PROLOGIS
Form 10-Q
August 05, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2010

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

For the transition period from __________ to __________

Commission File Number 01-12846

(Exact name of registrant as specified in its charter)

Maryland	**74-2604728**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
4545 Airport Way, Denver, Colorado	**80239**
(Address or principal executive offices)	**(Zip Code)**

(303) 567-5000
(Registrant s telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website; if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter periods that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes o No þ

The number of shares outstanding of the Registrant s common shares as of July 30, 2010 was 476,794,800.

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PART 1.
Item 1. Financial Statements

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

	June 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Real estate	$ 14,953,560	$ 15,215,896
Less accumulated depreciation	1,801,602	1,671,100
	13,151,958	13,544,796
Investments in and advances to unconsolidated investees	2,056,812	2,151,723
Cash and cash equivalents	25,102	34,362
Accounts and notes receivable	153,193	136,754
Other assets	1,011,414	1,017,780
Total assets	**$ 16,398,479**	**$ 16,885,415**
LIABILITIES AND EQUITY		
Liabilities:		
Debt	$ 8,176,178	$ 7,977,778
Accounts payable and accrued expenses	397,685	455,919
Other liabilities	465,250	444,432
Total liabilities	9,039,113	8,878,129
Equity:		
ProLogis shareholders equity:		
Series C Preferred Shares at stated liquidation preference of $50 per share; $0.01 par value; 2,000 shares issued and outstanding at June 30, 2010 and December 31, 2009	100,000	100,000
Series F Preferred Shares at stated liquidation preference of $25 per share; $0.01 par value; 5,000 shares issued and outstanding at June 30, 2010 and December 31, 2009	125,000	125,000
Series G Preferred Shares at stated liquidation preference of $25 per share; $0.01 par value; 5,000 shares issued and outstanding at June 30, 2010 and December 31, 2009	125,000	125,000
Common Shares; $0.01 par value; 476,696 shares issued and outstanding at June 30, 2010 and 474,162 shares issued and outstanding at December 31, 2009	4,767	4,742
Additional paid-in capital	8,566,388	8,524,867
Accumulated other comprehensive income (loss)	(386,546)	42,298
Distributions in excess of net earnings	(1,192,677)	(934,583)

Total ProLogis shareholders equity	7,341,932	7,987,324
Noncontrolling interests	17,434	19,962
Total equity	7,359,366	8,007,286
Total liabilities and equity	**$ 16,398,479**	**$ 16,885,415**

The accompanying notes are an integral part of these Consolidated Financial Statements.

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PROLOGIS
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Revenues:				
Rental income	$ 229,790	$ 224,882	$ 460,018	$ 440,974
Property management and other fees and incentives	28,307	31,774	56,969	65,408
CDFS disposition proceeds				180,237
Development management and other income	2,634	1,823	3,710	4,584
Total revenues	260,731	258,479	520,697	691,203
Expenses:				
Rental expenses	65,274	68,884	132,851	135,600
Investment management expenses	9,931	10,819	20,250	21,395
General and administrative	38,921	41,450	80,927	89,693
Reduction in workforce		6,868		11,330
Impairment of real estate properties	367	84,218	367	84,218
Depreciation and amortization	87,476	76,941	173,675	151,391
Other expenses	4,649	4,584	8,916	11,003
Total expenses	206,618	293,764	416,986	504,630
Operating income (loss)	54,113	(35,285)	103,711	186,573
Other income (expense):				
Earnings (loss) from unconsolidated property funds, net	(44)	17,398	5,850	19,496
Earnings from other unconsolidated investees, net	3,348	1,342	5,427	3,543
Interest expense	(118,920)	(83,049)	(228,899)	(175,981)
Other income (expense), net	(1,370)	859	(1,542)	4,175
Net gains on dispositions of real estate properties	10,959	7,904	22,766	8,792
Foreign currency exchange gains (losses), net	(7,206)	(9,025)	(3,518)	21,512
Gain (loss) on early extinguishment of debt	975	143,280	(46,658)	161,208
Total other income (expense)	(112,258)	78,709	(246,574)	42,745
Earnings (loss) before income taxes	(58,145)	43,424	(142,863)	229,318
Current income tax expense	598	12,577	10,351	34,766
Deferred income tax benefit	(40,847)	(8,771)	(42,398)	(15,599)
Total income taxes	(40,249)	3,806	(32,047)	19,167

