PRICE LEGACY CORP
Form 10-K405
March 25, 2002

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the year ended December 31, 2001

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

Commission file number 0-20449

PRICE LEGACY CORPORATION

(Exact name of registrant as specified in its charter)

Maryland	**33-0628740**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

17140 Bernardo Center Drive Suite 300, San Diego, California 92128

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **858-675-9400**

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock $.0001 Par Value
8 3/4% Series A Cumulative Redeemable
Preferred Stock $.0001 Par Value

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

The aggregate market value of the voting and non-voting common equity held by nonaffiliates of the registrant as of March 15, 2002 was $57,308,648 based on the last reported sale price of $3.08 per share on March 15, 2002.

The number of outstanding shares of the registrant's common stock as of March 15, 2002 was 40,726,191.

DOCUMENTS INCORPORATED BY REFERENCE: Certain information called for by Part III of the Form 10-K will either be filed with the Commission under Regulation 14A under the Securities Exchange Act of 1934 or by amendment to this Form 10-K, in either case on or before April 30, 2002.

PRICE LEGACY CORPORATION

Annual Report on Form 10-K

for the Year Ended December 31, 2001

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995 which provides a "safe harbor" for these types of statements. You can identify these forward-looking statements by forward-looking words such as "believe," "may," "could," "will," "estimate," "continue," "anticipate," "intend," "seek," "plan," "expect," "should," "would" and similar expressions in this Annual Report on Form 10-K. These forward-looking statements are subject to a number of risks, uncertainties and assumptions about Price Legacy, including, among other things:

- the effect of economic, credit and capital market conditions in general and on real estate companies in particular, including changes in interest rates
- our ability to compete effectively
- developments in the retail industry
- the financial stability of Price Legacy's tenants, including our reliance on major tenants
- our ability to successfully complete real estate acquisitions, developments and dispositions
- our ability to achieve the expected benefits of our merger with Excel Legacy Corporation
- government approvals, actions and initiatives, including the need for compliance with environmental requirements
- our ability to continue to qualify as a real estate investment trust, or REIT

The factors identified above are believed to be some, but not all, of the important factors that could cause actual events and results to be significantly different from those that may be expressed or implied in any forward-looking statements. Any forward-looking statements should also be considered in light of the information provided in "Factors That May Affect Future Performance" located elsewhere in this Form 10-K. We assume no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

In this Form 10-K:

- "Company," "Price Legacy," "we," "our," and "us" means Price Legacy Corporation and its subsidiaries
- "PEI" means Price Enterprises, Inc.
- "Excel Legacy" means Excel Legacy Corporation
- "REIT" means real estate investment trust
- "GLA" means gross leasable area

"FFO" means funds from operations

"TRS" means Taxable REIT Subsidiary

PART I

ITEM 1 Business

Formation of the Company and Subsequent Transactions

Price Legacy was formed in September 2001 from the merger of PEI and Excel Legacy (the Merger). In 1994, PEI spun off from Costco Companies, Inc., formerly Price/Costco, Inc. PEI became a self-administered, self-managed REIT in September 1997, which acquires, operates and develops open-air retail properties throughout the United States. In 1998, Excel Legacy spun off from Excel Realty Trust, Inc., a REIT, to pursue a wider variety of real estate opportunities including acquiring, developing and managing mixed-use and retail properties and real estate related operating companies throughout the United States and Canada. In connection with the Merger, Excel Legacy became a wholly owned subsidiary of PEI, and PEI changed its name to Price Legacy Corporation.

Price Legacy continues to operate as a REIT focused on open-air retail properties throughout the United States. Our current property portfolio mainly consists of open-air shopping centers leased to major retail tenants. At December 31, 2001, we owned 42 commercial real estate properties, three of which were held through majority-owned joint ventures, and one property with a 24-year ground lease. We also owned five parcels of land under development and five parcels of land held for future development or sale. In addition to the above property portfolio, we held 50-55% ownership interests in three joint ventures.

Concurrently with the Merger, Price Legacy issued to Warburg, Pincus Equity Partners, L.P. and certain of its affiliates (Warburg Pincus), for an aggregate purchase price of $100 million (the Warburg Investment):

- 17,985,612 shares of a new class of preferred stock, 9% Series B Junior Convertible Redeemable Preferred Stock, par value $0.0001 per share (Series B Preferred Stock), and

- a warrant to purchase an aggregate of 2.5 million shares of Price Legacy common stock at an exercise price of $8.25 per share.

In addition, Sol Price, a significant stockholder of PEI and Excel Legacy through various trusts, converted an existing Excel Legacy loan payable to a trust controlled by Sol Price of approximately $9.3 million into 1,681,142 shares of Series B Preferred Stock and a warrant to purchase 233,679 shares of common stock at an exercise price of $8.25 per share.

The Series B Preferred Stock is junior to our Series A Preferred Stock with respect to dividend, liquidation and other rights, and is convertible under certain conditions into Price Legacy common stock at a one-to-one ratio, which may be adjusted under certain circumstances, after 24 months from the date of issuance. The 9% coupon will be paid with additional shares of Series B Preferred Stock, at $5.56 per share for the first 45 months from issuance. The Warburg Investment closed concurrently with the Merger.

Holders of our Series A Preferred Stock have the right to elect four of the eight directors of our board of directors and Warburg Pincus has the right to elect two directors to our board. The remaining two directors of our board will be elected by the holders of our common stock and Series A Preferred Stock, voting together as a single class.

Our subsidiaries include Excel Legacy Holdings, Inc. which acquired certain assets of Excel Legacy after the Merger and elected to be treated as a Taxable REIT Subsidiary (TRS). Other than certain activities related to lodging and health care facilities, a TRS may generally engage in any business. As a regular C corporation, a TRS is subject to federal income tax and state and local income taxes, where applicable.

Overview of the Company's Business

Our current property portfolio consists primarily of open-air shopping centers leased to major retail tenants including Costco, Kmart, The Sports Authority, The Home Depot, Marshall's, PETsMART, and Wal-Mart. We receive approximately 35% of annual minimum rents from tenants with investment grade credit ratings.

For a description of our properties and of material developments during the year regarding these investments and our Company as a whole please refer to "Item 2 Properties" and "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations" located elsewhere in this Form 10-K.

Our business strategy is to continue to enhance the value and operating income of our portfolio by, among other things, completing the leasing of existing properties, acquiring new investment properties and completing the development of existing properties. In making new real estate investments, we emphasize acquiring well-located income-producing open-air shopping centers, principally occupied by credit rated tenants with attractive yields and potential for increases in income and capital appreciation. We will also, from time to time, consider disposing or exchanging existing investments in order to improve our investment portfolio or increase our funds from operations. We continuously evaluate our properties and review potential strategies of repositioning or redeveloping our properties in order to maximize FFO and enhance property values. Our investment and portfolio management goal is maximizing long-term FFO.

We provide property management for all but three of our properties. Self-management enables us to more closely control leasing and management of our property. Internal property management also provides opportunities for operating efficiencies by enabling us to acquire additional properties without proportionate increases in property management expenses. Our property management program is implemented by property management and leasing professionals located in offices in San Diego, CA, Fountain Valley, CA, Scottsdale, AZ, Sterling, VA, and Hollywood, FL. We also have an office in Salt Lake City, UT which coordinates the acquisition and disposition of our properties.

Our operating results depend on:

- performance and continuing viability of the existing tenants in our current real estate investment portfolio
- the existence of new replacement tenants
- competition from other retail centers and other forms of retail shopping, including internet commerce

Our growth depends on:

- increased returns from our existing real estate investment properties
- availability of attractive new real estate investment opportunities
- cost of capital related to existing and new real estate investments

Real estate industry cycles heavily influence our performance as a REIT. We discuss this further in "Factors That May Affect Future Performance" located elsewhere in this Form 10-K.

Competition

We compete with a wide variety of corporate and individual real estate developers and REITs which have similar investment objectives and may have greater financial resources, larger staffs or longer operating histories than us.

We also compete with other property owners to obtain tenants for our retail shopping center properties. Our competitive advantages are primarily based on significant customer traffic generated by our national and regional tenants, competitive lease terms, relatively high occupancy rates, and relatively low occupancy costs associated with open-air centers. The closing or relocation of any anchor tenant could have a material adverse effect on the operation of a shopping center. We discuss this further in "Factors That May Affect Future Performance" located elsewhere in this Form 10-K.

Significant Tenants

Our ten largest tenants account for approximately 40% of our total GLA and approximately 41% of our total annual minimum rent revenues. We show certain information about these tenants in the following table (dollars in thousands):

Tenant	Number of Leases	Area Under Lease (sq. ft)	Percent of GLA Under Lease	Annual Minimum Rent	Percent of Total Annual Minimum Rent
Costco	4	618,192	7.4%	$ 8,573.1	9.8%
Price Self Storage	4	855,577	10.2%	5,100.0	5.8%
Kmart	4	461,829	5.5%	4,107.1	4.7%
The Sports Authority	7	306,722	3.7%	3,780.2	4.3%
The Home Depot	3	356,453	4.2%	3,505.2	4.0%
AMC Theaters	2	122,557	1.5%	2,488.0	2.8%
Marshall's	4	146,176	1.7%	2,432.6	2.8%
AT&T Wireless	1	126,005	1.5%	2,056.4	2.3%
PETsMART	7	169,890	2.0%	2,020.7	2.3%
BJ's Wholesale Club	2	218,505	2.6%	1,921.5	2.2%
	38	3,381,906	40.3%	$ 35,984.8	41.0%

It is not uncommon for economic conditions, market surpluses of retail space, internet purchasing and competitive pressures to negatively impact a retail operator's financial results, especially smaller retail operators. When a tenant files for bankruptcy we assess our alternatives for the potentially available space. Kmart, our third largest tenant, filed voluntary petitions for reorganization under Chapter 11 of the U. S. Bankruptcy Code on January 22, 2002. None of the Kmart store closings announced prior to this filing were located in any of our shopping centers. However, Kmart did reject the lease on a vacant Builder's Square at one of our properties. We are currently unable to determine the ultimate impact Kmart's bankruptcy will have on our operations. We discuss Kmart further in "Factors That May Affect Future Performance" located elsewhere in this Form 10-K.

Environmental Matters

Our properties are affected by federal, state and local environmental laws. These laws relate to the discharge of materials and protection of the environment. We have made, and intend to continue to make, necessary expenditures for compliance with applicable laws. The properties listed below have required remediation and clean-up of certain past industrial activity:

Azusa, CA

Pentagon City, VA

Signal Hill, CA

New Britain, CT

Expenses related to monitoring and cleaning up these properties have not been material to our operations. While we cannot predict with certainty the future costs of such clean up activities, or operating costs for environmental compliance, we do not believe they will have a material effect on our capital expenditures, earnings or competitive position.

