

EMC CORP
 Form 425
 July 27, 2007

Filed by: VMware Inc.

Pursuant to Rule 425 under the Securities Act of 1933

Subject Company: EMC Corporation

Subject Company's Commission File No.: 001-09853

Exchange Offer:

Following the official close of trading on the NYSE on the day the Offer expires, this document will provide the final calculated volume-weighted average price of EMC common stock and the actual Exchange Ratio showing the number of shares or options of VMware common stock that will be issued in exchange for each share of restricted EMC common stock or option for EMC common stock properly tendered. Promptly after the expiration of the Offer, VMware expects to accept all properly tendered restricted EMC stock and options in exchange for restricted VMware stock and options, respectively, in amounts based directly on the Exchange Ratio and pursuant to terms of the Offer.

The final calculated volume-weighted average price of EMC common stock (the "Average VWAP"), from which the resulting Exchange Ratio between EMC common stock and VMware common stock will be derived, will be determined by averaging (taking the arithmetic mean of) the daily volume-weighted average price of EMC common stock for the final two full trading days of the Exchange Offer period. The final two full trading days of the Offer (unless the Offer is extended) will be August 2, 2007 and August 3, 2007. These dates will also be referred to as the calculation period.

The information displayed in this document is being provided solely for eligible employees of VMware and its subsidiaries in connection with the Exchange Offer and should not be used for any other purpose. Please refer to the Exchange Offer Prospectus Offer to Exchange for the comprehensive details about the Exchange Offer. Copies of the Exchange Offer Prospectus Offer to Exchange, the letter of transmittal for the Offer and the form of notice of withdrawal for the Offer have been made available to all eligible employees.

Indicative Number of Shares to be Received:

Figures in the below examples have been rounded for presentation purposes.

The below table sets forth an example of what the Exchange Ratio would be at a range of different hypothetical Average VWAPs and IPO Prices. The Exchange Ratio represents the portion of a share of VMware common stock subject to a VMware Option that you would receive for each share of EMC common stock subject to an EMC Option that you exchange and, alternatively, the portion of a share of VMware Restricted Stock that you would receive for each share of EMC Restricted Stock that you exchange.

EXCHANGE RATIO EXAMPLE

		AVERAGE VWAP					
IPO Price	\$15	\$16	\$17	\$18	\$19	\$20	
\$26	0.5769	0.6154	0.6538	0.6923	0.7308	0.7692	
\$25	0.6000	0.6400	0.6800	0.7200	0.7600	0.8000	
\$24	0.6250	0.6667	0.7083	0.7500	0.7917	0.8333	
\$23	0.6522	0.6957	0.7391	0.7826	0.8261	0.8696	
\$22	0.6818	0.7273	0.7727	0.8182	0.8636	0.9091	

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The following formula will be used to calculate the number of shares or options of VMware that each tendering shareholder will receive for restricted stock or options of EMC tendered and accepted in the Exchange Offer:

$$\frac{\text{\# of VMware Options/shares of VMware Restricted Stock to be received}}{\text{\# of EMC Options/shares of Restricted Stock tendered}} = \frac{\text{Actual Average VWAP}}{\text{Actual IPO Price}} \times$$

See the below calculation as an example for determining the number of VMware shares or options to be received by a tendering holder. Using an assumed Average VWAP of EMC common stock equal to \$17.3550 and an assumed VMware IPO Price of \$24.00, the indicative number of shares of VMware restricted stock/options to purchase VMware common stock that a tendering holder would receive for 100 shares of EMC restricted stock/options to purchase EMC common stock tendered would be 72.

$$72 = \frac{100 \text{ shares of EMC}}{\text{EMC}} \times \frac{\$17.3550}{\$24.00}$$

The volume-weighted average price of EMC common stock for each day (the Daily VWAP) will be based on the price of EMC shares traded on the New York Stock Exchange for the period beginning at 9:30 AM, New York City time (or such as is the official open of trading on the NYSE), and ending at 4:00 PM, New York City time (or such as is the official close of trading on the NYSE), except that, on the two trading days preceding the last day of the originally contemplated exchange offer period, the data based on which the VWAP is determined will only take into account any adjustments made to reported trades included by 4:10 PM, New York City time, on each day. The Daily VWAP will be calculated using the default criteria for the function known as Bloomberg VWAP of the AQR function for EMC common stock on the automated quote and analytical system distributed by Bloomberg Financial LP. Volume-weighted average price is calculated by adding up the dollars traded for every transaction executed (price multiplied by number of shares traded) and dividing by the total number of shares traded for the day.

For EMC Options tendered in the exchange, the per-share exercise price of each VMware Option to be received will be the exercise price of the original EMC Option divided by the Exchange Ratio, with the result rounded up to the nearest whole cent. For example, using the same Exchange Ratio figures as above, an employee who tenders 1,000 EMC Options granted at an original exercise price of \$9.75 would be granted VMware Options at an exercise price of \$13.49.

$$\$13.49 = \frac{\text{Original Exercise Price of } \$9.75}{\text{EMC}} \times \frac{\$17.3550}{\$24.00}$$

The actual Average VWAP will be made available here following the expiration of the Offer. Until that time, the up-to-date indicative Average VWAP, using information from the most recent two days of trading will be listed for illustrative purposes. Please note that restricted shares and options granted in the exchange will be rounded down to the nearest share on an award-by-award basis to avoid potential adverse tax consequences to the holder.

Provided below are tables representing the most updated information on the indicative Average VWAP and the resulting Exchange Ratio based on an assumed VMware IPO Price. Further descriptions of the figures and terminology used in Tables A, B, C and D is included.

Last Updated: 7/27/2007 4:30 PM

TABLE A: CURRENT INDICATIVE PER-SHARE VALUE**EMC CORPORATION (NYSE: EMC)**

Offer Day	Trade Date	Market Hours	NYSE Daily VWAP
14	7/26/2007	9:30 AM 4:00 PM	18.4468
15	7/27/2007	9:30 AM 3:44 PM	18.3985
AVG. NYSE VWAP			18.4227

TABLE B: INDICATIVE EXCHANGE RATIO

EMC AVG. NYSE VWAP	\$ 18.4227
Assumed IPO Price	\$ 24.0000
EXCHANGE RATIO	0.7676

TABLE C: CURRENT INDICATIVE NUMBER OF SHARES OR OPTIONS

# of EMC Shares/Options	# of VMware Shares/Options
100	76
1,000	767

TABLE D: HISTORICAL INDICATIVE CALCULATED PER-SHARE VALUE

Day	Date	Daily VWAP	Indicative Average		
			VWAP	Assumed IPO Price	
				Exchange Ratio	
1	7/9/2007	18.7010		\$24.00	
2	7/10/2007	18.6663	18.6837	\$24.00	0.7785
3	7/11/2007	18.8526	18.7595	\$24.00	0.7816
4	7/12/2007	19.3173	19.0850	\$24.00	0.7952
5	7/13/2007	19.1072	19.2123	\$24.00	0.8005
6	7/16/2007	19.2043	19.1558	\$24.00	0.7982
7	7/17/2007	19.0691	19.1367	\$24.00	0.7974
8	7/18/2007	19.0948	19.0820	\$24.00	0.7951
9	7/19/2007	19.6364	19.3656	\$24.00	0.8069
10	7/20/2007	19.4521	19.5443	\$24.00	0.8143
11	7/23/2007	19.5128	19.4825	\$24.00	0.8118

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12	7/24/2007	19.1531	19.3330	\$24.00	0.8055
13	7/25/2007	18.9946	19.0739	\$24.00	0.7947
14	7/26/2007	18.4468	18.7207	\$24.00	0.7800
15	7/27/2007	18.3985	18.4227	\$24.00	0.7676
16	7/30/2007			\$24.00	
17	7/31/2007			\$24.00	
18	8/1/2007			\$24.00	
19	8/2/2007			\$24.00	
20	8/3/2007			\$24.00	

TABLE A: The indicative Average VWAP of EMC common stock based upon the most recent two trading days during the Offer.

For days 1-18 of the Offer, this table will be updated once per day after the close of the New York Stock Exchange with the Daily VWAP for the period of 9:30 am - 4:00 pm, New York City time. For days 19-20 of the offer period, the intra-day VWAP will be updated hourly on a cumulative basis throughout the trading day. Therefore, on the next-to-last full trading day during the Offer (day 19, the first day of the calculation period), the actual intra-day VWAP of EMC common stock during the elapsed part of that day will be used in the calculation of the indicative Average VWAP. On the final full trading day of the Offer (day 20, the final day of the calculation period), the indicative Average VWAP calculation will use the average of the Daily VWAP of EMC common stock for the prior trading day and the actual intra-day VWAP during the elapsed portion of that final trading day.

In order to be as accurate as possible, the VWAP data for this period will take into account any adjustments made to reported trades included by 4:10pm, New York City time. While the Daily VWAP of EMC common stock, the indicative Average VWAP and Exchange Ratio information will be updated every hour during the final two-day calculation period, the information posted on the website will reflect a 20-minute delay in the reported pricing information due to restrictions on publication of real-time price and volume data imposed by the NYSE. No indicative Average VWAP or Exchange Ratio will be provided for the first day of the Exchange Offer period; as such calculated values require the Daily VWAP of EMC common stock data for two trading days during the Offer.

TABLE B: The Indicative Exchange Ratio shown is calculated by dividing the current indicative Average VWAP of EMC common stock by the Assumed VMware IPO Price. The IPO price used is equal to the mid-point of the filing range of the estimated initial offering price reflected in the Registration Statement. This Exchange Ratio represents the number of VMware shares (or options) that would be tendered for every one share (or option) of EMC common stock.

TABLE C: This shows how many shares of VMware Restricted Stock or EMC Options would be exchanged for a specified number of shares of EMC Restricted Stock or EMC Options if the indicative Average VWAP provided in TABLE A above were the actual Average VWAP of those shares at the end of the Exchange Offer. The number of shares of VMware Restricted Stock or EMC Options given in the exchange will be rounded down to the nearest whole share. Please note that there can be no assurance as to the actual VMware IPO price, which may be more than or less than the Assumed IPO Price.

TABLE D: This shows a listing of historical data for the 20-day Offer period. The table will be updated once per day with the current end-of-day EMC NYSE Daily VWAP, the indicative Average VWAP, and the resulting Exchange Ratio.