Earnings (loss) from continuing operations	(17,896)	39,618	(110,816)	210,151
Discontinued operations:				
Income attributable to disposed properties	327	8,897	592	20,649
Net gain related to disposed assets China operations				3,315
Net gains on dispositions:				
Non-development properties	979	185,521	9,062	185,521
Development properties and land subject to ground leases		11,692	65	11,503
Total discontinued operations	1,306	206,110	9,719	220,988
Consolidated net earnings (loss)	(16,590)	245,728	(101,097)	431,139
Net earnings attributable to noncontrolling interests	(191)	(494)	(444)	(804)
Net earnings (loss) attributable to controlling interests	(16,781)	245,234	(101,541)	430,335
Less preferred share dividends	6,369	6,369	12,738	12,738
Net earnings (loss) attributable to common shares	**$ (23,150)**	**$ 238,865**	**$ (114,279)**	**$ 417,597**
Weighted average common shares outstanding Basic	476,791	406,539	475,898	342,183
Weighted average common shares outstanding Diluted	476,791	409,504	475,898	345,106
Net earnings (loss) per share attributable to common shares Basic:				
Continuing operations	$ (0.05)	$ 0.08	$ (0.26)	$ 0.57
Discontinued operations		0.51	0.02	0.65
Net earnings (loss) per share attributable to common shares Basic	**$ (0.05)**	**$ 0.59**	**$ (0.24)**	**$ 1.22**
Net earnings (loss) per share attributable to common shares Diluted:				
Continuing operations	$ (0.05)	$ 0.08	$ (0.26)	$ 0.57
Discontinued operations		0.50	0.02	0.64
Net earnings (loss) per share attributable to common shares Diluted	**$ (0.05)**	**$ 0.58**	**$ (0.24)**	**$ 1.21**
Distributions per common share	**$ 0.15**	**$ 0.15**	**$ 0.30**	**$ 0.40**

The accompanying notes are an integral part of these Consolidated Financial Statements.

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PROLOGIS
CONSOLIDATED STATEMENT OF EQUITY
Six Months Ended June 30, 2010
(Unaudited)
(In thousands)

	Preferred Shares	Common Shares Number of Shares	Common Shares Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Net Earnings	Non-controlling Interests	Total Equity
Balance as of January 1, 2010	$ 350,000	474,162	$ 4,742	$ 8,524,867	$ 42,298	$ (934,583)	$ 19,962	$ 8,007,286
Consolidated net earnings (loss)						(101,541)	444	(101,097)
Issuances of common shares under common share plans, net of issuance costs		2,484	25	26,602				26,627
Conversions of noncontrolling interests, net		50		318			(318)	
Foreign currency translation losses, net					(409,567)		(2,302)	(411,869)
Unrealized losses and amortization on derivative contracts, net					(19,277)			(19,277)
Cost of share-based compensation awards				14,601				14,601
Distributions						(156,553)	(352)	(156,905)
Balance as of June 30, 2010	**$ 350,000**	**476,696**	**$ 4,767**	**$ 8,566,388**	**$ (386,546)**	**$ (1,192,677)**	**$ 17,434**	**$ 7,359,366**

PROLOGIS
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(In thousands)

Six Months Ended

	June 30, 2010	June 30, 2009
Net earnings (loss) attributable to controlling interests	$ (101,541)	$ 430,335
Other comprehensive income (loss):		
Foreign currency translation losses, net	(409,567)	(67,198)
Unrealized gains (losses) and amortization on derivative contracts, net	(19,277)	12,517
Comprehensive income (loss) attributable to common shares	**$ (530,385)**	**$ 375,654**

The accompanying notes are an integral part of these Consolidated Financial Statements.