Seasonality

Our real estate operations generally are less subject to seasonal fluctuations as our primary focus centers on tenants who offer basic goods.

Corporate Headquarters

Our headquarters are located at 17140 Bernardo Center Drive Suite 300, San Diego, CA, 92128, and we believe that our current facilities meet our expected requirements over the next 12 months. Our telephone number is (858) 675-9400. As of March 1, 2002, we and our subsidiaries had approximately 176 employees.

Factors That May Affect Future Performance

Real property investments are subject to varying degrees of risk that may affect the performance and value of our properties. Our revenue and the performance and value of our properties may be adversely affected by a number of factors, including:

- changes in the national, regional and local economic climates
- local conditions such as an oversupply of space or a reduction in demand for similar or competing properties in the area
- changes in interest rates which may render the sale and/or refinancing of a property difficult or unattractive
- changes in consumer spending patterns
- the attractiveness of our properties to tenants
- competition from other available space
- our ability to provide adequate maintenance and insurance
- increased operating costs

In addition, some significant operating expenses associated with our properties, such as debt payments, maintenance, tenant improvement costs and taxes, generally are not reduced when gross income from properties is reduced. If our properties do not generate revenue sufficient to meet operating expenses, we may have to borrow additional amounts to cover costs, which could harm our ability to make distributions to our stockholders.

Significant competition from developers, owners and operators of real estate properties may adversely affect the success of our business. We compete in the acquisition of real estate properties with over 200 publicly-traded REITs as well as other public and private real estate investment entities, including mortgage banks and pension funds, and other institutional investors, as well as individuals. Competition from these entities may impair our financial condition and materially harm our business by reducing the number of suitable investment opportunities offered to us and increasing the bargaining power of prospective sellers of property, which often increases the price necessary to purchase a property. Many of our competitors in the real estate sector are significantly larger than us and may have greater financial resources and more experienced managers. In addition, a large portion of our developed properties will be located in areas where competitors maintain similar properties. We will need to compete for tenants based on rental rates, attractiveness and location of properties, as well as quality of maintenance and management services. Competition from these and other properties may impair our financial condition and materially harm our business by:

- interfering with our ability to attract and retain tenants
- increasing vacancies, which lowers market rental rates and limits our ability to negotiate favorable rental rates
- impairing our ability to minimize operating expenses

Developments in the retail industry could adversely affect our ability to lease space in our shopping centers, which would harm our business. We derive a substantial portion of our income from tenants in the retail industry. The market for retail space and the general economic or local conditions of the retail industry can significantly affect our financial performance. A number of recent developments have heightened competitive pressures in the market for retail space, including:

- consolidation among retailers
- the financial distress of large retailers in some markets, including the bankruptcy of some retailers
- a proliferation of new retailers
- a growing consumer preference for value-oriented shopping alternatives, such as internet commerce
- an oversupply of retail space in some areas of the country

As a result of these developments, many companies in the retail industry have encountered significant financial difficulties. Since we have no control over the occurrence of these developments, we cannot make any assurance that our business or financial results will not be adversely affected by these developments and the competitive pressures they create.

We rely on Costco for 9.8% of our annual minimum rent revenue, and any financial difficulties faced by this or any other significant tenant may harm our business and impair our stock price. Our financial position, results of operations and ability to make distributions to our stockholders may be adversely affected by financial difficulties experienced by any of our major tenants, including Costco, Kmart, and The Sports Authority. Although failure on the part of a tenant to materially comply with the terms of a lease, including failure to pay rent, would give us the right to terminate the lease, repossess the property and enforce the payment obligations under the lease, we could experience substantial delays and costs in doing so. We may not be able to enforce the payment obligations against the defaulting tenant, find another tenant or, if another tenant were found, enter into a new lease on favorable terms. Our largest tenant is Costco, which accounted for approximately 9.8% of our total annual minimum rent revenue in 2001. In addition to our four properties where Costco is the major tenant, Costco warehouses are adjacent to an additional 11 of our properties. If Costco or any other major tenant chooses to terminate or not to renew its lease, our financial condition and business could be materially harmed.

The bankruptcy or insolvency of a major tenant or a number of smaller tenants may have an adverse impact on the properties affected and on the income produced by such properties. Kmart, our third largest tenant, filed for Chapter 11 bankruptcy protection in January 2002. Although none of the Kmart store closings announced prior to this filing were located in any of our shopping centers, we have four Kmart store leases that represented approximately 4.7% of our annualized base rental income at December 31, 2001. In addition, Kmart pays rent on a vacant Builder's Square at one of our properties. This lease has been rejected. House 2 Home, a tenant at our Inglewood, CA property, also filed for Chapter 11 bankruptcy protection in 2001 and has closed its store. Under bankruptcy law, a tenant has the option of assuming (continuing) or rejecting (terminating) any unexpired lease. If a tenant in bankruptcy assumes its lease with us, such tenant must cure all defaults under the lease and provide us with the adequate assurance of its future performance under the lease. If a tenant in bankruptcy rejects the lease, our claim for breach of the lease would (absent collateral securing the claim) be treated as a general unsecured claim. We may not receive all amounts owed to us under terms of a lease if a tenant rejects a lease in bankruptcy due to certain limits imposed by bankruptcy laws.

Termination of a lease by Costco or other significant tenant may allow some tenants to reduce or terminate their leases. If Costco or other significant tenants were to terminate a lease with us or a lease for space adjacent to one or more of our properties, some of our other tenants at these properties would have rights to reduce their rent or terminate their leases. In addition, tenants at these properties, including those with termination rights, could elect not to extend or renew their lease at the end of the lease term. If any of these events occur, our financial condition and business could be materially harmed.

Our financial performance depends on regional economic conditions since many of our properties and investments are located in California, Arizona, and Florida. Our properties and real estate related investments include 38 properties located in three states: 22 in California, nine in Arizona, and seven in Florida. With such a large number of properties and real estate related investments in these states, we may be exposed to greater economic risks than if they were located in several geographic regions. Our revenue from, and the value of, the properties and investments located in these states may be affected by a number of factors, including an oversupply of, or reduced demand for, real estate properties and downturns in the local economic climate caused by high unemployment, business downsizing, industry slowdowns, changing demographics and other factors. A general downturn in the economy or real estate conditions in California, Arizona, or Florida could impair our financial condition and materially harm our business. Further, due to the relatively high cost of real estate in the southwestern United States, the real estate market in that region may be more sensitive to fluctuations in interest rates and general economic conditions than other regions of the United States. We do not have any limitations or targets for the concentration of the geographic location of our properties and, accordingly, the risks associated with this geographic concentration will increase if we acquire additional properties in these states.

Our income depends on rental income from real property. The majority of our income is derived from rental income from real property. Accordingly, our income and funds available for distribution would be adversely affected if a significant number of our tenants were unable to meet their obligations to us or if we were unable to lease a significant amount of space in our properties on economically favorable lease terms. We cannot make any assurance that any tenant whose lease expires in the future will renew its lease or that we will be able to re-lease space on economically advantageous terms, if at all. In addition, our ability to lease or re-lease vacant space will be affected by many factors, including the existence of covenants typically found in shopping center tenant leases, such as those requiring the use of space at the shopping center not to be competitive with another tenant. Our ability to lease or re-lease our properties may cause fluctuations in our cash flow, potentially affecting the cash available for distributions to stockholders.

Illiquidity of real estate investments may make it difficult for us to sell properties in response to market conditions. Equity real estate investments are relatively illiquid and therefore will tend to limit our ability to vary our portfolio promptly in response to changing economic or other conditions. To the extent the properties are not subject to triple net leases, some significant expenditures such as real estate taxes and maintenance costs are generally not reduced when circumstances cause a reduction in income from the investment. Should these events occur, our income and funds available for distribution could be adversely affected. In addition, REIT requirements may subject us to confiscatory taxes on gain recognized from the sale of property if the property is considered to be held primarily for sale to

customers in the ordinary course of our trade or business. To prevent these taxes, we may comply with safe harbor rules relating to the number of properties sold in a year, how long we owned the properties, their tax bases and the cost of improvements made to those properties. However, we cannot make any assurance that we will be able to successfully comply with these safe harbors and, in the event that compliance is possible, the safe harbor rules may restrict our ability to sell assets in the future.

Our leverage may be difficult to service and could adversely affect our business. As of December 31, 2001, we had outstanding borrowings of approximately $484.0 million, requiring an estimated annual debt service of approximately $27.4 million. We are exposed to the risks normally associated with debt financing, which may materially harm our business, including the following:

- our cash flow may be insufficient to meet required payments of principal and interest on borrowings and this insufficiency may leave us with insufficient cash resources to pay operating expenses

- we may not be able to refinance debt at maturity
- if refinanced, the terms of refinancing may not be as favorable as the original terms of the debt

Rising interest rates may adversely affect our cash flow and business. A large portion of our debt bears interest at variable rates. Variable rate debt creates higher debt payments if market interest rates increase. We may incur additional debt in the future that also bears interest at variable rates. Higher debt payments as a result of an increase in interest rates could adversely affect our cash flows, cause us to default under some debt obligations or agreements, and materially harm our business.

We face risks associated with our equity investments in and with third parties because of our lack of control over the underlying real estate assets. As part of our growth strategy, we may invest in shares of REITs or other entities that invest in real estate assets. In these cases, we will be relying on the assets, investments and management of the REIT or other entity in which we invest. These entities and their properties will be exposed to the risks normally associated with the ownership and operation of real estate. We may also invest in or with other parties through partnerships and joint ventures. In these cases, we will not be the only entity making decisions relating to the property, partnership, joint venture or other entity. Risks associated with investments in partnerships, joint ventures or other entities include:

- the possibility that our partners might experience serious financial difficulties or fail to fund their share of required investment contributions
- our partners might have economic or other business interests or goals which are inconsistent with our business interests or goals, resulting in impasse or decisions which are contrary to our business interests or goals
- our partners may take action contrary to our instructions or requests and adverse to our policies and objectives, including our policy with respect to maintaining our qualification as a REIT

Any substantial loss or action of this nature could potentially harm our business or jeopardize our ability to qualify as a REIT. In addition, we may in some circumstances be liable for the actions of our third-party partners or co-venturers.