Contact Information

The information and exchange agent for the Exchange Offer is:

Mellon Investor Services

Questions or requests for assistance may be directed to the information agent at the Mellon Call Center Monday through Friday between the hours of 5:00 AM to 4:00 PM PT at:

1-888-313-1479 (From within the U.S.)

201-680-6672 (From outside the U.S.)

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"> 694,579 951,820 987,021 710,713

Total debt and other liabilities

420,195 471,480 709,122 697,419 519,441

Minority interests

11,225 16,695 15,410 49,231 41,433

Redeemable common stock

9,903 8,385

Stockholders' equity

205,653 206,404 227,288 230,468 141,454

Year Ended December 31,

	2001	2000	1999	1998	1997
(In thousands)					
Other Data:					
Funds from Operations(1):					
Basic	\$ 24,766	\$ 30,860	\$ 42,477	\$ 36,301	\$ 21,924
Diluted	24,766	30,860	55,943	50,169	35,793
Cash Flows From:					
Operating activities	\$ 24,017	\$ 16,912	\$ 33,711	\$ 32,528	\$ 19,559
Investing activities	36,974	244,225	39,793	(219,430)	(110,192)
Financing activities	(60,339)	(260,177)	(74,936)	189,925	88,305

(1) The Company computes funds from operations (FFO) on both a basic and a diluted basis and considers Operating Partnership Units as the equivalent of shares for the purpose of these computations. The diluted basis assumes the conversion of the Company's convertible and exchangeable debentures into shares of common stock as well as other common stock equivalents. On November 6, 2000, the Company repaid, in full, its 7 1/4% exchangeable debentures and on January 16, 2001 the Company repaid, in full, its 7 1/2% convertible subordinated debentures. For further discussion of FFO, see Item 7 Management's Discussion and Analysis of Results of Operations.

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

The Company adopted Statement of Financial Accounting Standards No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144) on January 1, 2002. In accordance with the implementation provisions of SFAS 144, the operating results and gains on property sales of real estate assets sold subsequent to December 31, 2001 are included in discontinued operations in the consolidated statement of operations. The Results of Operations discussion for years ended December 31, 2001, 2000 and 1999 includes operating results for properties disposed of prior to December 31, 2001, but does not include operating results for properties disposed of subsequent to December 31, 2001.

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The following discussion should be read in conjunction with the Selected Financial Data and the Company's Consolidated Financial Statements and Notes thereto appearing elsewhere in this Form 10-K/A.

This Annual Report on Form 10-K/A, including the documents that we incorporate by reference, contains forward-looking statements. Also, documents we subsequently file with the SEC and incorporate by reference will contain forward-looking statements. In particular, statements pertaining to our capital resources, portfolio performance and our funds from operation and anticipated market conditions, demographics and results of operations are forward-looking statements. Forward-looking statements involve numerous risks and uncertainties and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods which may be incorrect or imprecise and we may not be able to realize them. We do not guarantee that the transactions and events described will happen as described, or that they will happen at all. You can identify forward-looking statements by the use of forward-looking terminology

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such as believes, expects, may, will, should, would, seeks, approximately, intends, plans, pro forma estimates or anticipations, and other similar words or phrases. You can also identify forward-looking statements by discussions of strategy, plans or intentions. The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- defaults on or non-renewal of leases by tenants;
- increased interest rates and operations costs;
- our failure to obtain necessary outside financing;
- difficulties in identifying properties to acquire and completing acquisitions;
- difficulties in disposing of properties;
- our failure to successfully operate acquired properties and operations;
- our failure to successfully develop properties;
- our failure to maintain our status as a REIT;
- environmental uncertainties and risks related to natural disasters;
- financial market fluctuations; and
- changes in real estate and zoning laws and increases in real property tax rates.

Our success also depends upon economic trends generally, as well as income tax laws, governmental regulation, legislation, population changes and other matters discussed above in the section entitled "Risk Factors." We caution you, however, that any list of risk factors may not be exhaustive.

Recent Developments

During 2001 and early 2002, we completed a series of steps designed to improve our financial and operating flexibility, allow us to reduce our leverage level, and better enable us to continue to pursue our fundamental strategy of maximizing stockholder value. Those steps included the repayment of \$128 million of the 7 1/2% Convertible Subordinated Debentures ("Debentures"), a reduction of our 2001 dividend, the refinancing of six properties with long-term fixed rate debt and the extension of our Credit Facility ("Credit Facility") with General Electric Capital Corporation ("GECC"). See additional discussion in "Liquidity Sources and Requirements."

The Board of Directors announced on March 20, 2002, an increase in the quarterly dividend to \$0.06 per share for the first quarter of 2002, compared to \$0.04 per share paid during each of the four quarters of 2001. This revised dividend level is designed to enable us to continue to strengthen our balance sheet and provide the funds necessary to reposition and reinvest in our assets while also providing an increase in the return to our shareholders.

Results of Operations

Comparison of the year ended December 31, 2001 to the year ended December 31, 2000.

Rental revenues decreased by \$25.6 million to \$65.6 million for the year ended December 31, 2001 from \$91.2 million for the year ended December 31, 2000. A decrease of \$25.8 million resulted from the sale of 16 community shopping centers, five single tenant facilities and a freestanding theater in 2001 and 2000. Revenues from the remaining held properties increased slightly in 2001 compared to 2000.

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Expense reimbursements decreased \$6.4 million to \$23.0 million for the year ended December 31, 2001 from \$29.4 million for the year ended December 31, 2000. Of the decrease, \$6.5 million resulted from the sale of the properties previously discussed. Similarly, property operating costs decreased by \$8.4 million to \$33.9 million for the year ended December 31, 2001 from \$42.3 million for the year ended December 31,

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2000. Approximately \$7.1 million of the decrease was related to the sold properties (excluding those properties included in discontinued operations). The remaining decrease is primarily due to a \$1.3 million charge to uncollectible accounts receivable expense in 2000 compared to a \$0.3 million charge recorded in 2001.

Interest expense decreased by \$22.8 million to \$32.2 million for the year ended December 31, 2001 from \$55.0 million for the year ended December 31, 2000. The decrease was due to a combination of a decrease in average debt outstanding and lower effective interest rates in 2001 compared to 2000. Average debt outstanding was \$410 million in 2001 compared to \$625 million in 2000. The lower average debt outstanding was due to the repayment of \$128.5 million of 7 1/2% Convertible subordinated Debentures with proceeds from the sale of 22 assets during 2000 and the first half of 2001. The effective weighted average interest rate, excluding the debentures, was 8.0% in 2001 compared to 9.0% in 2000. See additional discussion in Liquidity Sources and Requirements.

Depreciation and amortization expense decreased by \$4.3 million to \$19.8 million for the year ended December 31, 2001 from \$24.1 million for the year ended December 31, 2000. This is primarily due to \$4.8 million of lower expenses due to the sale of properties, partially offset by a \$0.6 million increase in depreciation on held properties.

General and administrative costs decreased \$0.1 million from \$5.6 million for the year ended December 31, 2000 to \$5.5 million for the year ended December 31, 2001. The decrease is due to the partial cost savings related to the reorganization that occurred during the second quarter of 2001. At the end of the second quarter of 2001, the Company recorded a non-recurring Reorganization expense of \$2.6 million. The expense consisted of employee severance and other related costs. The Company anticipates greater savings in 2002 from a full year of cost reductions as a result of the reorganization.

The Company reported a net loss of \$2.2 million for the year ended December 31, 2001 compared to net income of \$3.8 million for 2000. The decrease in net income of \$6.0 million in 2001 was primarily due to lower net operating income of \$28.5 million from the sale of properties, \$2.6 million in reorganization costs, \$2.4 million loss on the sale of assets and \$1.8 million extraordinary loss related to the sale of properties. The 2001 decrease was partially offset by lower interest expense of \$23.5 million and lower depreciation expense of \$4.2 million. The net income in 2000 included the gain on sale of assets, net of an extraordinary loss, of \$3.7 million and a \$4.8 million charge for the impairment of assets held for sale.

Comparison of the year ended December 31, 2000 to the year ended December 31, 1999.

Total revenues decreased by \$8.3 million to \$131.6 million for the year ended December 31, 2000 from \$139.9 million for the year ended December 31, 1999. The decrease was primarily a result of the sale of 12 community shopping centers, three single tenant facilities and a freestanding theater, for a total of 16 properties sold in 2000 compared to the sale of three community shopping centers and five single tenant facilities, for a total of 8 properties sold in 1999. The sold properties account for approximately \$11.2 million of the decrease in revenues. This was partially offset by a \$3.4 million lease termination fee received from a tenant of one of our community shopping centers.

Interest expense increased by \$2.2 million to \$55.0 million for the year ended December 31, 2000 from \$52.8 million for the year ended December 31, 1999. The increase is primarily due to approximately \$4.0 million from higher effective interest rates partially offset by a decrease of approximately \$1.8 million from lower average debt outstanding in 2000.

Property operating costs increased \$0.4 million to \$42.3 million for the year ended December 31, 2000 from \$41.9 million for the year ended December 31, 1999. The activity for the year included a provision for uncollectible accounts receivable of \$1.3 million and a charge of \$0.7 million for the adjustment of an outstanding receivable balance from a city agency recorded in 2000, offset by a decrease of \$2.0 million in expenses related to the sold properties.

Depreciation and amortization expense increased by \$0.1 million to \$24.1 million for the year ended December 31, 2000 from \$24.0 million for the year ended December 31, 1999. This is primarily due to

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increased amortization of leasing costs of \$0.9 million and increased depreciation from additional assets of \$0.3 million, partially offset lower expenses from the sale of properties in 2000 of \$1.1 million.

General and administrative costs decreased \$2.8 million from \$8.4 million for the year ended December 31, 1999 to \$5.6 million for the year ended December 31, 2000. The decreases are primarily due to the Company's reorganization in the 4th quarter of 1999 to reduce its operating costs.

Income before other items for the year ended December 31, 2000 was a loss of \$0.1 million compared to income of \$12.9 million for the same period of 1999. The decrease is due to lower income as a result of the sale of assets, higher interest costs as previously discussed and a \$4.8 million charge for the impairment of assets held for sale. At December 31, 2000, the Company was under agreement to sell the Center of El Centro located in El Centro, California and Madera Marketplace located in Madera, California for a combined total of \$19.7 million. Carrying value of these assets, adjusted for anticipated closing and other costs, was \$24.5 at December 31, 2000.