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

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Operating activities:		
Net earnings (loss) attributable to controlling interests	$ (101,541)	$ 430,335
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Noncontrolling interest share in earnings, net	444	948
Straight-lined rents	(21,511)	(19,372)
Cost of share-based compensation awards	11,909	12,901
Depreciation and amortization	173,802	161,893
Equity in earnings from unconsolidated investees	(11,277)	(23,841)
Changes in operating receivables and distributions from unconsolidated investees	53,525	32,286
Amortization of deferred loan costs	13,917	6,249
Amortization of debt discount, net	27,532	35,343
Impairment of real estate properties	367	84,218
Gains on dispositions of assets included in discontinued operations	(9,127)	(200,339)
Gains recognized on disposition of investments in Japan property funds		(180,237)
Gains recognized on property dispositions, net	(22,766)	(8,792)
Loss (gain) on early extinguishment of debt	46,658	(161,208)
Unrealized foreign currency exchange losses (gains), net	4,229	(43,837)
Deferred income tax benefit	(42,398)	(15,611)
Decrease in accounts and notes receivable and other assets	32,689	70,492
Decrease in accounts payable and accrued expenses and other liabilities	(57,322)	(40,470)
Net cash provided by operating activities	99,130	140,958
Investing activities:		
Real estate investments	(252,166)	(853,039)
Tenant improvements and lease commissions on previously leased space	(22,781)	(24,533)
Non-development capital expenditures	(11,836)	(8,210)
Investments in and net advances to unconsolidated investees	(137,731)	(103,833)
Proceeds from disposition of investments in Japan property funds		500,000
Return of investment from unconsolidated investees	41,644	32,119
Proceeds from dispositions of real estate assets China operations		845,468
Proceeds from dispositions of real estate assets	260,026	959,914
Proceeds from repayment of notes receivable	388	8,222
Net cash (used in) provided by investing activities	(122,456)	1,356,108
Financing activities:		
Proceeds from sales and issuances of common shares	28,714	1,155,536

Distributions paid on common shares	(143,815)	(133,292)
Dividends paid on preferred shares	(12,708)	(12,708)
Noncontrolling interest distributions, net	(352)	(685)
Debt and equity issuance costs paid	(25,270)	(47,567)
Net payments on credit facilities	(275,508)	(2,250,295)
Repurchase of senior and convertible senior notes and extinguishment of secured mortgage debt	(1,190,463)	(640,167)
Proceeds from issuance of senior and convertible senior notes and secured mortgage debt	1,686,388	390,952
Payments on senior notes, secured mortgage debt and assessment bonds	(50,439)	(56,245)
Net cash provided by (used in) financing activities	16,547	(1,594,471)
Effect of foreign currency exchange rate changes on cash	(2,481)	(3,048)
Net decrease in cash and cash equivalents	(9,260)	(100,453)
Cash and cash equivalents, beginning of period	34,362	174,636
Cash and cash equivalents, end of period	**$ 25,102**	**$ 74,183**

See Note 12 for information on non-cash investing and financing activities and other information.

The accompanying notes are an integral part of these Consolidated Financial Statements.

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PROLOGIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General

Business. ProLogis, collectively with our consolidated subsidiaries (we , our , us , the Company or ProLogis), is a publicly held real estate investment trust (REIT) that owns, operates and develops (directly and through our unconsolidated investees) primarily industrial properties in North America, Europe and Asia. Our current business strategy includes two reportable business segments: direct owned and investment management. Our direct owned segment represents the direct long-term ownership of industrial and retail properties. Our investment management segment represents the long-term investment management of property funds and other unconsolidated investees, and the properties they own. See Note 11 for further discussion of our business segments.

Basis of Presentation. The accompanying consolidated financial statements, presented in the U.S. dollar, are prepared in accordance with U.S. generally accepted accounting principles (GAAP). GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the financial statements and revenue and expenses during the reporting period. Our actual results could differ from those estimates and assumptions. All material intercompany transactions with consolidated entities have been eliminated.

The accompanying unaudited interim financial information has been prepared according to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted in accordance with such rules and regulations. Our management believes that the disclosures presented in these financial statements are adequate to make the information presented not misleading. In our opinion, all adjustments and eliminations, consisting only of normal recurring adjustments, necessary to present fairly our financial position as of June 30, 2010, our results of operations for the three and six months ended June 30, 2010 and 2009, and our cash flows for the six months ended June 30, 2010 and 2009 have been included. We have evaluated all subsequent events for adjustment to or disclosure in these financial statements through the issuance of these financial statements. The results of operations for such interim periods are not necessarily indicative of the results for the full year. The accompanying unaudited interim financial information should be read in conjunction with our December 31, 2009 Consolidated Financial Statements, as filed with the SEC in our Annual Report on Form 10-K.

Certain amounts included in the accompanying Consolidated Financial Statements for 2009 have been reclassified to conform to the 2010 financial statement presentation.