We could incur significant costs and expenses related to environmental problems. Under various federal, state and local laws and regulations, a current or previous owner or operator of real property, and parties that generate or transport hazardous substances that are disposed of on real property, may be liable for the costs of investigating and remediating these substances on or under the property. These laws often impose liability without regard to whether the owner or operator of the property was responsible for or even knew of the presence of the hazardous substances. The presence of or failure to

properly remediate hazardous or toxic substances may impair our ability to rent, sell or borrow against a property. These laws and regulations also impose liability on persons who arrange for the disposal or treatment of hazardous or toxic substances at another location for the costs of removal or remediation of these hazardous substances at the disposal or treatment facility. These laws often impose liability regardless of whether the entity arranging for the disposal ever owned or operated the disposal facility. In addition, even if more than one person was responsible for the contamination, each person covered by the environmental laws may be held responsible for the clean-up costs incurred. Other environmental laws and regulations impose liability on owners or operators of property for injuries relating to the release of asbestos-containing materials into the air. As an owner and operator of property and as a potential arranger for hazardous substance disposal, we may be liable under these laws and regulations for removal or remediation costs, governmental penalties, property damage, personal injuries and related expenses. Payment of these costs and expenses, which can exceed the value of the subject property, could impair our financial condition, materially harm our business and have a material adverse effect on our ability to make distributions to our stockholders. In addition, environmental laws may impose restrictions on the manner in which we use our properties or operate our business, and these restrictions may require expenditures to achieve compliance.

The costs of compliance with regulatory requirements, including the Americans with Disabilities Act, could adversely affect our business. Our properties will be subject to various federal, state and local regulatory requirements, including the Americans with Disabilities Act of 1990, which requires all public accommodations and commercial facilities to meet federal requirements relating to access and use by persons with disabilities. Compliance with the Americans with Disabilities Act requirements could involve removal of structural barriers from disabled persons' entrances on our properties. Other federal, state and local laws may require modifications to or restrict further renovations of our properties to provide this access. Noncompliance with the Americans with Disabilities Act or related laws or regulations could result in the United States government imposing fines or private litigants being awarded damages against us, or could result in an order to correct any non-complying feature, which could result in substantial capital expenditures. If we incur these costs and expenses, our financial condition and ability to make distributions to our stockholders could be impaired. In addition, we cannot be assured that regulatory requirements will not be changed or that new regulatory requirements will not be imposed that would require significant unanticipated expenditures by us or our tenants. Unexpected expenditures could adversely affect our net income and cash available for distributions to our stockholders.

Terrorism and the Uncertainty of War May Adversely Affect the Company. Terrorist attacks, such as the attacks that occurred in New York and Washington, D.C. on September 11, 2001 and other acts of violence or war may affect our operations and profitability, the market in which we operate, and the market on which our common stock trades. Further terrorist attacks against the United States or U.S. businesses may occur. The potential near-term and long-term effect these attacks may have on our customers, the market for our services, the market for our common stock and the U.S. economy are uncertain. The consequences of any terrorist attacks, or any armed conflicts which may result, are unpredictable and could materially harm our business and impair the value of our common stock. In addition, the aftermath of the September 11, 2001, attacks has resulted in higher operating costs for some of our properties due to heightened security measures. We are unable to predict whether these increased costs will abate over time, or whether we will be able to pass them through to our tenants. These and other long-term effects on our business of these attacks are unknown at the time, but could adversely affect our business and results of operations.

The success of our business depends on the services provided by our key personnel, the loss of whom could harm our business. The success of our business depends to a large extent on the contributions and performance of our senior management team, particularly Gary B. Sabin, Richard Muir, Graham Bullick, Jim Nakagawa, Mark Burton, and Eric Ottesen for strategic business direction and real estate

experience. In connection with the Merger, we assumed the current employment agreements that Excel Legacy maintained with some of its executives, which extend through 2003 with automatic one-year renewal periods unless terminated by their terms. We do not have key-man life insurance for any of our senior management. If we lose the services of Mr. Sabin or any other members of senior management, our business and future development could be materially harmed.

A small number of stockholders can exert significant influence over our company, which could make it difficult for us to complete some corporate transactions without their support, which could depress the price of our stock. Holders of our common stock, Series A Preferred Stock and Series B Preferred Stock may generally vote together on all matters submitted to our stockholders for approval, other than the election of directors. Each share of common stock is entitled to one vote, each share of Series A Preferred Stock is entitled to one-tenth ($1/10^{th}$) of one vote and each share of Series B Preferred Stock is entitled to a number of votes equal to the number of shares of common stock into which a share of Series B Preferred Stock is then convertible, currently one vote.

In the election of directors, (1) holders of Series A Preferred Stock, voting separately, have the right to elect four members of our board of directors, (2) holders of common stock and Series A Preferred Stock, voting together as a single class, have the right to elect two other members of our board of directors, and (3) Warburg Pincus, for so long as Warburg Pincus continues to hold shares representing at least 10% of our common stock on an as-converted basis, has the right to elect the two remaining members of our board of directors. Holders of Series A Preferred Stock also have the right to vote separately on matters relating to the Series A Preferred Stock, such as the creation of any class of stock senior to the Series A Preferred Stock or the amendment of our charter to materially and adversely affect the rights of the Series A Preferred Stock. Holders of Series B Preferred Stock have the right to vote separately on similar matters relating to the Series B Preferred Stock, as well as the right to vote separately on other matters, including mergers, acquisitions, dispositions and the incurrence of indebtedness.

Sol Price, Robert E. Price and parties affiliated with them, including The Price Group, currently beneficially own an aggregate of approximately 11.3 million shares of Series A Preferred Stock, approximately 6.1 million shares of common stock, and approximately 1.7 million shares of Series B Preferred Stock. These shares represent approximately: (1) 40.7% of the voting power with respect to matters submitted solely to the holders of Series A Preferred Stock; (2) 8.5% of the voting power with respect to matters submitted solely to the holders of Series B Preferred Stock; (3) 16.5% of the voting power with respect to matters submitted to the holders of common stock and Series A Preferred Stock; and (4) 14.0% of the voting power with respect to matters submitted to the holders of common stock, Series A Preferred Stock and Series B Preferred Stock. In addition, The Price Group holds a warrant to purchase an additional 233,679 shares of common stock and will be issued 666,080 additional shares of Series B Preferred Stock over the 45 months following the issuance date of the Series B Preferred Stock as distributions on the Series B Preferred Stock. As a result of their stock holdings, these parties could effectively control the outcome of matters submitted solely to the holders of Series A Preferred Stock, including the election of four members of our board, and significantly influence matters submitted to the holders of common stock, Series A Preferred Stock and Series B Preferred Stock.

Warburg Pincus currently beneficially owns an aggregate of approximately 5.0 million shares of common stock and approximately 18.0 million shares of Series B Preferred Stock. These shares represent approximately: (1) 91.5% of the voting power with respect to matters submitted solely to the holders of Series B Preferred Stock; and (2) 36.4% of the voting power with respect to matters submitted to the holders of common stock, Series A Preferred Stock and Series B Preferred Stock. In addition, Warburg Pincus holds a warrant to purchase an additional 2.5 million shares of common stock and will be issued approximately 7.1 million additional shares of Series B Preferred Stock over the 45 months following the issuance date of the Series B Preferred Stock as distributions on the Series B Preferred Stock. As a result of its stock holdings, Warburg Pincus could effectively control the outcome

of matters submitted solely to the holders of Series B Preferred Stock and significantly influence matters submitted to the holders of common stock, Series A Preferred Stock and Series B Preferred Stock. Warburg Pincus also has the right, mentioned above, to elect two members of our board.

Together, these parties will have significant influence over matters brought before our board of directors and stockholders, and will have the ability to influence some corporate transactions, which may delay, discourage, deter or prevent a change of control and may make some transactions more difficult or impossible to complete without their support. The ability of these stockholders to assert this significant influence may depress the price of our stock.

Our charter contains anti-takeover provisions which may limit the ability of a third party to acquire control and may prevent stockholders from receiving a premium for our shares. Some of the provisions of our charter and bylaws could delay, discourage, deter or prevent an acquisition of our business at a premium price and could make removal of our management more difficult. These provisions could reduce the opportunities for our stockholders to participate in tender offers, including tender offers that are priced above the then-current market price of our common stock. In particular, our charter permits our board of directors to issue shares of preferred stock in one or more series without stockholder approval, which could, depending on the terms of the preferred stock, delay, discourage, deter or prevent a change in control of our company. In addition, the Maryland General Corporation Law will impose restrictions on mergers and other business combinations between us and any holder of 10% or more of the voting power of our outstanding shares.

REIT rules limit the amount of cash we will have available for other business purposes, including amounts to fund future growth, and could require us to borrow funds or liquidate investments on a short-term basis in order to comply with the REIT distribution requirement. To qualify as a REIT, we must distribute at least 90% of our REIT taxable income to our stockholders (determined without regard to the dividends paid deduction and excluding capital gains), and are subject to tax to the extent we fail to distribute at least 100% of our REIT taxable income. This distribution requirement will limit our ability to accumulate capital for other business purposes, including amounts to fund future growth. While we expect our cash flow from operations to generally be sufficient in both the short and long term to fund our operations, this distribution requirement could cause us:

- to sell assets in adverse market conditions
- to distribute amounts that represent a return of capital
- to distribute amounts that would otherwise be spent on future acquisitions, unanticipated capital expenditures or repayment of debt
- to borrow funds, issue capital stock or sell assets on a short-term basis

In addition, from time to time, we may not have sufficient cash or other liquid assets to meet this distribution requirement due to differences in timing between the recognition of taxable income and the actual receipt of cash.

Our charter contains restrictions on the ownership and transfer of our capital stock. Due to limitations on the concentration of ownership of stock of a REIT imposed by the Internal Revenue Code, our charter prohibits any stockholder from (1) actually or beneficially owning more than 5% of our issued and outstanding capital stock and (2) actually or constructively owning more than 9.8% of our issued and outstanding capital stock, except for stockholders who have received a waiver from these ownership limits from our board. These ownership limits also apply separately to each class of our preferred stock, including the Series A Preferred Stock and the Series B Preferred Stock. Our charter also prohibits anyone from buying shares if the purchase would result in losing our REIT status. This could happen if a share transaction results in fewer than 100 persons owning all of our shares

five or fewer persons owning 50% or more of the value of our shares

our company having a related party tenant

If a stockholder acquires shares in violation of the charter by way of transfer or otherwise, the shares which cause the owner to violate the ownership limitations will be automatically transferred to a trust for the benefit of a qualified charitable organization. Following such transfer, the stockholder will have no right to vote these shares or be entitled to dividends or other distributions with respect to these shares. Within 20 days after receiving notice from us of the transfer of shares to the trust, the trustee of the trust will sell the excess shares and generally will distribute to such stockholder an amount equal to the lesser of the price paid by the stockholder for the excess shares (except in the case of a gift or similar transfer, in which case, an amount equal to the market price) or the sale proceeds received by the trust for the shares.