As previously discussed, the Company sold a total of 16 properties during the year ended 2000. As a result of the sales, debt of \$188 million was either repaid or assumed by the buyer. Net proceeds of \$127 million was used to reduce the Company's outstanding balance on its Secured Credit Facility (see additional discussion at Liquidity Sources and Requirements). The Company recorded a net gain on the sale of assets of \$21.2 million. The Company also recorded an extraordinary loss on the early extinguishment of debt of \$17.5 million related to the payment of certain prepayment penalties and the write-off of unamortized deferred financing costs and costs related to the defeasance of a loan with Nomura Asset Capital Corporation.

Selected Property Financial Information

Net Operating Income (defined as operating revenues less property operating costs) for the Company's Properties was as follows:

	Year Ended December 31,		
	2001	2000	1999
Rental Properties:			
Regional Malls	\$ 16,610	\$ 16,226	\$ 18,018
Community Centers	42,329	68,858	74,067
Single Tenants	1,253	2,952	4,895
Other Income	784	1,312	1,045
Net Operating Income	<u>\$ 60,976</u>	<u>\$ 89,348</u>	<u>\$ 98,025</u>

The following summarizes the percentage of leased GLA (excluding non-owned GLA) as of:

	December 31,		
	2001	2000	1999
Rental Properties:			
Regional Malls	94.4%	92.1%	90.9%
Community Centers	91.8	93.1	95.0
Single Tenants	100.0	100.0	100.0
Aggregate Portfolio	92.6	93.3	94.9

During 2001, the Company signed leases for approximately 163,693 square feet and renewed approximately 594,809 square feet of community centers leases. Such signed leases resulted in an increase in the overall rent per square foot of the Company's portfolio to \$12.02 per square foot at December 31, 2001 from \$11.33 per square foot at December 31, 2000.

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Liquidity Sources and Requirements

Through a series of asset sales and debt financing transactions, as well as a modification of the Company's Credit Facility, the Company was able to successfully repay its Debentures that matured on January 15, 2001. Subsequent to the repayment of the Debentures in January 2001, the Company remained focused on the strengthening of its financial stability and flexibility. To aid in strengthening the Company's financial flexibility and stability, on March 26, 2001, the Company announced a revised dividend strategy designed to enable the Company to maximize its retention of capital, reduce its leverage level, and provide financial flexibility, while maintaining its status as a real estate investment trust. Accordingly, the Company decreased its annual dividend for 2001 to \$0.16 per share.

With the Debentures repaid, the Company's primary focus in 2002 is to continue to enhance our balance sheet while executing our business plan. Our business plan focuses on leasing our existing centers, stabilizing income, enhancing value, and redevelopment. Our redevelopment plans enable us to meet the changing needs of retailers in our markets while creating value for our shareholders. On March 18, 2002, the Company increased its first quarter dividend to \$0.06 per share from the \$0.04 per share paid for each of the four quarters of 2001.

On March 20, 2002, the Company extended its Credit Facility with GECC that was to expire on April 1, 2002. Under the new terms, the Credit Facility will expire on April 1, 2004 with the option of the Company to extend for one additional year. The new agreement reduces the maximum commitment from \$170 million to \$150 million. The Company currently has availability of \$13 million under the Credit Facility.

In December 2001, the Company closed on six separate mortgages with total proceeds of \$68.7 million. The mortgages have a 10-year term with 30-year principal amortization. The weighted-average fixed interest rate on the six mortgages is 6.94%. The mortgages are not cross-collateralized or cross-defaulted. Three of the mortgages, with combined loan proceeds of \$25.1 million, secured by Ross Plaza in Clackamas, Oregon, Silverdale Shopping Center in Silverdale, Washington and Vancouver Park Place in Vancouver, Washington, closed on December 18, 2001. These assets were previously pledged as collateral for the Company's Credit Facility. The remaining three mortgages, with combined proceeds of \$43.6 million, are secured by Mountain Square in Upland, California, Fire Mountain Shopping Center in Oceanside, California and Randolph Plaza in Tucson, Arizona, closed on December 19, 2001. These properties were previously collateral for variable rate, cross-collateralized, mortgages with a combined balance of \$33.1 million that were to mature on June 1, 2002. All proceeds, after repayment of existing loans, were used to reduce the outstanding balance on the Company's Credit Facility.

On July 6, 2001, the Company refinanced an existing mortgage on North Mountain Village, located in Phoenix, Arizona. The \$7.1 million mortgage bears interest at 7.68% and matures in 2011.

During the second quarter of 2001, the Company sold one community shopping center and one single tenant facility. The assets sold were K-Mart Rocklin, an 86,000 square foot single tenant facility located in Rocklin, California and Marshall's Plaza, a 79,000 square foot shopping center located in Modesto, California. After repayment of debt of \$1.7 million, net proceeds of \$6.7 million were used to reduce the outstanding balance on the Company's Credit Facility.

During the first quarter of 2001, the Company sold three community shopping centers and one single tenant facility for a combined sales price of \$38.4 million. The assets sold included Westgate North Shopping Center, a 104,000 square foot shopping center located in Tacoma, Washington, Center of El Centro, a 179,000 square foot shopping center located in El Centro, California, Madera Marketplace a 169,000 square foot shopping center located in Madera, California, and K-Mart Madera, a 86,000 square foot single tenant facility, located in Madera, California. After repayment of debt of \$7.2 million, net proceeds of \$26.6 million were used to reduce the outstanding balance of the Company's Credit Facility.

During 2002, the Company has debt maturities of \$59.1 million. Of this balance, three mortgages totaling \$50.2 million each have three one-year extensions available to the Company. The remaining balance of \$8.9 million represents one non-recourse mortgage secured by our Date Palm Center located in Cathedral City, California. We are currently negotiating with the lender to modify the terms of this non-recourse

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agreement and anticipate that we will be able to successfully execute an extension and amendment to this loan before it matures.

The Company anticipates that its cash from operations combined with the availability under the Credit Facility will be sufficient to cover its capital and operating cash requirements in the next twelve months. Certain elective redevelopment projects will only be commenced if the Company is successfully able to obtain separate financing for such expenditures.

Funds from Operations

The Company considers Funds From Operations (FFO) to be an alternative measure of the performance of an equity REIT since such measure does not recognize depreciation and amortization expenses as operating expenses. FFO is defined, as outlined in the October 1999 White Paper, by the National Association of Real Estate Investment Trusts (NAREIT) as net income plus depreciation and amortization of real estate, less gains or losses on sales of properties. Additionally, the definition also permits FFO to be adjusted for significant non-recurring items. Funds from operations do not represent cash flows from operations and net income as defined by generally accepted accounting principles and should not be considered as an alternative to net income or cash flows from operations and should not be considered as an alternative to those indicators in evaluating the Company's operating performance or liquidity. Further, the methodology for computing FFO utilized by the Company may differ from that utilized by other equity REITs and, accordingly may not be comparable to such other REITs.

The Company computes FFO on both a basic and a diluted basis. The diluted basis assumes the conversion of the convertible and exchangeable debentures into shares of common stock. The following table summarizes the Company's computation of FFO (including discontinued operations) and provides certain additional disclosures (dollars in thousands):

	Year Ended December 31,		
	2001	2000	1999
Net (Loss) Income	\$ (2,197)	\$ 3,773	\$ 26,657
Adjustments to reconcile net loss to funds from operations:			
Depreciation and Amortization:			
Buildings and improvements	12,692	16,741	16,793
Tenant improvements and allowances	4,568	5,173	5,470
Leasing costs	2,617	2,540	2,392
Loss (Gain) on Sale of Assets	2,379	(21,245)	(23,991)
Write-down of Asset Held for Sale		4,770	
Reorganization Costs	2,613		1,148
Minority Interests	(198)	(65)	4,163
Extraordinary Loss on Early Extinguishment of Debt	1,768	17,514	6,483
Other	524	1,659	3,362
Funds from Operations, Basic and Diluted	\$24,766	\$ 30,860	\$ 42,477

Funds from operations decreased to \$24.8 million for the year ended December 31, 2001, as compared to \$30.9 million for the same period in 2000. The decrease in funds from operations is principally a function of asset dispositions that occurred in 2000 and early 2001. During 2001, the Company incurred reorganization costs of \$2.6 million resulting from a restructuring of the Company's organization. During 2000, the Company recorded an impairment loss on assets held for sale of \$4.8 million. In addition, the Company recorded an extraordinary loss on the early extinguishment of debt of \$1.8 million, \$17.5 and \$6.5 million in 2001, 2000 and 1999, respectively. Such items were not included in the computation of FFO as the Company considers these to be significant non-recurring events that, if deducted, would materially distort the comparative measurement of Company performance.

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Cash Flows

Net cash provided by operations (including discontinued operations) for the year ended December 31, 2001 was \$24.0 million compared to \$16.9 million for the prior year, an increase of \$7.1 million. The principal reason for the increase in net cash from operations are lower operating cash requirements partially offset by lower operating revenues due to properties sold during 2001 and 2000, as discussed in Results of Operations above.

Net cash provided by investing activities decreased by \$207.2 million to \$37.0 million for the year ended 2001 from \$244.2 million for the year ended 2000. The decrease is due to fewer property sales in 2001 compared to 2000. Property sales totaled 6 in the year ended 2001 compared to 16 for 2000.

Net cash used by financing activities decreased by \$199.9 million to \$60.3 million from \$260.2 million primarily due to lower repayments on the Company's Credit Facility for the year ended 2001 compared to 2000. The decrease is primarily due to fewer property sales in 2001 compared to 2000, previously discussed. Activity for the year ended 2001 includes the repayment of the Company's 7 1/2% Convertible Subordinated Debentures of \$128.5 million with proceeds from the Company's Credit Facility. In addition, the dividend reduction in 2001 enabled the Company to retain approximately \$17.6 million in 2001.

Net cash provided by operations for the year ended December 31, 2000 was \$16.9 million compared to \$33.7 million for the prior year. The principal reasons for the decrease in net cash from operations are discussed in Results of Operations above.

Net cash provided by investing activities was \$244.2 million for the year ended December 31, 2000, compared to \$39.8 million for the prior year. The increase is primarily the result of proceeds from the sale of 16 properties in 2000.