Recent Accounting Pronouncements. In June 2009, the Financial Accounting Standards Board (FASB) issued a new accounting standard that was effective on January 1, 2010. This accounting standard is a revision to a previous FASB interpretation and changes how a reporting entity evaluates whether an entity is a variable interest entity (VIE) and which entity is considered the primary beneficiary of a VIE and is therefore required to consolidate such VIE. This accounting standard also requires ongoing assessments at each reporting period of which party within the VIE is considered the primary beneficiary and additional disclosures related to VIE s. The adoption of this standard on January 1, 2010 did not have a material impact on our financial position or results of operations.

2. Sale of China Operations and Property Fund Interest in Japan

On February 9, 2009, we sold our operations in China and our property fund interests in Japan to affiliates of GIC Real Estate, the real estate investment company of the Government of Singapore Investment Corporation, for total cash consideration of $1.3 billion ($845.5 million related to China and $500.0 million related to the Japan investments). We used the proceeds primarily to pay down borrowings on our credit facilities.

At December 31, 2008, we recognized an impairment charge based on the carrying values of the net assets of the China operations, as compared with the estimated sales proceeds less costs to sell. In connection with the sale in the first quarter of 2009, we recognized a $3.3 million gain.

In connection with the sale of our investments in the Japan property funds in the first quarter of 2009, we recognized a net gain of $180.2 million. The gain is reflected as *CDFS Disposition Proceeds* in our Consolidated Statements of Operations, as it represents the recognition of previously deferred gains on the contribution of properties to these property funds based on our ownership interest in the property funds at the time of original contribution. We also recognized $20.5 million in current income tax expense related to a portion of the transaction.

PROLOGIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Unaudited)

3. Real Estate

Real estate assets are presented at cost, and consist of the following (in thousands):

	June 30, 2010	December 31, 2009
Industrial properties (1):		
Improved land	$ 2,608,987	$ 2,625,885
Buildings and improvements	8,879,496	8,919,616
Retail and office properties (2):		
Improved land	76,239	76,239
Buildings and improvements	227,189	226,599
Properties under development, including cost of land (3)	199,434	191,127
Land held for development (4)	2,282,223	2,569,343
Land subject to ground leases and other	430,349	373,422
Other investments (5)	249,643	233,665
Total real estate assets	14,953,560	15,215,896
Less accumulated depreciation	1,801,602	1,671,100
Net real estate assets	**$ 13,151,958**	**$ 13,544,796**

(1) At June 30, 2010 and December 31, 2009, we had 1,187 and 1,188 industrial properties consisting of 192.7 million square feet and 191.6 million square feet, respectively. This includes operating properties we developed that we refer to as our completed development properties.

(2)

At both June 30, 2010 and December 31, 2009, we had 27 retail properties consisting of 1.0 million square feet. We also owned two office properties with an aggregate cost of $39.3 million and $39.1 million at June 30, 2010 and December 31, 2009, respectively.

(3) Properties under development consisted of 9 properties aggregating 4.5 million square feet at June 30, 2010 and 5 properties aggregating 2.9 million square feet at December 31, 2009. Our total expected investment upon completion of the properties under development at June 30, 2010 was $459.8 million, including land, development and leasing costs.

(4) Land held for development

consisted of 10,101 acres and 10,360 acres at June 30, 2010 and December 31, 2009, respectively and includes land parcels that we may develop or sell depending on market conditions and other factors.

(5) Other investments may include: (i) restricted funds that are held in escrow pending the completion of tax-deferred exchange transactions involving operating properties; (ii) certain infrastructure costs related to projects we are developing on behalf of others; (iii) costs incurred related to future development projects, including purchase options on land; (iv) costs related to our corporate office buildings, which we occupy; and (v) earnest money deposits

associated with potential acquisitions.

At June 30, 2010, we owned real estate assets in North America (Canada, Mexico and the United States), Europe (Austria, Belgium, the Czech Republic, France, Germany, Hungary, Italy, the Netherlands, Poland, Romania, Slovakia, Spain, Sweden and the United Kingdom) and Asia (Japan and South Korea).

During the six months ended June 30, 2010, we recognized net gains of $22.8 million, which related to the contribution of land and operating properties to unconsolidated investees ($19.1 million gain) and the sale of land parcels to third parties ($3.7 million gain).