If we fail to qualify as a REIT under the Code, that failure could materially harm our business. We believe that we have been organized and have operated in a manner which allows us to qualify for taxation as a REIT under the Internal Revenue Code commencing with our short taxable year ended December 31, 1997. Qualification as a REIT requires a company to satisfy numerous requirements, which are highly technical and complex. In addition, legislation, new regulations, administrative interpretations or court decisions may adversely affect, possibly retroactively, our ability to qualify as a REIT for federal income tax purposes. For example, one of the REIT requirements, the "five-fifty test," requires that no more than 50% of the value of a REIT's outstanding capital stock may be owned directly or indirectly, applying various constructive ownership rules, by five or fewer individuals at any time during the last half of a REIT's taxable year. Our charter provides for restrictions regarding ownership and transfer of shares that are intended to assist us in continuing to satisfy the five-fifty test. These restrictions, however, may not ensure that we will be able to satisfy, in all cases, the five-fifty test. If we fail to satisfy the five-fifty test, our status as a REIT may terminate. Other REIT requirements restrict the type of assets that a REIT may own and the type of income that a REIT may receive. These restrictions will apply to all of our assets and income. However, these asset and income requirements do not apply to assets we elect to hold in a Taxable REIT Subsidiary. We currently hold certain assets and derive income from certain of our businesses and assets which, if held or received by us directly, could jeopardize our status as a REIT. To maintain our status as a REIT, (1) we transferred these assets and businesses to Excel Legacy Holdings, Inc., a wholly-owned subsidiary of Excel Legacy, prior to the effective time of the Merger, and (2) Legacy Holdings elected to be treated as a Taxable REIT Subsidiary of Price Legacy effective at the time of the Merger. If a company fails to qualify as a REIT in any taxable year, including failing to comply with the REIT distribution requirements, it may, among other things:

not be allowed a deduction for distributions to stockholders in computing its taxable income

be subject to federal income tax, including any applicable alternative minimum tax, on its taxable income at regular corporate rates

not be required to make distributions to stockholders

be subject to increased state and local taxes

be disqualified from treatment as a REIT for the taxable year in which it lost its qualification and the four taxable years following the year in which it lost its qualification

As a result of these factors, our failure to qualify as a REIT also could impair our ability to expand our business and raise capital, could substantially reduce the funds available for distribution to our stockholders, could reduce the trading price of our stock and materially harm our business.

ITEM 2 Properties

Overview

At December 31, 2001, we owned 42 commercial real estate properties including one property with a 24-year ground lease and two hospitality properties. These properties encompass approximately 8.0 million square feet of GLA and were 93% leased. The five largest properties include 2.3 million square feet of GLA that generate annual minimum rent of $32.4 million, based on leases existing as of December 31, 2001. We also have a 50% interest in two joint ventures which own retail properties in Fresno, CA and Bend, OR, as well as a 55% interest in a development company which owns a retail and office facility in Winnipeg, Canada. These properties generate annual minimum rent of $4.1 million and are 83% leased.

We also own approximately 3,000 acres of land, either under development or held for future development or sale.

The table below presents the geographic concentration of our properties at December 31, 2001, including our unconsolidated joint ventures and land held for development or sale.

State	Number of Properties	Percent of Annual Minimum Rent
Northeastern States		
New York	2	9%
Virginia	2	9%
New Jersey	2	6%
Pennsylvania	1	3%
Maryland	1	2%
Connecticut	1	1%
Total Northeastern	9	30%
Southeastern States		
Florida	7	26%
Total Southeastern	7	26%
Midwestern States		
Indiana	2	3%
Ohio	1	1%
Kentucky	1	3%
Total Midwestern	4	7%
Western States		
California	22	26%
Arizona	9	8%
Oregon	1	2%
Utah	1	
Total Western	33	36%
Outside US		
Bermuda	1	
Canada	1	1%
Total Outside US	2	1%
Total	55	100%

Included in our commercial properties are four properties in Southern California with self storage businesses which we master lease to former officers who managed that division for us. Three additional self storage properties are under development at year-end and will be master-leased once completed. As part of the master lease agreement, we have the right to require the lessee to purchase the properties from us at a price based upon the properties' net operating income as defined by the agreement.

Property Table

Amounts shown for annual minimum rents are based on current leases as of December 31, 2001. Joint venture partnerships represent 100% of annual minimum rents for the property. We made no allowances for contractually-based delays to commencement of rental payments. Due to the nature of real estate investments, our actual rental income may differ from amounts shown in this schedule. The following table describes our portfolio of real estate properties as of December 31, 2001.

	Leases in Effect as of December 31, 2001						
Real Estate Portfolio	**Number Of Tenants**	**Gross Leasable Area (sq ft)**	**Percent Leased**	**Annual Minimum Rent(1)**	**Principal Tenants**	**% of G.L.A. (sq ft)**	**Lease Expires**
		(000's)		**($000's)**			
Commercial Properties							
Hollywood/Oakwood Plaza, FL	45	868.6	99%	$ 8,956.9	Home Depot	16%	2019
					K-Mart	13%	2019
					BJ's Wholesale	13%	2019
					Dave and Buster's	7%	2016
					Regal Cinemas	6%	2015
Westbury, NY	8	398.6	100%	7,831.4	Costco	37%	2009
					K-Mart	28%	2013
					Marshall's	11%	2009
					The Sports Authority	11%	2013
					Borders Books	8%	2019
Pentagon City, VA	9	337.4	100%	7,239.4	Costco	50%	2009
					Marshall's	13%	2010
					Best Buy	11%	2010
					Linens 'n Things	10%	2010
					Borders Books	10%	2010
Wayne, NJ	5	348.1	95%	4,441.1	Costco	43%	2009
(includes 16,535 sq. ft. of					Lackland Storage	17%	2012
vacant storage space)					The Sports Authority	13%	2012
					Nobody Beats the Wiz	11%	2018
					Today's Man	10%	2007
West Palm Beach, FL	24	357.5	97%	3,961.9	K-Mart	35%	2018
					Winn-Dixie	15%	2019
					Linens 'n Things	10%	2010
					Ross Stores	8%	2009
					Just For Feet	5%	2013
Miami, FL	27	404.6	100%	3,803.8	K-Mart, Builder's Square, Marshall's		
San Diego, CA	4	443.2	99%	3,091.4	Costco, Price Self Storage, Charlotte Russe		
Philadelphia, PA	20	307.8	93%	3,059.8	The Home Depot, Babies R Us, AMC Theaters		
Mesa, AZ	26	307.7	82%	3,027.8	Sports Authority, Circuit City, Michael's		
Ft. Lauderdale, FL	24	229.0	95%	2,930.3	Regal Cinemas, Office Depot, Just for Feet		
Newport, KY (2)	23	338.9	62%	2,769.7	AMC Theatres, Barnes and Noble		
Tempe, AZ	23	248.0	98%	2,518.9	J. C. Penney, Circuit City, Designer Shoe Warehouse,		

Roseville, CA	19	188.5	100%	2,487.3	The Sports Authority, Linens 'n Things, Ross Stores
Signal Hill, CA	14	154.8	100%	2,422.5	The Home Depot, PETsMART
San Diego/Murphy Canyon, CA	1	298.0	100%	2,405.5	Price Self Storage
Sacramento/Bradshaw, CA	1	126.0	100%	2,056.4	AT&T
Greensburg, IN	18	272.9	99%	1,870.6	Wal-Mart, Staples
San Diego/Rancho Bernardo, CA	13	82.2	100%	1,824.1	UBS Paine Webber, Medcell Biologics
Glen Burnie, MD	10	154.6	89%	1,750.5	The Sports Authority, PETsMART, Computer City, Staples
Orlando, FL	6	404.4	71%	1,616.4	BJ "s Wholesale, Expo Design Center, Home Depot
Hollywood/Oakwood Business, FL	21	141.1	93%	1,592.8	Trader Publishing Co., KOS Pharmaceuticals
San Diego/Rancho San Diego, CA	21	98.4	100%	1,292.7	Rite Aid, Ross Stores, Petco
Solana Beach, CA	1	316.0	100%	1,180.9	Price Self Storage
Scottsdale/City Center, AZ	23	65.8	86%	1,119.2	RAS Management, Greater Phoenix
Inglewood, CA	1	119.9	100%	926.6	House2Home
San Diego/Carmel Mountain, CA	5	35.0	96%	919.6	Claim Jumper, McMillin Realty, Islands
Northridge, CA	2	22.0	100%	781.0	Barnes & Noble, Fresh Choice
Moorestown, NJ (leased land)	3	201.4	33%	738.0	The Sports Authority (Lowe's lease commences 8/1/02)
New Britain, CT	1	112.4	100%	671.1	Wal-Mart (lease expires 7/24/02)
Middletown, OH	1	126.4	100%	650.0	Lowe's
San Juan Capistrano, CA	6	56.4	100%	643.2	PETsMART, Staples
Terre Haute, IN	1	104.3	100%	557.8	Lowe's
Azusa, CA	1	120.6	100%	529.7	Price Self Storage
Smithtown, NY	1	55.6	100%	500.7	Levitz Furniture
Hampton, VA	2	45.6	100%	452.4	The Sports Authority, BB&T Bank
Redwood City, CA	2	49.4	100%	418.8	Orchard Supply (ground lease)
Tucson, AZ	11	40.1	100%	414.1	PETsMART
Scottsdale/Brio, AZ	1	3.7	100%	115.7	Roaring Fork Restaurant (lease expires 5/28/02)
Chula Vista/Rancho del Rey, CA	1	6.7	100%	75.0	Burger King (ground lease)
Scottsdale/Studio B, AZ	1	2.2	100%	10.8	Studio B (lease expired 12/31/01)
	426	7,993.6	93%	$ 83,655.9	
Unconsolidated Joint Ventures					
Bend, OR (50% ownership) (3)	22	152.0	69%	1,727.3	Regal Cinemas, Gap, Banana Republic
Fresno, CA (50% ownership)	4	85.4	100%	1,225.3	Bed, Bath & Beyond, Ross Stores, Pier 1 Imports
Winnipeg, Canada (55% ownership)	21	159.7	88%	1,111.6	Investors Syndicate, Province of Manito
	47	397.1	83%	$ 4,064.2	
Total Commercial Properties	473	8,390.7	93%	$ 87,720.1	

(1) Annual Minimum Rent does not include percentage rents or expense reimbursements.

(2) Represents a 65% ownership interest. The property opened in October 2001 and construction is expected to continue through March 2002.

(3) The property opened in June 2001 and construction is expected to continue through the end of 2003.