Net cash used by financing activities was \$260.2 million for the year ended December 31, 2000, compared to \$74.9 million from the prior year. The increase is due to repayments on the Company's Credit Facility, payments on mortgage financing and retirement of the \$30 million of 7 1/4% Exchangeable Subordinated Debentures.

Inflation

The Company's long-term leases contain provisions designed to mitigate the adverse impact of inflation on its results from operations. Such provisions include clauses enabling the Company to receive percentage rents based upon tenants' gross sales, which generally increase as prices rise, and/or, in certain cases, escalation clauses, which generally increase rental rates during the terms of the leases. Such escalation clauses are often related to increases in the CPI or similar inflation indices. In addition, many of the Company's leases are for terms of less than ten years, which permits the Company to seek to increase rents upon re-rental at market rates if rents are below then-existing market rates. Many of the Company's leases require the tenants to pay a pro rata share of operating expenses, including common area maintenance, real estate taxes, insurance and utilities, thereby reducing the Company's exposure to increases in costs and operating expenses resulting from inflation.

Critical Accounting Policies

The Securities and Exchange Commission defines critical accounting policies as those that are, in management's view, most important to the portrayal of the Company's financial condition and results of operations and the most demanding in their call on judgement. The Company's significant accounting policies that require a higher degree of judgement relate to:

Property rental income and expense recognition;

Basis on presentation;

Asset valuation criteria; and

Legal and environmental obligations.

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See additional discussion of these accounting policies in the Notes to the Consolidated Financial Statements.

Adoption of Accounting Standards

New Accounting Pronouncements Statements of Financial Accounting Standards (SFAS) No. 133, as amended, was effective for the Company as of January 1, 2001. SFAS No. 133 established accounting and reporting standards requiring that all derivative instruments, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either assets or liabilities measured at fair value. SFAS No. 133 requires that changes in the derivative instrument's fair value be recognized currently in earnings, unless specific hedge accounting criteria are met. The Company's derivative positions held at December 31, 2001 are considered immaterial. The adoption of this standard does not have a material impact on the Company's results of consolidated operations or its financial position.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, *Business Combinations* and SFAS No. 142, *Good will and Other Intangible Assets*. SFAS No. 141 prohibits the use of the pooling of interest method after June 30, 2001. SFAS No. 142 requires the cessation of the amortization of goodwill subsequent to December 31, 2001. The new standards are not expected to have a significant impact on our financial statements.

In October 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment of Long-Lived Assets*. This Statement addressed financial accounting and reporting for the impairment or disposal of long-lived assets and supercedes FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of*. Additionally, SFAS 144 expands the scope of discontinued operations to include all components of an entity with operations that (1) can be distinguished from the rest of the entity and (2) will be eliminated from the ongoing operations of the entity in a disposal transaction. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. The adoption of this standard is expected to result in the reclassification of prior year financial statements to conform to the presentation of assets that are sold subsequent to December 31, 2001.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

The Company is exposed to market risk primarily due to fluctuations in interest rates. Specifically, the risk resulting from increasing LIBOR-based interest rates as interest on the Company's Credit Facility of \$114.5 million as well as mortgage notes of \$75.2 million are tied to various LIBOR interest rates. The Credit Facility matures March 31, 2002. The Company is also subject to market risk resulting from fluctuations in the general level of U.S. interest rates as \$176.6 million of the Company's debt is based on a weighted average fixed rate of 8.04%. As a result, the Company will be obligated to pay contractually agreed upon rates of interest on its fixed rate debt, unless management refinances its existing fixed rate debt and potentially incurs substantial prepayment penalties. The \$36 million of tax-exempt certificates of participation are tied to a general index of AAA-rated tax-free municipal bonds.

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The following table provides information about the Company's interest rate sensitive financial instruments, including, amounts due at maturity, principal amortization, weighted average interest rates and fair market values as of December 31, 2001 (in thousands):

As of December 31, 2001	2002	2003	2004	2005	2006	Thereafter	Total	Fair Market Value
Interest Rate Sensitive								
Liabilities:								
Credit Facility	\$ 114,548						\$ 114,548	\$ 114,548
Interest Rate	LIBOR+						LIBOR+	
	2.50%						2.50%	
Variable Rate Debt	\$ 50,185	\$ 25,000					\$ 75,185	\$ 75,185
Interest Rate	LIBOR+	LIBOR+					LIBOR+	
	2.30%	2.50%					3.36%	
Fixed Rate Debt	\$ 8,933	\$ 14,865			\$ 13,149	\$ 139,697	\$ 176,644	\$ 203,288
Weighted Average Interest Rate	10.45%	10.375%			10.635%	7.393%	8.04%	
Tax Exempt Certificates						\$ 36,000	\$ 36,000	\$ 36,000
Weighted Average Interest Rate						4.173%	4.173%	

As of December 31, 2000	2001	2002	2003	2004	2005	Thereafter	Total	Fair Market Value
Interest Rate Sensitive								
Liabilities:								
Credit Facility		\$ 53,344					\$ 53,344	\$ 53,344
Average Interest Rate		LIBOR+					LIBOR+	
		2.75%					2.75%	
Variable Rate debt		\$ 33,456	\$ 75,185				\$ 108,641	\$ 108,641
Interest Rate		LIBOR+	LIBOR+				LIBOR+	
		2.50%	2.37%				2.40%	
Fixed Rate Debt	\$ 8,125	\$ 9,102	\$ 15,232			\$ 87,608	\$ 120,067	\$ 124,063
Weighted Average Interest Rate	8.25%	10.45%	10.375%			8.48%	8.83%	
Tax Exempt Certificates						\$ 36,000	\$ 36,000	\$ 36,000
Weighted Average Interest Rate						5.110%	5.110%	

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Item 8. *Financial Statements and Supplementary Data*

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and

Stockholders of Center Trust, Inc.:

We have audited the accompanying consolidated balance sheets of Center Trust, Inc. and subsidiaries (the Company) as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. Our audits also included the financial statement schedules listed in the Index at Item 14.A.2. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP

Los Angeles, California
March 26, 2002, except for Note 13,
as to which the date is November 20, 2002

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CENTER TRUST

CONSOLIDATED BALANCE SHEETS

December 31, 2001 and 2000

	2001	2000
	(In thousands, except share data)	
ASSETS		
Rental properties (Notes 2, 3, and 4)	\$ 732,818	\$ 776,667
Accumulated depreciation and amortization	(149,185)	(136,828)
Rental properties, net	583,633	639,839
Cash and cash equivalents (Note 2)	6,816	6,164
Tenant receivables, net (Note 2)	7,668	11,920
Other receivables (Note 2)	5,161	5,603
Restricted cash (Note 4)	13,282	9,531
Deferred charges, net (Note 2)	16,636	18,030
Other assets	3,877	3,492
TOTAL	\$ 637,073	\$ 694,579
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES:		
Secured Debt (Notes 4 and 9)	\$ 402,377	\$ 318,052
7 1/2% Convertible subordinated debentures (Note 5)		128,548
Accrued dividends and distributions (Note 6)	1,160	6,035
Accrued interest	2,057	5,827
Accounts payable and other accrued expenses	11,309	10,161
Accrued construction costs	1,059	1,060
Tenant security and other deposits	2,233	1,797
Total liabilities	420,195	471,480
MINORITY INTERESTS (Notes 1 and 2):		
Operating Partnership (1,338,644 and 2,015,692 units issued as of December 31, 2001 and 2000, respectively)	9,696	15,075
Other minority interests	1,529	1,620
Total minority interests	11,225	16,695
COMMITMENTS AND CONTINGENCIES (Note 10)		
STOCKHOLDERS EQUITY (Notes 6 and 7):		
Common stock (\$.01 par value, 100,000,000 shares authorized; 27,656,405 and 26,721,226 shares issued and outstanding at December 31, 2001 and 2000, respectively)	276	266
Additional paid-in capital	365,474	359,419
Accumulated distributions and deficit	(160,097)	(153,281)
Total stockholders equity	205,653	206,404
TOTAL	\$ 637,073	\$ 694,579



See Notes to Consolidated Financial Statements.

Table of Contents**CENTER TRUST****CONSOLIDATED STATEMENTS OF OPERATIONS****Three Years Ended December 31, 2001**

	<u>2001</u>	<u>2000</u>	<u>1999</u>
(In thousands, except per share amounts)			
REVENUES (Note 2):			
Rental revenues	\$ 65,577	\$ 91,214	\$ 101,634
Expense reimbursements	22,977	29,362	31,322
Percentage rents	1,451	1,801	2,029
Other income (Note 2)	4,898	9,260	4,956
	<u>94,903</u>	<u>131,637</u>	<u>139,941</u>
EXPENSES:			
Interest (Notes 2, 4 and 5)	32,230	55,019	52,764
Property operating costs:			
Common area	17,631	20,245	20,540
Property taxes	9,111	12,635	14,100
Leasehold rentals (Note 10)	1,090	1,295	1,681
Marketing	1,262	1,454	1,188
Other operating	4,833	6,660	4,407
Depreciation and amortization (Note 2)	19,797	24,065	24,041
Impairment of assets held for sale (Note 3)		4,770	
Reorganization costs (Note 1)	2,613		
General and administrative	5,473	5,626	8,362
	<u>94,040</u>	<u>131,769</u>	<u>127,083</u>
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE OTHER ITEMS	863	(132)	12,858
NET (LOSS) GAIN ON SALE OF RENTAL PROPERTIES (Note 3)	(2,379)	21,245	23,991
MINORITY INTERESTS (Note 2):			
Operating partnership	(177)	(301)	(4,497)
Other minority interests	(331)	(301)	(289)
	<u>(2,024)</u>	<u>20,511</u>	<u>32,063</u>
(LOSS) INCOME FROM CONTINUING OPERATIONS INCOME FROM DISCONTINUED OPERATIONS	1,595	776	1,077
	<u>(429)</u>	<u>21,287</u>	<u>33,140</u>
(LOSS) INCOME BEFORE EXTRAORDINARY ITEM EXTRAORDINARY LOSS ON EARLY EXTINGUISHMENT OF DEBT (Note 4)	(1,768)	(17,514)	(6,483)
	<u>(1,768)</u>	<u>(17,514)</u>	<u>(6,483)</u>
NET (LOSS) INCOME	<u>\$ (2,197)</u>	<u>\$ 3,773</u>	<u>\$ 26,657</u>
BASIC AND DILUTED (LOSS) INCOME PER SHARE (Note 2):			
(LOSS) INCOME BEFORE EXTRAORDINARY ITEM DISCONTINUED OPERATIONS	\$ (0.08)	\$ 0.77	\$ 1.25
	0.06	0.03	0.04
	<u>(0.06)</u>	<u>(0.66)</u>	<u>(0.25)</u>

EXTRAORDINARY LOSS ON EARLY
EXTINGUISHMENT OF DEBT (Note 4)

NET (LOSS) INCOME	\$ (0.08)	\$ 0.14	\$ 1.04
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See Notes to Consolidated Financial Statements.