The contribution activity resulted in cash proceeds of $150.1 million related to one development property aggregating 0.6 million square feet contributed to ProLogis European Properties Fund II, the sale of 90% of one development property in Japan with 0.5 million square feet and the contribution of one development property aggregating 0.3 million square feet to ProLogis North American Industrial Properties Fund. We continue to own 10% of the Japan property, which is accounted for under the equity method of accounting, and we continue to manage the property. We also received cash proceeds of $34.6 million related to the contribution of 41 acres of land to ProLogis European Properties Fund II on which we will develop an 0.8 million square foot building on behalf of the property fund and earn development fees.

During the first quarter of 2010, we received proceeds of $13.2 million, which represented the development costs we incurred relating to the sale of a building in Japan to a third party. As we have a purchase option on this building, we recorded a liability for the cash received and did not recognize a sale for accounting purposes.

If we realize a gain on contribution of a property, we recognize the portion attributable to the third party ownership in the property or the property fund until the property is sold to a third party. If we realize a loss on contribution, we recognize the full amount of the impairment as soon as it is known. Due to our continuing involvement through our ownership in the property fund or, in the case of the Japan property, the property itself, these dispositions are not included in discontinued operations. See Note 5 for further discussion of properties we sold to third parties that are reported in discontinued operations.

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PROLOGIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Unaudited)

On June 4, 2010, we acquired six properties aggregating 1.0 million square feet with a combined purchase price of $60.4 million, which was allocated to real estate and other assets.

During the second quarter of 2009, we recorded impairment charges of $84.2 million related primarily to completed development properties in Europe and Mexico that we expected to contribute to unconsolidated property funds. The charges represented the difference between the estimated proceeds from disposition and our cost basis and were due to our intent at that time to contribute these properties. Some of the properties have been contributed, with the remainder now being held for long term investment, net of the impairment.

Changes in economic and operating conditions and our ultimate investment intent with regard to our investments in land and operating properties that occur in the future may result in additional impairment charges.

4. Unconsolidated Investees

Summary of Investments

Our investments in and advances to unconsolidated investees, which we account for under the equity method, are summarized by type of investee as follows (in thousands):

	June 30, 2010	December 31, 2009
Property funds	$ 1,776,646	$ 1,876,650
Other investees	280,166	275,073
Totals	**$ 2,056,812**	**$ 2,151,723**

Property Funds

We have investments in several property funds that own portfolios of operating industrial properties. Many of these properties were originally developed by us and contributed to these property funds, although certain of the property funds have also acquired properties from third parties. When we contribute a property to a property fund, we may receive ownership interests as part of the proceeds generated by the contribution. We earn fees for acting as manager of the property funds and the properties they own. We may earn additional fees by providing other services including, but not limited to, acquisition, development, construction management, leasing and financing activities. We may also earn incentive performance returns based on the investors returns over a specified period.

Summarized information regarding our investments in the property funds is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Earnings (loss) from unconsolidated property funds:				
North America	$ (5,385)	$ 9,495	$ (8,199)	$ 953
Europe	5,134	7,201	13,663	15,075
Asia	207	702	386	3,468
Total earnings (loss) from unconsolidated property funds, net	**$ (44)**	**$ 17,398**	**$ 5,850**	**$ 19,496**

Property management and other fees and incentives:

North America	$ 14,712	$ 15,325	$ 29,088	$ 30,795
Europe	12,372	12,282	25,267	24,732
Asia	187	332	376	2,175
Total property management and other fees and incentives	**$ 27,271**	**$ 27,939**	**$ 54,731**	**$ 57,702**

We also earned property management fees from joint ventures and other entities of $1.0 million and $2.2 million during the three and six months ended June 30, 2010 and $3.8 million and $7.7 million during the three and six months ended June 30, 2009, respectively.

Information about our investments in the property funds is as follows (dollars in thousands):

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PROLOGIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Unaudited)