Not included in the above tables are two hospitality properties:

a 65% interest in Grand Tusayan LLC which owns and operates a 120-room hotel and restaurant in Arizona

a 55% interest in Daniel's Head Bermuda which operates an eco-tourism resort opened in 2001 in Bermuda

The following table reflects land under development or held for development or sale:

Location	Acres	
Orlando, FL (1)	2,700.0	held for development or sale
Farmington, UT	123.7	held for development or sale
Yosemite, CA	80.0	held for development or sale
Temecula, CA	47.5	under development
Anaheim, CA	16.1	under development
Tucson, AZ	15.0	held for development or sale
Walnut Creek, CA	3.3	under development
San Juan Capistrano, CA	3.1	under development
San Diego/Pacific Beach, CA	2.5	under development
Scottsdale, AZ	1.4	held for development or sale
Total	2,992.6	

(1) We own 50% of a limited liability company that owns this land

Debt Secured by Properties

The following table summarizes outstanding debt secured by our properties as of December 31, 2001:

Lender	Property	Interest Rate	Maturity Date	Balance	Balance due at Maturity
				($000's)	($000's)
GMAC Commercial Mortgage(1)(3)	Westbury, NY; Signal Hill, CA; Philadelphia, PA; Wayne, NJ; and Roseville, CA	2.85%(2)	6/28/04	$ 121,375	$ 121,375
GE Capital Loan Services, Inc.	Hollywood/Oakwood Plaza, FL	8.18%	2/1/09	66,681	61,167
GE Capital Loan Services, Inc.	West Palm Beach, FL	9.00%	1/1/10	32,312	29,888
GE Capital Loan Services, Inc.	Miami, FL	8.18%	2/1/09	28,986	26,589
Bank One(3)	Newport, KY	4.97%(5)	10/01/02	26,706	(11)
GE Capital Loan Services, Inc.	Ft. Lauderdale, FL	8.18%	2/1/09	23,351	21,420
City National Bank(3)	Orlando, FL	4.12%(6)	4/4/03	21,675	21,675
New Phoenix Management(3)(4)	Greensburg, IN	7.36%	6/28/05	18,300	18,300
Jackson National Life (GMAC)	Tempe, AZ	3.92%(7)	12/1/06	17,064	14,930(12)
Jackson National Life (GMAC)	Mesa, AZ	3.92%(7)	12/1/06	16,166	14,144(12)
Rose Canyon Business Park(3)(4)	San Diego/Rancho Bernardo, CA	4.43%	12/8/04	11,572	11,750
GE Capital Loan Services, Inc.	Hollywood/Oakwood Business, FL	8.18%	2/1/09	10,188	9,345
GMAC Commercial Mortgage	San Diego/Murphy Canyon, CA	9.00%	7/1/04	8,682	8,437

Lender	Property	Interest Rate	Maturity Date	Balance	Balance due at Maturity
Bank of Butterfield(3)	Daniel's Head, Bermuda	5.37%(8)	5/1/12	6,000	
Firstar, Inc.(3)	Newport, KY	5.25%(9)	3/1/02	4,738	4,738
American General Realty Advisors	Terre Haute, IN	8.75%	6/1/03	3,440	3,323
Fifth Third Real Estate Capital	Middletown, OH	7.63%	2/1/14	3,429	
San Diego National Bank(3)	San Juan Capistrano, CA	4.63%(10)	4/1/03	3,364	(13)
San Diego National Bank(3)	San Diego/Pacific Beach, CA	4.63%(10)	4/1/03	2,586	(14)
Keig Financial Corporation	Scottsdale, AZ	8.13%	2/1/06	1,834	1,087
San Diego National Bank(3)	Walnut Creek, CA	4.63%(10)	4/1/03	1,217	(15)
				$ 429,666	

1) No prepayment on loan is allowed prior to July 2002.

2) Interest based on LIBOR plus 98 basis points.

3) Monthly payments are interest only.

4) Capital lease arrangement whereby lease may be paid in full upon six month notice.

5) Interest based on LIBOR plus 310 basis points.

6) Interest based on LIBOR plus 225 basis points.

7) Interest based on LIBOR plus 205 basis points.

8) Interest based on LIBOR plus 350 basis points. Loan changes to principal and interest payments at a fixed rate of 9.25% beginning May 2002.

9) Interest based on Prime plus 5 basis points.

10) Interest based on 90-day LIBOR plus 275 basis points.

11) Construction loan with a maximum draw of $46.2 million.

12) Balance due at maturity is estimated.

13) Construction loan with a maximum draw of $4.9 million.

14) Construction loan with a maximum draw of $8.7 million

15) Construction loan with a maximum draw of $8.5 million.

Pending Real Estate Transactions

Since December 31, 2001, we have executed six leases, including one in an unconsolidated joint venture, for approximately 7,500 square feet of GLA. These new leases will generate $158,000 in annual minimum rents. We have also sold two parcels of undeveloped land for $2.1 million. We are currently in negotiations to sell additional commercial properties and land as well as evaluating various properties for acquisition.

ITEM 3 Legal Proceedings

On or about February 13, 2001, Lewis P. Geyser filed a lawsuit against Excel Legacy in Santa Barbara County Superior Court, Anacapa Division, Case No. 01038577. The suit arises out of an Operating Agreement for Destination Villages, LLC, an entity which is owned jointly by Excel Legacy and Mr. Geyser, under which Destination Villages, LLC would develop certain eco-tourism resorts. Mr. Geyser alleges that Excel

Legacy breached its obligations under the Operating Agreement, by failing to contribute the funding required under the Agreement. Mr. Geyser also alleges that Excel Legacy misrepresented its intention to provide the funding required under the Agreement. The complaint includes causes of action for breach of contract, breach of fiduciary duty, fraud and negligent misrepresentation. The lawsuit includes a prayer for compensatory and punitive damages. We believe the lawsuit is wholly without merit, and was filed for the improper purpose of extracting concessions from Excel Legacy in negotiations with Mr. Geyser which were underway prior to its filing. We intend to vigorously defend the lawsuit. Excel Legacy has also filed a cross-complaint against Mr. Geyser for breach of contract, fraud, breach of fiduciary duty and other related claims. The trial of this matter began February 26, 2002. On March 19, 2002, the trial judge dismissed both the complaint and cross-complaint on the grounds that Mr. Geyser was not the proper party under the Operating Agreement and therefore could not sue or be sued on any of the pending causes of action.

We are not party to any other legal proceedings other than various claims and lawsuits arising in the ordinary course of business that, in the opinion of our management, are not individually or in the aggregate material to our business.

ITEM 4 Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of security holders during the fourth quarter of 2001.

PART II

ITEM 5 Market for Registrant's Common Equity and Related Stockholder Matters

Stock Prices

Prior to the Merger with Excel Legacy, our common stock was traded on the Nasdaq National Market under the symbol PREN. Following the Merger, our common stock is traded on the American Stock Exchange under the symbol XLG. Our Series A Preferred Stock trades on the Nasdaq National Market under the symbol PRENP. The table below provides the high and low sales prices of our common stock and Series A Preferred Stock for the period indicated, as reported by the American Stock Exchange and the Nasdaq National Market.

	Common Stock		Preferred Stock	
	High	**Low**	**High**	**Low**
Calendar Year 2000 (1)				
First Quarter	7.625	7.063	14.625	13.250
Second Quarter	7.500	6.500	15.375	13.625
Third Quarter	6.875	4.500	15.063	14.313
Fourth Quarter	5.250	3.625	14.938	14.000
Calendar Year 2001 (1)				
First Quarter	6.875	4.875	15.375	14.375
Second Quarter	6.900	6.700	15.750	14.813
Third Quarter through 9/18	6.990	6.350	16.050	13.875
Calendar Year 2001 (2)				
Third Quarter from 9/19	3.250	2.800	15.150	14.500
Fourth Quarter	3.450	2.700	15.600	14.650

(1)

Common stock symbol PREN for Price Enterprises, Inc.

(2)

Common stock symbol XLG for Price Legacy Corporation

On March 15, 2002, the last reported sales price per share of our common stock was $3.08, and we had approximately 480 common stockholders of record plus those who hold their shares in street name.

In September 2001 in conjunction with the Merger with Excel Legacy, each outstanding share of Excel Legacy common stock was exchanged for 0.6667 share of PEI common stock. Also under the terms of the Merger Agreement, PEI commenced a tender offer for all outstanding shares of common stock (other than those held by Excel Legacy and those issued in the Merger) at a cash price of $7.00 per share. In connection with the tender offer, 807,583 shares were purchased at a total cost of $5.7 million. We now have approximately 40.7 million shares of common stock outstanding.

Dividends

We intend to distribute at least 90% of our REIT taxable income (determined without regard to the dividends-paid deduction and by excluding any net capital gain) to maintain our qualification as a REIT.

In connection with the Merger we assumed a net operating loss of approximately $18.7 million, which can be used to reduce our taxable income with certain limitations.

During 2001, we declared and paid four quarterly dividends of $0.35 on each share of Series A Preferred Stock for a total of $1.40 per share or $34.6 million. We accrued $2.8 million in dividends on our Series B Preferred Stock in accordance with its terms, but have not yet declared these dividends.

For the first 45 months after issuance, all distributions declared on our Series B Preferred Stock will be payable in additional shares of Series B Preferred Stock. Any dividends required to be paid in excess of dividends paid on our Series A Preferred Stock and our Series B Preferred Stock will be paid to our common stockholders. We did not declare or pay any dividends on our common stock during 2001.

During 2000, we declared and paid four quarterly dividends of $0.35 on each share of Series A Preferred Stock for a total of $1.40 per share or $33.4 million and we did not declare or pay any dividends on our common stock.

It is possible that, from time to time, we may not have sufficient cash or other liquid assets to meet our distribution requirements due to timing differences between (i) the actual receipt of such income and actual payment of deductible expenses and (ii) the inclusion of such income and deduction of such expenses in arriving at our taxable income. In the event that such timing differences occur, in order to meet these distribution requirements, we may find it necessary to arrange for short-term, or possibly long-term borrowings or to pay dividends in the form of taxable stock dividends.

ITEM 6 Selected Financial Data

The following selected data should be read in conjunction with our financial statements and accompanying notes located elsewhere in this Form 10-K and "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations." (amounts in thousands, except per share data)

	Year Ended December 31				
	2001	**2000**	**1999**	**1998**	**1997(1)**
Statement of Operations Data					
Rental revenues	$ 82,932	$ 70,771	$ 66,667	$ 62,485	$ 56,067
Operating income	45,374	41,847	35,143	31,393	23,289
Income from continuing Operations	38,001	34,292	32,671	29,429	29,003

	Year Ended December 31				
Discontinued operations					(1,625)
Net income	38,001	34,292	32,671	29,429	27,378
Net income (loss) per share from continuing operations basic	.03	.07	(.05)	.97	1.23
Cash dividends per share					
Preferred share	1.40	1.40	1.40	.35	
Common share				1.05	1.25

(1) Effective September 1, 1997, we changed our fiscal year end from August 31 to December 31 as required by the Internal Revenue Service for REITs. The four-month transition period ending December 31, 1997 bridged the gap between our old and new fiscal years. 1997 is shown on a calendar year basis for comparative purposes only.

