.3
Equity	$290.4	$120.9	$ 60.9	$ 52.2	$ 38.1			