Table of Contents**CENTER TRUST****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY****Three Years Ended December 31, 2001**

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Distributions and Deficit</u>	<u>Total Stockholders Equity</u>
	<u>Number of Shares</u>	<u>Amount</u>			
	(In thousands, except share data)				
January 1, 1999	24,756,693	\$ 248	\$ 354,281	\$ (124,061)	\$ 230,468
Issuance of Common Stock	2,260,232	22	33,881		33,903
Conversion of OP Units and Convertible Debentures into Common Stock and Adjustment to Minority Interest in OP (Note 2)	62,597	1	(19,717)		(19,716)
Restricted Stock Grants (Note 7)	547,446	5	3,042		3,047
Common Stock Repurchased	(979,000)	(10)	(10,075)		(10,085)
Net Income				26,657	26,657
Dividends declared (Note 6)				(36,986)	(36,986)
DECEMBER 31, 1999	26,647,968	266	361,412	(134,390)	227,288
Adjustment to Minority Interest in OP (Note 2)			(3,654)		(3,654)
Restricted Stock Grants (Note 7)	73,258		1,661		1,661
Net Income				3,773	3,773
Dividends declared (Note 6)				(22,664)	(22,664)
DECEMBER 31, 2000	26,721,226	266	359,419	(153,281)	206,404
Conversion of OP Units into Common Stock	677,881	7	5,531		5,538
Restricted Stock Grants (Note 7)	257,298	3	524		527
Net Loss				(2,197)	(2,197)
Dividends declared (Note 6)				(4,619)	(4,619)
DECEMBER 31, 2001	27,656,405	\$ 276	\$ 365,474	\$ (160,097)	\$ 205,653

See Notes to Consolidated Financial Statements.

Table of Contents**CENTER TRUST****CONSOLIDATED STATEMENTS OF CASH FLOWS**
Three Years Ended December 31, 2001

	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(In thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (Loss) Income	\$ (2,197)	\$ 3,773	\$ 26,657
Adjustments to reconcile net (loss) income to net cash Provided by operating activities including discontinued operations:			
Depreciation and amortization of rental properties	20,717	24,959	24,854
Amortization of deferred financing costs	4,087	2,644	3,158
Amortization of deferred expenses	588	710	3,362
Net loss (gain) on sale of rental properties	2,379	(21,245)	(23,991)
Impairment of asset held for sale		4,770	
Loss on early extinguishment of debt	1,768	17,514	6,483
Minority interests in operations	508	602	4,786
Net changes in operating assets and liabilities	(3,833)	(16,815)	(11,598)
	<u>24,017</u>	<u>16,912</u>	<u>33,711</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of rental properties	45,074	257,430	76,101
Construction and development costs	(8,100)	(13,205)	(17,333)
Acquisition of rental properties			(18,975)
	<u>36,974</u>	<u>244,225</u>	<u>39,793</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal amortization on mortgage financing	(6,000)	(3,940)	(4,304)
Principal payments on mortgage financing	(39,530)	(189,472)	(90,451)
Proceeds from mortgage financing	68,650	92,575	165,144
Borrowings on secured line of credit	133,369	207,778	147,336
Repayments of secured line of credit	(72,164)	(312,509)	(190,156)
Repurchase of common stock			(20,115)
Proceeds from sale of common stock			33,903
Repurchase of OP Units			(48,142)
Purchase of debentures	(128,548)	(30,000)	(9,561)
Costs of obtaining financing	(2,558)	(6,092)	(1,302)
(Increase) decrease in restricted cash	(3,751)	11,046	(15,140)
Dividends to shareholders	(8,834)	(26,399)	(36,778)
Distributions to minority interests	(973)	(3,164)	(5,370)
	<u>(60,339)</u>	<u>(260,177)</u>	<u>(74,936)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	652	960	(1,432)
CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR	6,164	5,204	6,636
CASH AND CASH EQUIVALENTS, AT END OF YEAR	\$ 6,816	\$ 6,164	\$ 5,204

NON-CASH TRANSACTIONS:

Issuance of operating partnership units to acquire properties			\$ (1,999)
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See Notes to Consolidated Financial Statements.

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CENTER TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three Years Ended December 31, 2001

1. Organization and Business

Center Trust, Inc. (the Company), a Maryland corporation is a self-administered and self-managed real estate investment trust. The Company engages in the ownership, management, leasing, redevelopment, acquisition and development of retail shopping centers in the western United States.

As of December 31, 2001, the Company owned a portfolio comprised of interests in 35 retail shopping centers (the Properties). The Company's ownership interest in the Properties is held through various partnership interests. The Company is the sole general partner of CT Operating Partnership, L.P., a California limited partnership (the Operating Partnership or OP) and owns a 94.9% interest therein. Of the 35 Properties, 33 are wholly and directly owned by the Operating Partnership. Two of the Properties are owned by partnerships in which the OP has a general partner interest, including a 75% interest in Willowbrook Center Partnership and a 34% effective interest in Vermont Slauson Shopping Center, LTD each of which own one asset. For purposes of securing various mortgages, the OP has created a series of single purpose entities. Of the 33 properties owned by the OP, ownership of 18 of these properties are held in 15 separate wholly-owned single purpose entities, all of which are consolidated into the accompanying financial statements.

The Company conducts substantially all of its operations through the Operating Partnership and has full, exclusive and complete responsibility and discretion in the management and control of the Operating Partnership. As the general partner of Kenneth Hahn Plaza and the Vermont-Slauson Shopping Center, the Operating Partnership has sole responsibility and control over the partnerships and cannot be removed by the limited partners without cause.

During the year 2001, the Company sold 6 properties, including 4 community shopping centers and two single tenant facilities. The net proceeds from these sales were used to reduce the amount outstanding under the Company's secured line of credit. In January 2001, the Company repaid, in full, its 7 1/2% Convertible Subordinated Debentures. In the second quarter of 2001, the Company recorded a non-recurring Reorganization expense of \$2.6 million. The expense consisted of employee severance and other related costs. Substantially all amounts have been paid as of December 31, 2001.

On June 1, 1997 the Company entered into a Stock Purchase Agreement (the Agreement) with LF Strategic Realty Investors, L.P. and Prometheus Western Retail, LLC, affiliates of Lazard Freres Real Estate Investors, LLC (together LFREI). Pursuant to the Agreement, LFREI purchased 15,666,666 shares of Common Stock of the Company at a price of \$15.00 per share, for an aggregate purchase price of \$235 million. The stockholders of the Company approved the Agreement on August 14, 1997. As of December 31, 2001, LFREI owned 56.7% of the outstanding common stock of the Company.

In connection with the Stock Purchase Agreement, the Company and LFREI entered into a Stockholders Agreement (the Stockholders Agreement) providing that until August 14, 2002 (the Standstill Period) LFREI and its affiliates may not (i) acquire beneficial ownership of more than 49.9% of the outstanding shares of Common Stock, on an Adjusted Fully Diluted Basis (as defined below), (ii) sell, transfer or otherwise dispose of any shares of Common Stock except in accordance with certain specified limitations (including a requirement that the Company, in its sole and absolute discretion, approve any transfer in a negotiated transaction that would result in the transferee beneficially owning more than 9.8% of the Company's capital stock), (iii) solicit, encourage or propose to effect or negotiate certain business combination transactions, (iv) solicit, encourage, initiate or participate in any solicitation of proxies or become a participant in any election contest, (v) seek board representation or a change in the composition or size of the board, except as specifically permitted, or (vi) assist or encourage any person or entity with respect to any of the foregoing (collectively, the Standstill Provisions). As used herein, the term Adjusted Fully Diluted Basis shall mean on a diluted basis, except that shares of common stock of the Company issuable upon exercise of options granted under management benefit plans shall not be included. In addition, during the

Table of Contents**CENTER TRUST****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Standstill Period, LFREI and its affiliates have agreed to vote all shares of Company common stock owned by them that represent aggregate ownership in excess of 40% of the outstanding shares of Company common stock either (i) in accordance with the recommendation of our board of directors or (ii) proportionally in accordance with the votes of the other holders of Company common stock.

As of December 31, 2001, LFREI owned 54.0% of the common stock of the Company on an Adjusted Fully Diluted Basis. Under the terms of the Stockholders Agreement, LFREI's right to freely vote at its discretion was limited to 74.0% of its total holdings. LFREI and its affiliates must vote the remainder of their holdings either (i) in accordance with the recommendation of our board of directors or (ii) proportionally in accordance with the votes of the other holders of Company common stock. In the event that the number of outstanding shares were to increase for any reason (including as a result of issuance of common stock of the Company upon exercise of management stock options), then LFREI would be allowed to acquire additional shares of common stock of the Company, up to 49.9% on an Adjusted Fully Diluted Basis. In addition to the above, LFREI has the right to nominate four members to the Company's board of directors. Although LFREI will not be able to take action on behalf of the Company without the concurrence of at least one of the other members of the Company's board of directors, they may be able to exert substantial influence over the Company's affairs. Further, LFREI is entitled to receive access to certain operating statements and other financial reports used in operating the Company on a monthly basis.

On March 12, 2001, the Company granted LFREI a limited waiver of some of the Standstill Provisions. The waiver is to permit LFREI, under the control of the board of directors, to initiate and engage in discussions with third parties concerning certain change of control-type transactions involving the Company. The limited waiver will stay in effect until the expiration of the standstill period on August 14, 2002.