Property Fund (1)	Ownership Percentage June 30, 2010	Ownership Percentage December 31, 2009	Investment in and Advances to June 30, 2010	Investment in and Advances to December 31, 2009
ProLogis California	50.0%	50.0%	$ 94,230	$ 94,498
ProLogis North American Properties Fund I	41.3%	41.3%	18,248	21,295
ProLogis North American Properties Fund VI	20.0%	20.0%	33,355	34,424
ProLogis North American Properties Fund VII	20.0%	20.0%	31,925	32,289
ProLogis North American Properties Fund VIII	20.0%	20.0%	11,810	12,283
ProLogis North American Properties Fund XI	20.0%	20.0%	23,618	22,115
ProLogis North American Industrial Fund	23.1%	23.0%	240,708	241,988
ProLogis North American Industrial Fund II	37.0%	37.0%	316,395	336,511
ProLogis North American Industrial Fund III	20.0%	20.0%	137,292	140,047
ProLogis Mexico Industrial Fund	24.2%	24.2%	70,476	74,754
ProLogis European Properties (PEPR) (2)	33.1%	24.8%	455,015	383,389
ProLogis European Properties Fund II (PEPF II)	31.8%	32.1%	323,193	461,631
ProLogis Korea Fund	20.0%	20.0%	20,381	21,426
Totals			**$ 1,776,646**	**$ 1,876,650**

(1) During the fourth quarter of 2009, we recognized an impairment charge that represented the entire carrying value of our investments in ProLogis North American Properties Funds IX and X after events indicated that we may not be able to recover our investment. We do not have any material financial exposure related

to our investments in these property funds. As a result, we are no longer recognizing our share of the earnings or loss generated by these property funds and we have not included these property funds in our disclosures beginning January 1, 2010. During the second quarter of 2010, ProLogis North American Properties Fund IX conveyed all its properties to its lender with no additional loss to us.

(2) Included in our investment balance are 7.0 million preferred units in PEPR with an annual 10.5% dividend. The preferred units are convertible into common units at a rate of one for one at our option. PEPR has the option to redeem the units on, or after, December 2016 or in certain limited circumstances. During the first

quarter of 2010, we purchased 15.8 million additional common units of PEPR for 80.4 million ($109.2 million).

Certain property funds have equity commitments from us and our fund partners. We may fulfill our equity commitment through contributions of properties or cash, or the commitments may expire unused. Our fund partners fulfill their equity commitment with cash.

The following table outlines the activity of these commitments in 2010 (in millions):

	NAIF (1)		**Mexico (2)**		**PEPF II (3)**		
	ProLogis	**Fund Partners**	**ProLogis**	**Fund Partners**	**ProLogis Series A**	**ProLogis Series B**	**Fund Partners Series B**
Remaining equity commitments at December 31, 2009	$ 18.4	$ 37.5	$ 44.3	$ 246.7	295.9	163.7	515.8
Capital called	(5.4)	(17.8)				(18.7)	(59.0)
Expiration of commitments	(13.0)	(19.7)					
Remaining equity commitments at June 30, 2010 (local currency)	**$**	**$**	**$ 44.3**	**$ 246.7**	**295.9**	**145.0**	**456.8**
Remaining equity commitments at June 30, 2010 (in U.S. dollars)	**$**	**$**	**$ 44.3**	**$ 246.7**	**$ 363.3**	**$ 178.0**	**$ 560.8**

(1) In the first quarter of 2010, the ProLogis North American Industrial Fund called $23.2 million of capital to acquire one property from us and to repay debt. The remaining equity

commitments expired at the end of February 2010.

(2) On August 2, 2010, ProLogis Mexico Industrial Fund called capital of $75 million to repay $19.6 million in amounts owed to us and $55.0 million of secured mortgage debt. Our portion of the contribution was $1.1 million. In connection with the call, we reduced our ownership in the property fund to 20%. The remaining commitments will expire unused on August 17, 2010.

(3) PEPF II s equity commitments are denominated in euro. Our commitments include a commitment on the Series B units that we are required to fund with cash. During the second quarter of 2010, we contributed 41 acres of land

and one completed development property to PEPF II for gross proceeds of $73.5 million and PEPF II acquired a property from a third party. These acquisitions were financed by PEPF II with all equity, including our co-investment of $23.4 million in cash under this commitment. We did not make any contributions in 2010 or 2009 under the Series A commitment.

On July 30, 2010, PEPF II called capital of 282 million under the Series B commitment. The funds will be used to acquire properties from us and third parties, fund development costs and pay down debt. Our share is approximately $89 million. The remaining capital commitments will expire

unused on
August 16,
2010.