	As of December 31				
	2001	2000	1999	1998	1997
Balance Sheet Data					
Real estate assets, net	$ 1,045,424	$ 545,456	$ 550,492	$ 418,252	$ 353,056
Total assets	1,193,394	662,405	562,558	457,352	408,478
Mortgages and notes payable	452,523	150,709	8,841	8,911	
Series A preferred stock	399,615	353,404	353,404	353,404	
Series B preferred stock	106,234				
Total stockholders' equity	689,770	463,109	461,260	344,811	406,624

ITEM 7 Management's Discussion and Analysis of Financial Condition and Results of Operations

As you read Management's Discussion and Analysis, it may be helpful to refer to our financial statements and accompanying notes beginning on page 41. In Management's Discussion and Analysis we explain the changes in specific line items in the statements of operations. Where changes are due to more than one reason, we list the reasons in order of importance.

Introduction

In Management's Discussion and Analysis of Financial Conditions and Results of Operations we explain our general financial condition and results of operations including:

- results of operations
- why revenues, costs and earnings changed from the prior period
- funds from operations (FFO)
- how we used cash for capital projects and dividends during 1999 through 2001 and how we expect to use cash in 2002

where we plan on obtaining cash for future dividend payments and future capital expenditures

The results of Excel Legacy are included in operations beginning September 19, 2001.

Because of Excel Legacy's acquisition of 91% of our common stock in 1999, we report operating results for the year ended December 31, 1999 divided between the periods of January 1, 1999 to November 11, 1999 and November 12, 1999 to December 31, 1999, due to a new basis of accounting as required by accounting principles generally accepted in the United States of America. For purposes of this discussion however, we combined these two periods of 1999 to make an equivalent twelve-month period in order to compare operating results with the year ended December 31, 2000.

Critical Accounting Policies and Estimates

General

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Preparation of our financial statements in accordance with GAAP requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the related notes. We believe that the following accounting policies are critical because they affect the more significant judgments and estimates used in the preparation of our consolidated financial statements. Actual results may differ from these estimates under different assumptions or conditions. For a detailed discussion on the application of these and other accounting policies, see Note One in the Notes to the Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

Consolidation

We combine our financial statements with those of our wholly-owned subsidiaries as well as all affiliates in which we have a significant influence and present them on a consolidated basis. The consolidated financial statements do not include the results of transactions between us and our subsidiaries or among our subsidiaries.

Revenue Recognition

Recognition of revenue is dependent upon the quality and ability of our tenants to pay their rent in a timely manner. Rental revenues include: (1) minimum annual rentals, adjusted for the straight-line method for recognition of fixed future increases; (2) additional rentals, including recovery of property operating expenses, and certain other expenses which we accrue in the period in which the related expense occurs; and (3) percentage rents based on the level of sales achieved by the lessee are recognized when earned.

Gain or loss on sale of real estate is recognized when the sales contract is executed, title has passed, payment is received, and we no longer have continuing involvement in the asset.

We adopted the SEC's Staff Accounting Bulletin No. 101 (SAB 101), Revenue Recognition in Financial Statements effective the fourth quarter of 2000. The adoption of SAB 101 did not have a material effect on our consolidated financial position or results of operations.

Real Estate Assets and Depreciation

We record real estate assets at historical costs and adjust them for recognition of impairment losses. In following purchase accounting, we adjusted the historical costs of Excel Legacy's real estate assets to fair value at the time of the Merger. Our consolidated balance sheet at December 31, 2001 reflects the new basis of those real estate assets.

We expense as incurred ordinary repairs and maintenance costs, which include building painting, parking lot repairs, etc. We capitalize major replacements and betterments, which include HVAC equipment, roofs, etc., and depreciate them over their estimated useful lives.

We compute real estate asset depreciation on a straight-line basis over their estimated useful lives, as follows:

Land improvements	40 years

Building and improvements	40 years
Tenant improvements	Term of lease or 10 years
Fixtures and equipment	3-7 years

We review long-lived assets for impairment when events or changes in business conditions indicate that their full carrying value may not be recovered. We consider assets to be impaired and write them down to fair value if their expected associated future undiscounted cash flows are less than their carrying amounts.

We capitalize interest incurred during the construction period of certain assets and this interest is depreciated over the lives of those assets.

Pre-development costs that are directly related to specific construction projects are capitalized as incurred. We expense these costs to the extent they are unrecoverable or it is determined that the related project will not be pursued.

New Accounting Standards

Derivative Instruments and Hedging Activities: In 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and in 1999 they voted to delay the effective date of this SFAS by one year. SFAS No. 133 establishes a new model for accounting for derivatives and hedging activities, where all derivatives must be recognized as assets and liabilities and measured at fair value. We adopted this standard on January 1, 2001 and it did not have a significant impact on our financial statements.

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Business Combinations: In July 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 addresses financial accounting and reporting for business combinations initiated after June 30, 2001. SFAS No. 142 addresses the financial accounting and reporting for acquired goodwill and other intangible assets other than those acquired in a business combination. SFAS No. 141 and SFAS No. 142 are effective in fiscal years beginning after December 15, 2001, with early adoption permitted. We have evaluated the effect of this statement and have determined it will not have a significant impact on our consolidated results of operations and financial position.

Asset Impairment: In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 addresses financial accounting for the impairment or disposal of long-lived assets and is effective in fiscal years beginning after December 15, 2001, with early adoption permitted. We have evaluated the effect of this statement and have determined it will not have a significant impact on our consolidated results of operations and financial position.

Results of Operations

Rental Revenues

		Rental Revenues	Change	Percent Change
2001	Year ended December 31	$ 82,932	$ 12,161	17%
2000	Year ended December 31	70,771		
2000	Year ended December 31	70,771	4,104	6%
1999	Year ended December 31	66,667		

Revenues increased $12.2 million to $82.9 million in 2001 compared to 2000 because:

properties we acquired during 2000 and 2001 generated $14.0 million of additional revenues

properties acquired from Excel Legacy due to the Merger generated an additional $2.4 million in revenues

revenues from properties we owned in both 2000 and 2001 increased $1.4 million, primarily due to additional leasing activity and additional expense reimbursement revenue partially offsetting these increases was the loss of $5.6 million in revenues generated in 2000 from properties sold during 2001

Revenues increased $4.1 million to $70.8 million in 2000 compared to 1999 because:

revenues from properties we owned in both 1999 and 2000 increased $3.2 million, primarily due to additional leasing activity and additional expense reimbursement revenue

properties we acquired during 2000 generated $2.0 million of additional revenues

expansion of our self storage business provided an additional $1.2 million of revenues

partially offsetting these increases were:

the loss of $1.5 million in revenues generated in 1999 from two properties we sold in 1999

the loss of $0.8 million in revenues generated in 1999 from properties we sold during 2000

Expenses

		Amount	Change	Percent Change
2001	Year ended December 31	$ 37,558	$ 8,634	30%
2000	Year ended December 31	28,924		
2000	Year ended December 31	28,924	(2,600)	-8%
1999	Year ended December 31	31,524		

Expenses increased $8.6 million to $37.6 million in 2001 compared to 2000 primarily due to:

properties we purchased in 2000 and 2001 contributed $4.4 million to expenses

properties acquired from Excel Legacy due to the merger contributed $3.9 million to expenses

an increase in general and administrative expenses of $1.3 million

bad debt expense increased $1.1 million, primarily due to a recovery in the prior year of amounts previously written off related to a former tenant

expenses on properties we owned in 2000 and 2001 increased $0.6 million

these increases in expenses were partially offset by:

a decrease in expenses of $1.7 million as a result of properties sold during the year

a decrease in expenses of $1.0 million for our self storage business as we began collecting rent net of expenses when we entered into a master lease arrangement on these properties

Expenses decreased $2.6 million to $28.9 million in 2000 compared to 1999 primarily because:

depreciation expense decreased $1.9 million due to our change to Excel Legacy's accounting policy of depreciating real estate assets. Following the completion of Excel Legacy's exchange offer for our common stock, we adopted Excel Legacy's policy of depreciating real estate assets, to useful lives of 40 years for land improvements and buildings compared to 25 years in prior years

bad debt expense decreased $0.6 million, primarily due to a recovery of amounts previously written off related to the Homeplace bankruptcy, a former tenant

properties we sold during 2000 contributed an additional $0.9 million to expenses, including depreciation expense of $0.5 million, in 1999

properties we sold in the second quarter of 1999 contributed $0.6 million of expense in 1999

these decreases in expenses were partially offset by:

expansion of our self storage business, which increased expenses by $0.4 million

properties we acquired during 2000, which increased expenses by $0.7 million, including depreciation of $0.5 million

general and administrative expenses, which increased $0.3 million over the prior year

Operating Income

		Amount	Change	Percent Change
2001	Year ended December 31	$ 45,374	$ 3,527	8%
2000	Year ended December 31	41,847		
2000	Year ended December 31	41,847	6,704	19%
1999	Year ended December 31	35,143		

Operating income increased for 2001 and 2000 compared to the same periods in the prior year primarily because of the changes in Rental Revenues and Expenses discussed above.

Interest Expense

		Amount	Change	Percent Change
2001	Year ended December 31	$ 16,793	$ 5,862	54%

		Amount	Change	Percent Change
2000	Year ended December 31	10,931		
2000	Year ended December 31	10,931	5,057	86%
1999	Year ended December 31	5,874		

During 2001, interest expense increased $5.9 million compared to 2000 because:

our average debt outstanding in 2001 was $274.0 million compared to $148.5 million in 2000, which relates primarily to additional borrowings and assumptions of loans with the purchase of properties

the increase in interest expense due to the amount of debt outstanding was partially offset by a decrease in interest rates on our variable rate debt. The weighted average interest rate on our variable rate debt decreased to 3.6% on December 31, 2001 compared to 7.5% at December 31, 2000

interest expense is net of $1.6 million interest capitalized to real estate assets in 2001

During 2000, interest expense increased $5.1 million compared to 1999 because:

our average debt outstanding in 2000 was $148.5 million compared to $90.0 million in 1999, which relates primarily to additional borrowings which were used to purchase properties and to provide loans to Excel Legacy and other real estate developers

the weighted average interest rate related to our credit facility increased from 7.5% at December 31, 1999 to 8.0% at December 31, 2000

we recorded $0.5 million of interest expense related to the assumptions of loans on the Terre Haute, IN, Middletown, OH, and Scottsdale, AZ properties purchased in 2000

interest expense is net of $2.1 million interest capitalized to real estate assets in 2000

We discuss our outstanding debt further in "Liquidity and Capital Resources" located elsewhere in this Form 10-K.