2. Significant Accounting Policies

The Company's significant accounting policies are as follows:

Basis of Presentation The accompanying financial statements include the accounts of the Company and the OP on a consolidated basis. All significant intercompany transactions and balances have been eliminated in the consolidated presentation.

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

The Company adopted Statement of Financial Accounting Standards No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144) effective January 1, 2002. In accordance with the implementation provisions of SFAS 144, the operating results and gains on property sales sold subsequent to December 31, 2001 are included in discontinued operations in the consolidated statement of operations. The Consolidated Statements of Operations for the years ended December 31, 2001, 2000 and 1999 include operating results for properties disposed of prior to December 31, 2001 in income (loss) from continuing operations.

Minority Interests Included in minority interest for the years ended December 31, 2001, 2000 and 1999 is the 5.1%, 6.8% and 5.8% interests, respectively, in the results of the OP which are owned by various third parties. At December 31, 2001, 2000 and 1999, 1,338,644, 2,015,692 and 1,654,725 OP Units were held by the limited partners, respectively. The OP Units are exchangeable, subject to maintaining the Company's status as a REIT, on a one-for-one basis for shares of the Company's common stock.

Adjustments have been made to the minority interest balance in the OP to properly reflect their ownership interests in the Company. During 2001, 2000 and 1999, adjustments of \$5,531,000, \$3,654,000 and

Table of Contents**CENTER TRUST****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

\$19,716,000 were recorded, respectively. The adjustments are a result of the purchase or issuance of additional shares of common stock and OP Units and the conversion of OP Units into common stock.

Other minority interests include the limited partners' share of equity in two properties. The two properties in which the OP has a general partner interest are Kenneth Hahn Plaza (75% interest) and Vermont-Slauson Shopping Center (34% interest). Consolidation accounting is applied to both of the above partnerships as the OP has full control over the operations of the properties.

Rental Properties Rental properties are stated at cost less accumulated depreciation. Costs incurred for the acquisition, renovation and betterment of the properties are capitalized. Recurring maintenance and repairs are charged to expense as incurred.

The Company regularly reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the sum of expected future cash flows is less than the carrying amount of the asset, the Company recognizes an impairment loss equal to the difference between the estimated fair value and the carrying amount of the asset.

Interest costs incurred with respect to qualified expenditures relating to the construction of assets are capitalized during the construction period. Interest capitalized during the years ended December 31, 2001, 2000, and 1999 amounted to \$433,000, \$836,000, and \$735,000, respectively. Cash paid for interest, net of capitalized interest costs, was \$33,310,000, \$56,791,000, and \$52,479,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

Depreciation and Amortization The cost of buildings and improvements is depreciated on the straight-line method over estimated useful lives, as follows:

Buildings 40 years

Leasehold interests shorter of lease term or useful life of the related property

Improvements shorter of lease term or useful life ranging from 10 to 20 years

Cash and Cash Equivalents Cash and cash equivalents include highly liquid investments with original maturities of three months or less.

Deferred Charges Deferred charges include deferred leasing costs and loan fees. Leasing costs include an allocation of internal costs directly associated with the execution of leases and third-party leasing commissions. Such costs are amortized on the straight-line basis over the initial lives of the leases, which range from 5 to 20 years. Deferred financing fees are amortized over the terms of the respective loans.

	December 31,	
	2001	2000
	(In thousands)	
Deferred financing costs	\$ 11,061	\$ 18,346
Deferred leasing costs	20,705	18,189
Total deferred charges	31,766	36,535
Accumulated amortization	(15,130)	(18,505)
Deferred charges, net	\$ 16,636	\$ 18,030

Revenue Recognition and Tenant Receivables Leases with tenants are accounted for as operating leases. Minimum annual rentals are recognized on a straight-line basis over the lease term. Unbilled deferred rent represents the amount by which expected straight-line rental income exceeds rents currently due under

Table of Contents**CENTER TRUST****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

the lease agreement. The Company continually evaluates its reserve for unbilled deferred rent and may adjust its reserve in the future for changes in the retail environment. Total rents receivable consist of the following:

	December 31,	
	2001	2000
	(In thousands)	
Billed tenant receivables	\$ 5,978	\$ 10,964
Allowance for uncollectible rent	(2,071)	(2,592)
Net billed tenant receivables	3,907	8,372
Unbilled deferred rent	6,422	6,014
Allowance for unbilled deferred rent	(2,661)	(2,466)
Net unbilled deferred rent	\$ 3,761	\$ 3,548
Total tenant receivables, net	\$ 7,668	\$ 11,920

Included in billed tenant receivables are additional rentals based on common area maintenance expenses and certain other expenses which are accrued in the period in which the related expense is incurred and percentage rents which are accrued on the basis of reported tenant sales.

Other Income In connection with the original development of the Media City Center, commitments in the form of notes receivable (terminating in 2016) were received from the Community Redevelopment Agency of the City of Burbank (the Burbank Agency) aggregating \$51,500,000. Such commitments are repayable by the Burbank Agency out of incremental sales and property taxes associated with certain defined parcels within the property. Management considers amounts receivable under these notes to be contingent in nature and accordingly has not recorded the notes receivable. Upon separation, any repaid principal and accrued interest will be forgiven. Other income has been recorded with respect to these commitments generally in proportion to the recording of property tax expense. Included in other income in connection with such commitments for the years ended December 31, 2001, 2000 and 1999 is \$2,713,000, \$2,713,000 and \$2,721,000, respectively. At December 31, 2001 and 2000, other receivables with respect to such commitments from the Burbank Agency were \$3,008,000 and \$2,987,000, respectively.

Under similar commitments from the Community Redevelopment Agencies of the Cities of Fullerton, Chino, and Upland, other income was recognized for the years ended December 31, 2001, 2000 and 1999 of \$518,000, \$493,000 and \$493,000, respectively.

Income Taxes The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the Code), commencing with the taxable year ended December 31, 1993. As a result, the Company generally will not be subject to federal and state income taxation at the corporate level to the extent it distributes annually at least 90% of its REIT taxable income, as defined in the Code, to its stockholders and satisfies certain other requirements. Accordingly, no provision has been made for federal and state income taxes in the accompanying consolidated financial statements.

As of December 31, 2001 and 2000, the net tax basis of the Properties was approximately \$60,847,000 and \$56,852,000 respectively, less than the net book basis of such assets.

Earnings Per Share Basic earnings per share is based on the weighted average number of shares of common stock outstanding during the period and diluted earnings per share is based on the weighted average number of shares of common stock outstanding combined with the incremental weighted average shares that would have been outstanding if all dilutive potential common shares had been issued. The basic and diluted weighted average number of shares of common stock used in the computation for the years ended December 31, 2001, 2000 and 1999

were 27,435,129, 26,676,641 and 25,696,646, respectively. Units held by

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CENTER TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

limited partners in the Operating Partnership may be exchanged for shares of common stock of the Company on a one-for-one basis and therefore are not dilutive. Accordingly, the increase in weighted average shares outstanding under the diluted method over the basic method in every period presented would be entirely a result of outstanding options issued under the Company's Amended and Restated 1993 Stock Option and Incentive Plan and the conversion of the Debentures. If the shares were dilutive, the weighted average shares outstanding for the years ended December 31, 2001, 2000, and 1999 would increase by 663,842, 8,468,652 and 9,120,523 shares, respectively. Basic and diluted earnings per share were the same for all periods presented.

Segment Information The Company operates in one segment, retail operating properties.

Reclassifications Certain amounts have been reclassified in the 2000 and 1999 financial statements to conform to the 2001 financial statement presentation.

New Accounting Pronouncements Statement of Financial Accounting Standards (SFAS) No. 133, as amended, was effective for the Company as of January 1, 2001. SFAS No. 133 established accounting and reporting standards requiring that all derivative instruments, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either assets or liabilities measured at fair value. SFAS No. 133 requires that changes in the derivative instrument's fair value be recognized currently in earnings, unless specific hedge accounting criteria are met. The Company's derivative positions held at December 31, 2001 are considered immaterial. The adoption of this standard does not have a material impact on the Company's results of consolidated operations or its financial position.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, Business Combinations and SFAS No. 142, Good will and Other Intangible Assets. SFAS No. 141 prohibits the use of the pooling of interest method. SFAS No. 142 requires the cessation of the amortization of goodwill subsequent to December 31, 2001. The new standards are not expected to have a significant impact on our financial statements.

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment of Long-Lived Assets. This Statement addressed financial accounting and reporting for the impairment or disposal of long-lived assets and supercedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of. Additionally, SFAS 144 expands the scope of discontinued operations to include all components of an entity with operations that (1) can be distinguished from the rest of the entity and (2) will be eliminated from the ongoing operations of the entity in a disposal transaction. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The adoption of this standard is expected to result in the reclassification of prior year financial statements to conform to the presentation of assets that are sold subsequent to December 31, 2001.

Table of Contents**CENTER TRUST****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****3. Rental Properties**

Rental properties consist of the following:

	December 31,	
	2001	2000
	(In thousands)	
Land	\$ 162,047	\$ 176,338
Leasehold interests	15,920	15,920
Site improvements	43,299	42,885
Buildings and improvements	503,182	535,499
Construction in process	8,370	6,025
	<u>732,818</u>	<u>776,667</u>
Rental Properties, at cost	732,818	776,667
Less: Accumulated depreciation and amortization	(149,185)	(136,828)
	<u>\$ 583,633</u>	<u>\$ 639,839</u>
Rental Properties, net	\$ 583,633	\$ 639,839

During 2001, the Company sold four community shopping centers and two single tenant facilities. Gross proceeds from the sales were \$49.2 million. Net proceeds used to reduce the outstanding balance on the Company's Credit Facility totaled \$33.4 million and mortgage debt repaid to the lender was approximately \$9 million. The net loss on the sale of assets recognized during the year was \$2.4 million.

Combined revenues from the sold properties of \$2.2 million represented 2% of total revenues for the year-ended December 31, 2001. Net operating income (NOI) from the sold properties of \$1.7 million represents 3% of total Company NOI for the year.

As of December 31, 2000, the Company recorded an impairment of assets held for sale of \$4.8 million. The write-down resulted from the Company's decision to sell the Center of El Centro located in El Centro, California and Madera Marketplace located in Madera, California for a combined total of approximately \$20 million. The carrying value of these assets, adjusted for anticipated closing and other costs was \$24.5 million at December 31, 2000.