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Summarized financial information of the property funds (for the entire entity, not our proportionate share) and our investment in such funds is presented below (dollars in millions):

2010	North America	Europe	Asia	Total
For the three months ended June 30, 2010:				
Revenues	$ 199.3	$ 169.5	$ 2.8	$ 371.6
Net earnings (loss) (1)	$ (33.2)	$ 6.7	$ 1.0	$ (25.5)
For the six months ended June 30, 2010:				
Revenues	$ 401.1	$ 356.2	$ 5.7	$ 763.0
Net earnings (loss) (1)	$ (57.3)	$ 23.2	$ 1.9	$ (32.2)
As of June 30, 2010:				
Total assets	$9,182.6	$7,618.1	$141.8	$16,942.5
Amounts due to us (2)	$ 52.4	$ 3.0	$ 0.2	$ 55.6
Third party debt (3)	$5,067.3	$3,412.2	$ 45.6	$ 8,525.1
Total liabilities	$5,365.5	$4,131.1	$ 48.9	$ 9,545.5
Noncontrolling interest	$ 12.0	$ 10.5	$	$ 22.5
Fund partners equity	$3,805.1	$3,476.5	$ 92.9	$ 7,374.5
Our weighted average ownership (4)	27.8%	32.4%	20.0%	29.8%
Our investment balance (5)	$ 978.0	$ 778.2	$ 20.4	$ 1,776.6
Deferred gains, net of amortization (6)	$ 240.0	$ 299.3	$	$ 539.3

2009	North America	Europe	Asia	Total
For the three months ended June 30, 2009:				
Revenues	$ 217.7	$ 177.9	$ 2.7	$ 398.3
Net earnings (loss) (1)	$ 13.4	$ 17.9	$ 3.5	$ 34.8
For the six months ended June 30, 2009:				
Revenues	$ 436.5	$ 344.5	$ 35.6	$ 816.6
Net earnings (loss) (1)	$ (18.7)	$ 36.7	$ 14.5	$ 32.5
As of December 31, 2009:				
Total assets	$9,700.0	$8,807.5	$150.6	$18,658.1
Amounts due to us (2)	$ 50.0	$ 31.2	$	$ 81.2
Third party debt (3)	$5,340.3	$3,948.8	$ 48.1	$ 9,337.2
Total liabilities	$5,647.5	$4,773.8	$ 51.6	$10,472.9
Noncontrolling interest	$ 10.7	$ 15.8	$	$ 26.5
Fund partners equity	$4,041.6	$4,017.9	$ 99.1	$ 8,158.6
Our weighted average ownership (4)	27.6%	28.5%	20.0%	27.9%
Our investment balance (5)	$1,010.2	$ 845.1	$ 21.4	$ 1,876.7
Deferred gains, net of amortization (6)	$ 243.1	$ 297.4	$	$ 540.5

(1) One of the North America

property funds is a party to interest rate forward swap contracts that, beginning in the first quarter of 2009, no longer met the requirements for hedge accounting and, therefore, the change in fair value of these contracts was recognized in earnings, along with the gain or loss upon settlement. As a result, included in net earnings (loss) from North America are net losses of $6.7 million and $11.9 million for the three and six months ended June 30, 2010, respectively, and net gains of $14.8 million and net losses $11.6 million for the three and six months ended June 30, 2009, respectively. Also included in net earnings (loss) in North America is a loss of $12.4 million for both the three and six months ended

June 30, 2010 due to the impairment on an operating building in one of the property funds.

(2) As of June 30, 2010 and December 31, 2009, we had notes receivable aggregating $22.2 million and $22.6 million, respectively, from ProLogis North American Industrial Fund III and $14.3 million from ProLogis Mexico Industrial Fund for both periods. The remaining amounts represent current balances from services provided by us to the property funds. On July 23, 2010, we purchased an $81.0 million loan to ProLogis North American Industrial Fund II from the lender. The loan bears interest at 8%, matures in April 2015 and is secured by 13 buildings in the property fund.

(3)

As of June 30, 2010 and December 31, 2009, we had not guaranteed any of the third party debt of the property funds. We have pledged direct owned properties, valued at approximately $275 million, to serve as additional collateral for the secured mortgage loan of ProLogis North American Industrial Fund II payable to an affiliate of our fund partner and for the related interest rate swap contract.

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(4) Represents our weighted average ownership interest in all property funds based on each entity s contribution to total assets, before depreciation, net of other liabilities.

(5) The difference between our ownership interest of the property fund s equity and our investment balance results principally from three types of transactions: (i) deferring a portion of the gains we recognize from a contribution of one of our properties to a property fund (see next footnote); (ii) recording additional costs associated with our investment in the property fund; and (iii) advances to the property fund.