Interest Income

		Amount	Change	Percent Change
2001	Year ended December 31	$ 7,490	$ 4,782	177%
2000	Year ended December 31	2,708		
2000	Year ended December 31	2,708	2,204	437%
1999	Year ended December 31	504		

Interest income increased $4.8 million to $7.5 million in 2001 compared to 2000 primarily because:

Prior to the Merger in 2001, our note receivable with Excel Legacy earned additional interest of $1.9 million

our notes receivable with other real estate developers, including interest on notes acquired in the Merger, earned additional interest of $2.9 million

Interest income increased $2.2 million to $2.7 million in 2000 compared to 1999 primarily because:

our note receivable with Excel Legacy earned interest of $1.0 million

our notes receivable with other real estate developers earned additional interest of $0.7 million

we recorded $0.5 million in additional interest income on higher cash balances

Gain on Sale of Real Estate and Investments (net)

		Amount	Change	Percent Change
2001	Year ended December 31	$ 1,322	$ 1,158	706%
2000	Year ended December 31	164		
2000	Year ended December 31	164	(4,553)	96%
1999	Year ended December 31	4,717		

During 2001, we sold the following properties for a net gain of $1.3 million:

Location	Description	Sold Date	Sales Price (000's)
Aurora, CO	Retail Building	1/11/01	$ 1,592
Sacramento/Bradshaw, CA	Office Building (1)	6/1/01	5,125
San Diego/Southeast, CA	Retail Building	9/5/01	1,680
Palm Desert, CA	Shopping Center	11/16/01	17,022
Seekonk, MA	Shopping Center	12/28/01	15,250

(1) Partial sale one building remains

We also sold our 50% ownership interest in a joint venture which owns a retail property in Westminster, CO, on December 14, 2001 for $13.5 million. We recognized no gain or loss on the sale.

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During 2000, we sold the following properties for a net gain of $0.2 million:

Location	Description	Date	Sales Price
Azusa, CA	Warehouse (1)	8/25/00	$ 4,200
Sacramento\Bradshaw, CA	Office Buildings (2)	9/18/00	22,100
Littleton, CO	Retail Building	11/3/00	2,030
Fountain Valley/Stockton, CA	Retail Buildings	11/20/00	22,291

(1) Partial sale self storage remains

(2) Partial sale sold two of four buildings in office complex

Funds From Operations

	Year Ended December 31		
	2001	2000	1999
Net income before provision for income taxes	$ 38,001	$ 34,292	$ 32,671
Depreciation and amortization	11,268	9,558	11,825
Price Legacy's share of depreciation of joint ventures	757	371	
Depreciation of non-real estate assets	(38)	(137)	(96)
Gain on sale of real estate and investments, net	(1,322)	(164)	(4,717)
FFO before preferred dividends	48,666	43,920	39,683
Preferred dividends	(37,442)(1)	(33,360)	(33,263)
FFO	$ 11,224	$ 10,560	$ 6,420
Net cash provided by operating activities	$ 30,863	$ 35,223	$ 43,660
Net cash used by investing activities	(96,082)	(36,005)	(1,275)
Net cash provided by (used by) financing activities	38,104	48,633	(43,931)

(1) Includes $2.8 million of non-cash dividends accrued on our Series B Preferred Stock

Our Company, as well as real estate industry analysts, generally consider FFO as another measurement of economic profitability for real estate-oriented companies. The Board of Governors of the National Association for Real Estate Investment Trusts (NAREIT), defines FFO as net income in accordance with accounting principles generally accepted in the United States of America (GAAP), excluding depreciation and amortization expense and gains (losses) from depreciable operating real estate. We calculate FFO in accordance with the NAREIT definition and also exclude provisions for asset impairments and gains (losses) from the sale of investments when we calculate FFO. FFO does not represent the cash flows from operations defined by GAAP, may not be comparable to similarly titled measures of other companies and should not be considered as an alternative to net income as an indicator of our operating performance or to cash flows as a measure of liquidity. Excluded from FFO are significant components in understanding our financial performance.

FFO before preferred dividends during 2001 increased $4.7 million or 10.8% to $48.7 million compared to 2000 because:

- properties we acquired during 2000 and 2001 increased FFO $11.2 million
- interest income on our outstanding notes receivable and higher cash balances increased FFO $4.8 million
- a net increase in FFO of $0.8 million for our self storage business as we began collecting rent net of expenses when we entered into a master lease arrangement on these properties

- properties we owned in both 2000 and 2001 increased FFO $0.7 million

- joint venture income contributed an additional $0.1 million to FFO in the current year
- these increases to FFO were partially offset by:
  - additional interest expense which reduced FFO $5.9 million
  - properties sold during 2001 reduced FFO $4.6 million
  - additional bad debt expense and general and administrative expenses reduced FFO by $2.4 million

FFO before preferred dividends during 2000 increased 10% to $43.9 million compared to 1999 because:

- properties we owned in both 1999 and 2000 increased FFO $2.3 million
- properties we acquired during 2000 increased FFO $1.6 million
- interest income on our outstanding notes receivable and higher cash balances increased FFO $2.2 million
- we expensed $1.8 million in merger costs in 1999 related to our transaction with Excel Legacy
- expansion of our self storage business increased FFO $0.8 million
- joint venture income contributed $0.5 million to FFO in the current year
- these increases to FFO were partially offset by additional interest expense which reduced FFO $5.1 million

Liquidity and Capital Resources

Liquidity refers to our ability to generate sufficient cash flows to meet the short and long-term cash requirements of our business operations. Capital resources represent those funds used or available to be used to support our business operations and consist of stockholders' equity and debt.

Cash flow from operations has been the principal source of capital to fund our ongoing operations and dividend payments, while use of our credit facilities and mortgage financing have been the principal sources of capital required to fund our growth. While we are positioned to finance our business activities through a variety of sources, we expect to satisfy short-term liquidity requirements through net cash provided by operations and through borrowings.

As discussed previously, concurrently with the Merger, we issued to Warburg Pincus and certain of its affiliates, for an aggregate purchase price of $100 million:

- 17,985,612 shares of a new class of preferred stock, 9% Series B Junior Convertible Redeemable Preferred Stock, par value $0.0001 per share (the Series B Preferred Stock)
- a warrant to purchase an aggregate of 2.5 million shares of Price Legacy common stock at an exercise price of $8.25 per share

In addition, Sol Price, a significant stockholder of PEI and Excel Legacy through various trusts, converted an existing Excel Legacy loan payable to a trust controlled by Sol Price of approximately $9.3 million into 1,681,142 shares of Series B Preferred Stock and a warrant to purchase 233,679 shares of common stock at an exercise price of $8.25 per share.

The Series B Preferred Stock is junior to the Series A Preferred Stock with respect to dividend, liquidation and other rights, and is convertible under certain conditions into Price Legacy common stock at a one-to-one ratio, which may be adjusted under certain circumstances, after 24 months from

the date of issuance. The 9% coupon will be paid in kind with additional shares of Series B Preferred Stock for the first 45 months from issuance. We used the net proceeds from this transaction to repay debt and pay costs associated with the Merger.

Also in connection with the Merger, we completed a tender offer for our common stock (other than those shares held by Excel Legacy prior to the Merger and those shares issued in the Merger) at a cash price of $7.00 per share. A total of 807,583 shares were tendered for $5.7 million. The merger agreement further obligated us to commence an exchange offer in which holders of Excel Legacy's outstanding debentures and notes were offered shares of our Series A Preferred Stock in exchange for their debt securities valued at par. In the exchange, $30.4 million of the debentures and $15.8 million of the notes were exchanged for Series A Preferred Stock.

Upon completion of the Merger, we obtained a $100.0 million unsecured credit facility with Fleet Bank as agent. The facility has a three year term with an initial interest rate of LIBOR plus 150 basis points. The rate may vary based on our leverage and other financial ratios. At December 31, 2001, we had $31.5 million outstanding on the facility at a 3.5% interest rate. In connection with obtaining the new credit facility, we repaid and terminated our then exi0sting $75 million facility in September 2001.

Subsequent to the Merger, we no longer record interest income on notes receivable due from and rent revenues earned from master leases with Excel Legacy. Total interest income and rent revenues earned from Excel Legacy were $5.4 million for year ended December 31, 2001, which covers the period from January 1, 2001 through September 18, 2001.

We have $55.2 million in notes receivable at December 31, 2001. These notes are primarily due from developers and are collateralized by the related projects or other real estate. Of these notes, $52.1 million do not require cash payments on the interest until specified future dates, typically when the projects are completed or sold.

We continue to evaluate various properties for acquisition or development and continue to evaluate other investment opportunities. We anticipate borrowing available amounts on our credit facility to fund these acquisition and development opportunities. We anticipate obtaining construction loans to fund our development activities. During the year ended December 31, 2001, we purchased eleven properties for a total of $339.1 million. We used available cash, advances on our line of credit, proceeds from tax-deferred exchange transactions on properties sold in 2001 and 2000, and assumed loans of $237.1 million to fund these acquisitions.

In February 2002 we filed a $500.0 million shelf registration statement pursuant to which we may issue debt securities, preferred stock, depositary shares, common stock, warrants or rights.

From time to time we will consider selling properties to better align our portfolio with our geographic and tenant composition strategies. We may also participate in additional tax-deferred exchange transactions, which allow us to dispose of properties and reinvest the proceeds in a tax efficient manner. During the year ended December 31, 2001, we sold five properties from our portfolio for $40.7 million and our interest in a joint venture partnership for $13.5 million. When we sell a property, we anticipate a temporary reduction in operating income due to the time lag between selling a property and reinvesting the proceeds.

We are contemplating purchasing various properties and selling certain other properties. As we sell properties, our cash flows from operations may decrease until the proceeds are reinvested into new properties. At December 31, 2001, we have $15.0 million cash awaiting reinvestment through a tax deferred exchange transaction.

We have a significant retail project currently under development in Newport, Kentucky. The majority of the construction was completed in October 2001, with all of the primary buildings completed except for one out parcel yet to be leased. The project opened in October 2001. At present the project is approximately 70% leased in addition to the space currently occupied by Firststar IMAX Theater and the Newport Aquarium.