On June 2, 2000, the Company completed a sale-leaseback transaction on its corporate office building in Manhattan Beach, California. The sale of the office building generated approximately \$5 million of cash. The Company entered into a long-term lease with the buyer of the property.

Table of Contents**CENTER TRUST****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****4. Secured Debt**

	December 31,	
	2001	2000
	(In thousands)	
Credit Facility	\$ 114,548	\$ 53,344
Notes payable to life insurance companies interest only and interest plus principal; rates ranging from 10.375% to 10.45%; maturing July 2002 through January 2003; non-recourse	23,798	29,944
Notes payable to financial institutions principal and interest paid monthly, at interest rates ranging from 5.50% to 9.68%; maturing December 2002 through January 2012; non-recourse	218,363	184,772
Notes payable to pension funds principal and interest paid monthly at 10.90% and 11.45%; maturing October 2006; non-recourse	9,668	13,992
Floating rate tax-exempt certificates of participation interest only at effective rate of 4.08%; maturing December 2014 through November 2015; non-recourse	36,000	36,000
	\$402,377	\$318,052

Borrowings under the Credit Facility are secured by first mortgage liens on Media City Center, Medford Shopping Center, Sunrise Place, Frontier Village, Rheem Valley, Southern Palms, Rosedale Village and Walmart-Baldwin Hills. As properties are acquired, they may be added to the security of the Credit Facility, thereby increasing the amount available to the Company. The Credit Facility is subject to certain conditions, the violation of which may affect its terms.

Subsequent to December 31, 2001, the Company extended its Credit Facility with GECC that was to expire on April 1, 2002. The Credit Facility had a one-year extension option. Under the new terms, the Credit Facility will expire on April 1, 2004 with the option to extend for one additional year. The new agreement reduces the maximum commitment from \$170 million to \$150 million.

In December 2001, the Company closed on six separate mortgages with total proceeds of \$68.7 million. The mortgages have a 10-year term with 30-year principal amortization. The weighted-average fixed interest rate on the six mortgages is 6.94%. The mortgages are not cross-collateralized or cross-defaulted. Three of the mortgages, with combined loan proceeds of \$25.1 million, secured by Ross Plaza in Clackamas, Oregon, Silverdale Shopping Center in Silverdale, Washington and Vancouver Park Place in Vancouver, Washington, closed on December 18, 2001. These assets were previously pledged as collateral for the Company's variable rate secured credit facility. The remaining three mortgages, with combined proceeds of \$43.6 million, secured by Mountain Square in Upland, California, Fire Mountain Shopping Center in Oceanside, California and Randolph Plaza in Tucson, Arizona, closed on December 19, 2001. These properties were previously collateral for variable rate, cross-collateralized, mortgages with a combined balance of \$33.1 million that were to mature on June 1, 2002. All proceeds, after repayment of existing loans, were used to reduce the outstanding balance on the Company's secured credit facility.

On July 6, 2001, the Company refinanced an existing mortgage on North Mountain Village, located in Phoenix, Arizona. The \$7.1 million mortgage bears interest at 7.68% and matures in 2011. The Company had no other debt maturities in 2001.

The Company recorded an extraordinary loss on the early extinguishment of debt of \$1.8 million in 2001 related to the payment of certain prepayment penalties and the write-off of unamortized deferred financing costs. In 2000, the Company recorded an extraordinary loss on the early extinguishment of debt of \$17.5 million related to the payment of certain prepayment penalties, the write-off of unamortized deferred financing costs and costs related to the defeasance of a loan with Nomura Asset Capital Corporation.

Table of Contents**CENTER TRUST****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The remaining notes payable are secured by deeds of trust and the assignment of rents and leases associated with 29 properties. Certain of the non-recourse notes payable are subject to certain conditions, the violation of which may result in additional recourse being available to the lenders. Certain of the loans are subject to substantial prepayment penalties, as defined in the respective loan agreements (See Note 9).

Aggregate future principal payments as of December 31, 2001 are as follows:

Years Ending December 31,	(In thousands)
2002	\$ 176,136(1)
2003	41,742
2004	2,442
2005	2,650
2006	11,113
Thereafter	168,294
Total	\$402,377

- (1) Includes amount outstanding on the Company's Credit Facility which was amended subsequent to December 31, 2001 to extend the maturity to April 1, 2004.

Restricted cash at December 31, 2001 and 2000 includes reserve funds established in connection with the tax exempt financing. In addition, restricted cash includes funds restricted for leasing costs and the completion of certain construction projects required as conditions to existing mortgages. Interest income on such funds accrues to the benefit of the Company. Restricted cash disbursements require the approval of the respective lenders. The floating rate tax-exempt certificate of participation requires the Company to maintain letters of credit equal to the balance outstanding. The cost of such is factored into the effective rate on such notes.

5. Subordinated Debentures

In conjunction with the Company's formation, the Company issued 7 1/2% Convertible Subordinated Debentures, Series A and Series B which matured on January 15, 2001. The Convertible Debentures were convertible at any time after issuance and prior to maturity, into shares of Common Stock of the Company at a conversion price of \$18.00 per share. On January 16, 2001, the Company repaid in full its 7 1/2% Convertible Subordinated Debentures. The outstanding balance of \$128.5 million was repaid with proceeds from the Company's Credit Facility.

Also in conjunction with the Company's formation, the OP issued \$30 million of 7 1/4% Exchangeable Subordinated Debentures which matured on December 27, 2003 and were secured by one of the Company's properties. The Exchangeable Debentures were exchangeable at any time for Common Stock of the Company at an exchange price of \$18.00 per share. On November 6, 2000, the Company repaid its 7 1/4% Exchangeable Debentures at par, pursuant to the Company's optional redemption rights.

6. Stockholders' Equity

In addition to Common Stock, the Company's Charter authorizes the issuance of 10,000,000 shares of Preferred Stock, par value \$.01 per share. No such shares were issued or outstanding as of December 31, 2001 and 2000. The authorized shares of Common Stock outstanding are 100 million at December 31, 2001.

During the year ended December 31, 2001, the Company declared four quarterly distributions of \$0.04 per share. During the year ended December 31, 2000, the Company declared four quarterly distributions of \$0.21 per share. During the year ended December 31, 1999, the

Company declared four quarterly distributions of \$0.36 per share.

Table of Contents**CENTER TRUST****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. Stock Option and Incentive Plan**

The 1993 Stock Option and Incentive Plan, as amended, (the Option Plan) enables executive officers, key employees and directors of the Company to participate in the ownership of the Company. The Option Plan provides for the award of a broad variety of stock-based compensation alternatives such as non-qualified stock options, incentive stock options, and restricted stock, and provides for the grant to Independent Directors of non-qualified stock options. Options are granted at prices which are not less than market at date of grant, expire ten years from the date of grant, and are generally exercisable 25% per year over four years. The Option Plan is administered by the Compensation Committee of the Board of Directors, which is authorized to determine the number of shares to be subject thereto and the terms and conditions thereof. Pursuant to the Option Plan, 2,750,000 shares of Common Stock were reserved for issuance to eligible participants.

Following is a summary of the stock option activity for the three years ended December 31, 2000:

	Shares Under Options	Weighted Average Exercise Price
January 1, 1999.	1,811,767	\$ 15.284
Granted	530,000	\$ 10.011
Cancelled	(1,014,058)	\$ 15.608
December 31, 1999	1,327,709	\$ 13.149
Cancelled	(612)	\$ 11.668
December 31, 2000	1,327,097	\$ 13.150
Cancelled	(663,255)	\$ 11.777
December 31, 2001	663,842	\$ 13.375

As of December 31, 2001, 2000 and 1999 options exercisable totaled 515,842, 799,739 and 547,168, respectively.

The following table summarizes information about stock options outstanding at December 31, 2000:

Range of Exercise Prices	Number Outstanding At 12/31/01	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number Exercisable As of 12/31/01	Weighted Average Exercise Price
\$10.000	250,000	\$ 10.000	7.9	125,000	\$ 10.000
\$10.800-\$14.400	108,442	\$ 11.805	4.2	103,442	\$ 11.811
\$14.401-\$18.000	305,400	\$ 16.695	4.0	287,400	\$ 16.797
	663,842	\$ 13.375	5.5	515,842	\$ 14.150

The weighted average fair value of the stock options granted during 1999 was \$0.62. There were no options granted by the Company in 2001 and 2000. The Company applies Accounting Principles Board Opinion No. 25 and related Interpretations in accounting for its stock option and incentive plan. Accordingly, no compensation cost has been recognized as a result of its initial granting of Stock Options. Had compensation

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cost for the Company's Option Plan been determined based on the fair value at the grant dates for awards during the three years ended December 31, 2001, consistent with the method of Statement of Financial Accounting Standards No. 123, Accounting for Stock Based Compensation (SFAS No. 123),

Table of Contents**CENTER TRUST****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

the Company's net income (loss) and income (loss) per share for each of the periods would have been equal to the pro forma amounts indicated below:

	Year Ended December 31,		
	2001	2000	1999
	(In thousands, except per share amounts)		
Net income (loss):			
As reported	\$(2,197)	\$3,773	\$26,657
Pro forma	\$(2,318)	\$3,546	\$26,369
Net income (loss) per share, basic:			
As reported	\$ (0.08)	\$ 0.14	\$ 1.04
Pro forma	\$ (0.08)	\$ 0.13	\$ 1.03

The fair value of options granted under the Company's Stock Option Plan was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for 2001, 2000, and 1999, respectively: expected life of five years; risk free interest rate of 4.38%, 6.71% and 6.34%; expected dividend yield of 5.4%, 17.9% and 13.3%; and expected volatility of 46.7%, 26.5% and 37.3%.

The Company granted 257,298, 73,258 and 547,446 shares for 2001 through 1999, respectively, of restricted shares of Common Stock to certain Key Employees. As holders of restricted stock have all the rights of other stockholders, subject to certain restrictions and forfeiture provisions, such restricted stock is considered to be issued and outstanding. Restrictions on 200,000 shares will expire after six years. The expiration of the restrictions can be accelerated under certain circumstances at the direction of the Compensation Committee of the Board of Directors. Unamortized compensation expense related to Unearned restricted stock of \$663,000, \$2.3 million and \$1.5 million was recorded as of December 31, 2001 through 1999, respectively, based on the market value of the shares on the date issuance and is reflected in Stockholders Equity. Restrictions of the remaining 300,000 shares of restricted stock can be lifted by the Compensation committee based on the achievement of certain performance goals. Compensation expense will be recognized at the point in time that the restrictions are lifted based on the stock price on such date. During 2001, 2000 and 1999, the Company recorded compensation expense of \$524,000, \$1,660,000 and \$3,362,000, respectively, related to the amortization of deferred compensation.