We also have two other significant retail development projects in which construction will continue through 2002. The Temecula, CA project is an open-air retail shopping center with Wal-Mart and other tenants. Total cost of the project is approximately $30.0 million, with an estimated cost of $11.5 million remaining to complete construction. We expect to fund the remaining cost through a construction loan. The Anaheim Garden Walk project in Anaheim, CA, located at the corner of Harbor Blvd. and Disney Way, will consist of an open-air retail center and three hotels. Total cost of the retail portion of this project is approximately $250 million with an estimated cost of $200 million remaining to complete construction over the next eight years. We expect to fund construction costs through a construction loan, sales of adjacent land parcels for hotels or potential joint venture investors.

The following table summarizes all of our long-term contractual obligations, excluding interest, to pay third parties as of December 31, 2001:

	Contractual Cash Obligations						
	2002	**2003**	**2004**	**2005**	**2006**	**Thereafter**	**Total**
Mortgages and notes payable	$ 51,931	$ 35,003	$ 180,906	$ 21,426	$ 4,239	$ 190,518	$ 484,023
Capital lease obligations	796	796	796	796	796	16,252	20,232
Total	$ 52,727	$ 35,799	$ 181,702	$ 22,222	$ 5,035	$ 206,770	$ 504,255

In 2002, we plan to use cash flow from operations to fund our principal payments due on mortgages and we plan to borrow on our unsecured line of credit to repay approximately $12.3 million of debt maturing in 2002.

Off-Balance Sheet Financing Matters

Also related to our Newport, KY project discussed previously, the City of Newport, KY in 1999 issued two series of public improvement bonds related to the Newport development project. The Series 2000a tax exempt bonds total $44.2 million and are broken down as follows: (a) $18.7 million maturing 2018 with interest at 8.375%; (b) $20.5 million maturing 2027 with interest at 8.5%; and (c) $5.0 million maturing 2027 with interest at 8.375%. The Series 2000b bonds are taxable and have a par amount of $11.6 million with interest at 11% due 2009. The bonds are guaranteed by the Newport project, the Company, and the project's third party developers. As of December 31, 2001, Newport had drawn on $44.8 million of the bonds for construction incurred prior to that date.

Summarized debt information for our unconsolidated joint ventures and the amount guaranteed by us at December 31, 2001 is as follows:

Joint Venture	**December 31 2001**	**Debt Guaranteed**
Orlando Business Park, LLC	$ 10,136	$ 10,136
Old Mill District Shops, LLC	17,243	13,666
Blackstone Ventures I	8,153	8,153
3017977 Nova Scotia Company	5,499	5,499
	$ 41,031	$ 37,454

We also have guaranteed a $11.9 million note payable related to a development project in Scottsdale, AZ and have a note receivable with a participating interest.

Transactions with Related and Certain Other Parties

Prior to the Merger, Excel Legacy was responsible for our daily management, including property management, finance and administration. We reimbursed Excel Legacy for these services. We expensed $2.4 million during 2001 prior to the Merger and $3.0 million for these services during 2000, which was based on our historical costs for similar expenses.

Also prior to the Merger, we executed a note receivable with Excel Legacy allowing them to borrow up to $40.0 million. During 2001, we recorded $2.9 million in interest income on this note prior to the Merger, and $1.0 million for 2000. As a result of the Merger, interest income is no longer recorded on this note.

In conjunction with the purchase of the Anaheim land in the first quarter of 2001, we executed a ground lease agreement with Excel Legacy, which required payments of $2.8 million per year in rent. During 2001, we recorded $1.8 million in rental revenue from Excel Legacy related to this lease for the period of January 1 through September 18, 2001. Due to the Merger, rental revenue is no longer recorded on this lease.

In connection with the Merger, we acquired notes receivable from certain affiliates of Excel Legacy, of which $9.4 million was outstanding at December 31, 2001. The notes bear interest at a fixed rate of 7%, and are due in March 2003. The total interest receivable at December 31, 2001 from these notes was $2.6 million. The notes have been offset against stockholders' equity on our accompanying Consolidated Balance Sheets.

Inflation

Because a substantial number of our leases contain provisions for rent increases based on changes in various consumer price indices, based on fixed rate increases, or based on percentage rent if tenant sales exceed certain base amounts, we do not expect inflation to have a material impact on future net income or cash flow from developed and operating properties. In addition, substantially all leases are triple net, which means specific operating expenses and property taxes are passed through to the tenant.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risks relating to our operations result primarily from changes in short-term LIBOR interest rates. We do not have any significant foreign exchange or other material market risk. We did not have any derivative financial instruments at December 31, 2001.

Our exposure to market risk for changes in interest rates relates primarily to our variable interest rate debt. We enter into variable rate debt obligations to support general corporate purposes, including acquisitions, capital expenditures and working capital needs. We continuously evaluate our level of variable rate debt with respect to total debt and other factors, including our assessment of the current and future economic environment.

We had $252.4 million in variable rate debt outstanding at December 31, 2001. Based upon these year-end debt levels, a hypothetical increase in interest rates by 100 basis points would increase interest expense by approximately $2.5 million on an annual basis, and likewise decrease our earnings and cash flows. We cannot predict market fluctuations in interest rates and their impact on our variable rate debt, nor can there be any assurance that fixed rate long-term debt will be available to us at favorable rates, if at all. Consequently, future results may differ materially from the estimated adverse changes discussed above.

The following table presents the scheduled principal payments on notes receivable and the scheduled principal payments on mortgages payable over the next five years and thereafter. The table

also includes the average interest rates of the financial instruments during each respective year and the fair value of the notes receivable and mortgages payable. We determine the fair value of financial instruments through the use of discounted cash flows analysis using current interest rates for notes receivable with terms and credit characteristics similar to our existing portfolio and borrowings under terms similar to our existing mortgages payable. Accordingly, we have determined that the carrying value of our financial instruments at December 31, 2001 approximated fair value.

Expected Maturity Date
(dollar amounts in thousands)

	2002	2003	2004	2005	2006	Thereafter	Total	Fair Value
Notes receivable, including notes from affiliates	$ 13,163	$ 37,629	$ 4,375				$ 55,167	$ 55,167
Average interest rate	17%	12%					12%	
Mortgages and notes payable	$ 51,931	$ 35,003	$ 180,906	$ 21,426	$ 4,239	$ 190,518	$ 484,023	$ 484,023
Average interest rate	6%	5%	4%	7%	7%	7%	6%	

ITEM 8 Financial Statements and Supplementary Data

PRICE LEGACY CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

ASSETS

	December 31	
	2001	**2000**
Real estate assets		
Land and land improvements	**$ 419,151**	$ 247,470
Building and improvements	**618,222**	302,915
Construction in progress	**27,471**	4,436
	1,064,844	554,821
Less accumulated depreciation	**(19,420)**	(9,365)
	1,045,424	545,456
Investment in real estate joint ventures	**24,828**	14,515
Cash and cash equivalents	**22,881**	49,996
Accounts receivable, net of allowance of $1,680 and $785	**2,706**	3,032
Notes receivable	**55,167**	13,388
Note receivable from affiliates		25,377
Deferred rents	**6,427**	3,352
Other assets	**35,961**	7,289
Total assets	**$ 1,193,394**	$ 662,405

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities		
Mortgages and notes payable	**$ 452,523**	$ 150,709
Revolving line of credit	**31,500**	44,300
Accounts payable and other liabilities	**19,006**	4,287
Total liabilities	**503,029**	199,296
Commitments		
Minority interests	**595**	

	December 31	
Stockholders' equity		
Series A preferred stock, cumulative, redeemable, $0.0001 par value, 27,849,771 shares authorized, 27,413,467 and 23,868,808 shares issued and outstanding	**399,615**	353,404
Series B preferred stock, junior, convertible, redeemable, $0.0001 par value, 27,458,855 shares authorized, 19,666,754 and 0 shares issued and outstanding	**106,234**	
Common stock, $0.0001 par value, 94,691,374 shares authorized, 40,726,191 and 13,309,006 issued and outstanding	**4**	1
Additional paid-in capital	**195,712**	112,587
Accumulated other comprehensive loss	**(106)**	
Accumulated deficit	**(2,324)**	(2,883)
Notes receivable from officers for common shares	**(9,365)**	
Total stockholders' equity	**689,770**	463,109
Total liabilities and stockholders' equity	**$ 1,193,394**	$ 662,405

See accompanying notes.

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PRICE LEGACY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Year Ended December 31		Period from November 12 through December 31	Predecessor Period from January 1 through November 11
	2001	2000	1999	1999
Rental revenues	**$ 82,932**	$ 70,771	$ 9,251	$ 57,416
Expenses				
Operating and maintenance	**12,158**	7,699	962	7,307
Property taxes	**9,821**	8,582	1,412	7,252
Depreciation and amortization	**11,268**	9,558	1,086	10,739
General and administrative	**4,311**	3,085	268	2,498
Total expenses	**37,558**	28,924	3,728	27,796
Operating income	**45,374**	41,847	5,523	29,620
Interest and other				
Interest expense	**(16,793)**	(10,931)	(848)	(5,026)
Interest income	**7,490**	2,708	22	482
Equity in earnings of joint ventures	**608**	504		
Merger related costs				(1,819)

				Predecessor Period from January 1 through November 11 1999
Total interest and other	**(8,695)**	(7,719)	(826)	(6,363)
Income before gain on sale of real estate and investments, net	**36,679**	34,128	4,697	23,257
Gain on sale of real estate and investments, net	**1,322**	164		4,717
Net income	**38,001**	34,292	4,697	27,974
Dividends to preferred stockholders	**(37,442)**	(33,360)		(33,263)
Net income (loss) applicable to common stockholders	**$ 559**	$ 932	$ 4,697	$ (5,289)
Earnings (loss) per common share basic and diluted	**$ ..03**	$ ..07	$ ..35	$ (.40)

See accompanying notes.

PRICE LEGACY CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Preferred Stock Series A		Preferred Stock Series B		Common Stock						
	Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Accumulated Comprehensive Loss	Accumulated Deficit	Notes Receivable	Total
Balance at December 31, 1998	23,759	353,404			13,293	1	929		(9,523)		344,811
Net income									27,974		27,974
Stock options exercised and stock grants					16		114				114
Vesting of preferred stock options due to merger							934				934
Cash dividends on preferred stock									(33,263)		(33,263)
Balance at November 11, 1999	23,759	353,404			13,309	1	1,977		(14,812)		340,570
Net income									4,697		4,697
Purchase accounting adjustment							109,693		6,300		115,993
Balance at December 31, 1999	23,759	353,404			13,309	1	111,670		(3,815)		461,260
Net income									34,292		34,292
Series A Preferred Stock options exercised	110						917				917
Cash dividends on preferred stock									(33,360)		(33,360)

	Preferred Stock Series A		**Preferred Stock Series B**								
Balance at December 31, 2000		353,404			13,309	1	112,587		(2,883)		463,109
Comprehensive income:											
Net income	23,869										