8. Future Minimum Rent

The Company has operating leases with tenants that expire at various dates through 2037 and are either subject to scheduled fixed increases or adjustments based on the Consumer Price Index. Generally, the leases grant tenants renewal options and provide certain potential allowances during the initial lease-up period. Leases also provide for additional or contingent rents based on certain operating expenses as well as tenants

Table of Contents**CENTER TRUST****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

sales volume. Future minimum rent under operating leases on a cash basis, excluding tenant reimbursements of certain costs, as of December 31, 2001 is summarized as follows:

<u>Years Ending December 31,</u>	<u>(In thousands)</u>
2002	\$ 65,369
2003	59,749
2004	53,267
2005	45,994
2006	37,777
Thereafter	158,734
	<hr/>
Total	\$ 420,890
	<hr/>

The Properties are located throughout the western United States. More than one-half of our properties are located in Southern California. As of December 31, 2001, these properties represented approximately 64% of the aggregate square footage of all our properties. The ability of the tenants to honor the terms of their respective leases is dependent upon the economic, regulatory and social factors affecting the communities and industries in which the tenants operate.

9. Fair Value Disclosure of Financial Instruments

The following disclosure of estimated fair value was determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is necessary to interpret market data and develop the related estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized upon disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Billed tenant and other receivables, accounts payable and other liabilities are carried at amounts which reasonably approximate their fair value.

The fixed rate mortgage notes payable totaling \$176,644,000 and \$120,067,000 as of December 31, 2001 and 2000, respectively, have fair values of \$203,288,000 and \$124,063,000, respectively (excluding prepayment penalties) as estimated based upon current interest rates available for the issuance of debt with similar terms and remaining maturities. These notes were subject to estimated prepayment penalties of \$27,175,000 and \$19,107,000 at December 31, 2001 and 2000, respectively, which would be required to retire these notes prior to maturity. The fair value of the outstanding balance on the Credit Facility at December 31, 2001 is equal to its carrying value of \$114,548,000. The carrying value of floating rate tax-exempt certificates of participation and the secured line of credit at December 31, 2001 and 2000 approximates their fair value. The fair market value of the Convertible Debentures at December 31, 2000 was \$128,548,000, based on the trading price of the Series A Convertible Debentures as of December 31, 2000.

The fair value estimates presented herein are based on information available to management as of December 31, 2001 and 2000. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since those dates, and current estimates of fair value may differ significantly from the amounts presented herein.

10. Commitments and Contingencies

Operating Leases The Company leases certain of its Properties under long-term ground leases which are accounted for as operating leases and which generally provide for contingent rents based on the Company's

Table of Contents**CENTER TRUST****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

tenants' sales volume and renewal options. Five leases expire between 2009 and 2018 and provide for options to renew for additional periods of 20 to 25 years. Three additional leases expire between 2047 and 2059. Future minimum rental payments required during noncancelable lease terms as of December 31, 2001 are summarized as follows:

Years Ending December 31,	
	(In thousands)
2002	\$ 996
2003	997
2004	1,000
2005	1,000
2006	1,000
Thereafter	9,507
	<hr/>
Total	\$ 14,500
	<hr/>

Assuming exercise of all renewal options, aggregate future rental payments as of December 31, 2001 are \$32.4 million. Certain of the Company's ground leases contain participation features. Participation rents paid in accordance with such terms were \$101,000, \$88,000, and \$68,000 for the years ended December 31, 2001, 2000, and 1999, respectively.

Litigation The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. While the resolution of these matters cannot be predicted with certainty, management believes, based on currently available information, that the final outcome of such matters will not have a material adverse effect on the financial statements of the Company.

11. Selected Quarterly Financial Data (Unaudited)

The following table sets forth the selected quarterly financial data for the Company for the years ended December 31, 2001 and 2000 (in thousands, except per share data):

	2001 Quarter Ended			
	December 31	September 30	June 30	March 31
Total Operating Revenues	\$23,881	\$23,501	\$23,196	\$24,325
Income (loss) before extraordinary item	\$ 1,451	\$ 915	\$ (5,611)	\$ 1,221
Income from discontinued operations	\$ 392	\$ 351	\$ 433	\$ 419
Net income (loss)	\$ 1,460	\$ 1,266	\$ (5,744)	\$ 821
Basic and diluted income (loss) before extraordinary item and discontinued operations per share	\$ 0.05	\$ 0.04	\$ (0.20)	\$ 0.04
Basic and diluted income from discontinued operations per share	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.02
Basic and diluted income (loss) per share	\$ 0.05	\$ 0.05	\$ (0.21)	\$ 0.03

Table of Contents**CENTER TRUST****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	2000 Quarter Ended			
	December 31	September 30	June 30	March 31
Total Operating Revenues	\$ 32,244	\$ 32,739	\$ 33,056	\$ 33,598
Income before extraordinary item	\$ 3,062	\$ 3,164	\$ 9,869	\$ 4,416
Income from discontinued operations	\$ 158	\$ 227	\$ 223	\$ 168
Net income (loss)	\$(11,841)	\$ 2,802	\$ 10,092	\$ 2,720
Basic and diluted income (loss) before extraordinary item and discontinued operations per share	\$ 0.11	\$ 0.12	\$ 0.36	\$ 0.16
Basic and diluted income from discontinued operations per share	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01
Basic and diluted income (loss) per share	\$ (0.44)	\$ 0.11	\$ 0.38	\$ 0.10

12. Subsequent Events

On March 20, 2002, the Company extended its Credit Facility with GECC that was to expire on April 1, 2002. Under the new terms, the Credit Facility will expire on April 1, 2004 with the option to extend for one additional year. The new agreement reduces the maximum commitment from \$170 million to \$150 million (See Note 4).

On March 20, 2002, the Company declared a dividend of \$0.06 for the first quarter of 2002 to shareholders of record at March 29, 2002 and payable on April 22, 2002.

13. Subsequent Sale of Properties

On January 1, 2002, the Company adopted the provisions of SFAS 144 Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144). SFAS 144 addresses financial accounting and reporting for the disposal of long-lived assets and supersedes FAS 121 Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. In accordance with SFAS 144, the operating results and the net gain on disposition of operating properties sold subsequent to December 31, 2001 must be reflected in the Consolidated Statements of Operations as discontinued operations for all periods presented. The net income and the net gain on dispositions of operating properties sold prior to December 31, 2001 will be included in continuing operations for all periods presented. The adoption of this statement did not have a material effect on the Company's results of operations or financial condition.

During the third quarter of 2002, the Company sold three open-air centers for a combined sales price of \$38.8 million, and recognized a net gain on sale of approximately \$2.7 million. The assets sold included Ross Center, a 135,000 square foot center located in Portland, Oregon, Vancouver Park Place, a 78,000 square foot center located in Vancouver, Washington and Rosedale Village Shopping Center, a 128,000 square foot center located in Bakersfield, California. After repayment of debt of \$19.3 million.

In accordance with the SFAS 144, the operating results and the net gain on disposition of operating properties sold subsequent to December 31, 2001 are reflected in the consolidated statement of operations as discontinued operations for all periods presented. For years ended December 31, 2001, 2000 and 1999, discontinued operations relates to the three open-air centers sold during the third quarter of 2002. In connection with this disposition, the Company repaid approximately \$19.3 million in principal of existing mortgage loans and repaid approximately \$19.5 million of the Credit Facility. The related interest expense was allocated to discontinued operations.

On November 6, 2002, the Company and Pan Pacific Retail Properties, Inc. announced that they have entered into a definitive agreement in which Pan Pacific will acquire Center Trust. The tax-free merger will convert each share of Center Trust common stock into the right to receive 0.218 newly issued shares of Pan Pacific common stock. The transaction has been unanimously approved by each company's board of directors and is expected to be completed in the first quarter of 2003, subject to approval by a two-thirds vote of the Center Trust stockholders and other customary conditions.

Table of Contents**CENTER TRUST****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes the income and expense components that comprise discontinued operations:

	Year Ended December 31,		
	2001	2000	1999
	(in thousands)		
Total revenues	\$5,202	\$5,136	\$4,945
Total expenses	3,607	4,360	3,868
Net income from discontinued operations	1,595	776	1,077
Net gain on disposition of discontinued operations	2,379		
Total income from discontinued operations	\$3,974	\$ 776	\$1,077

Total assets related to the three open-air centers sold during the third quarter of 2002 were \$34.4 million and \$35.2 million as of December 31, 2001 and 2000, respectively. Included in total assets are \$33.5 million and \$34.2 million of rental properties, net of depreciation as of December 31, 2001 and 2000, respectively.

Total liabilities related to the three open-air centers sold during the third quarter of 2002 were \$24.2 million as of December 31, 2001 and 2000 which primarily consists of secured debt.

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PART IV

Item 14. *Exhibits, Financial Statement Schedules, and Reports on Form 8-K*

Exhibit 23.1

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Manhattan Beach, State of California, on the 20th day of November, 2002.

CENTER TRUST, INC.

By: /s/ EDWARD D. FOX

Edward D. Fox
*Chairman of the Board, and
Chief Executive Officer*

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CERTIFICATIONS

I, Edward D. Fox, certify that:

1. I have reviewed this annual report on form 10-K/A of Center Trust, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the Evaluation Date); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 20, 2002

/s/ EDWARD D. FOX

Edward D. Fox
Chairman and Chief Executive Officer

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I, Stuart J. S. Gulland, certify that:

1. I have reviewed this annual report on form 10-K/A of Center Trust, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the Evaluation Date); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 20, 2002

/s/ STUART J. S. GULLAND

Stuart J. S. Gulland
President and Chief Operating Officer

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I, Edward A. Stokx, certify that:

1. I have reviewed this annual report on form 10-K/A of Center Trust, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the Evaluation Date); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 20, 2002

/s/ EDWARD A. STOKX

Edward A. Stokx
Chief Financial Officer