(6) This amount is recorded as a reduction to our investment and represents the gains that were deferred when we contributed a property to a property fund due to our continuing ownership in the property.

Other unconsolidated investees

We have investments in entities that develop and own industrial and retail properties, perform land and mixed-use development activity, own a hotel and own office properties. The amounts we have recognized as our proportionate share of the earnings from our investments in these entities are summarized as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
North America	$ 2,359	$ 604	$ 3,901	$ 2,588
Europe	856	738	1,359	955
Asia	133		167	
Total earnings from other unconsolidated investees	$ 3,348	$ 1,342	$ 5,427	$ 3,543

Our investments in and advances to these entities are as follows (in thousands):

	June 30, 2010	**December 31, 2009**
North America	$ 146,756	$ 148,137
Europe	76,359	96,191
Asia	57,051	30,745
Total	**$ 280,166**	**$ 275,073**

5. Discontinued Operations

The operations of the properties held for sale or disposed of to third parties and the aggregate net gains recognized upon their disposition are presented as *Discontinued Operations* in our Consolidated Statements of Operations for all periods presented, unless the property was developed under a pre-sale agreement. Interest expense is included in discontinued operations only if it is directly attributable to these operations or properties.

We had no properties classified as held for sale at June 30, 2010 or December 31, 2009.

During the first six months of 2010, we disposed of 9 properties to third parties aggregating 0.7 million square feet, none of which were development properties. During all of 2009, other than our China operations, we disposed of land subject to ground leases and 140 properties aggregating 14.8 million square feet to third parties, 3 of which were development properties.

Discontinued operations are summarized as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Rental income	$ 459	$ 18,038	$ 1,149	$ 45,481
Rental expenses	(121)	(5,101)	(430)	(13,754)
Depreciation and amortization	(11)	(4,040)	(127)	(10,502)
Other expenses, net				(576)
Income attributable to disposed properties	327	8,897	592	20,649
Net gain related to disposed assets China operations				3,315
Net gains recognized on property dispositions	979	197,213	9,127	197,024
Total discontinued operations	**$ 1,306**	**$ 206,110**	**$ 9,719**	**$ 220,988**

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PROLOGIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Unaudited)

The following information relates to properties disposed of during the periods presented and recorded as discontinued operations, excluding the China operations and including minor adjustments to previous dispositions (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Number of properties	1	125	9	125
Net proceeds from dispositions	$3,753	$666,806	$17,441	$666,806
Net gains from dispositions	$ 979	$197,213	$ 9,127	$197,024

6. Debt

Our debt consisted of the following (dollars in thousands):

	June 30, 2010		December 31, 2009	
	Weighted Average Interest Rate	Amount Outstanding	Weighted Average Interest Rate	Amount Outstanding
Credit Facilities (Global Line)	2.42%	$ 433,924	2.27%	$ 736,591
Senior and other notes	6.47%	4,675,083	6.31%	4,047,905
Convertible senior notes (1)	5.02%	1,884,550	5.55%	2,078,441
Secured mortgage debt	6.06%	1,158,808	6.40%	1,090,126
Assessment bonds	6.47%	23,813	6.49%	24,715
Totals	**5.86%**	**$ 8,176,178**	**5.75%**	**$ 7,977,778**

(1) The interest rates presented represent the effective interest rates (including amortization of the non-cash discount related to these notes). The weighted average coupon interest rate was 2.5% as of June 30, 2010 and 2.2% as of December 31,

2009.

As of June 30, 2010, we were in compliance with all of our debt covenants.

During the three and six months ended June 30, 2010 and 2009, in connection with our announced initiatives to stagger and extend our debt maturities and reduce debt, we repurchased portions of several series of senior and convertible senior notes outstanding with maturities in 2012 and 2013. In addition, in the first quarter of 2010 we repaid certain secured mortgage debt in connection with the sale of a property in Japan. The repurchase activity is summarized as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Convertible Senior Notes (1):				
Original principal amount	$249,603	$473,057	$ 739,642	$521,257
Cash purchase price	$229,328	$313,256	$ 694,422	$338,077
Senior Notes:				
Original principal amount	$	$343,192	$ 422,476	$343,192
Cash purchase price	$	$302,090	$ 449,382	$302,090
Secured Mortgage Debt:				
Original principal amount	$	$	$ 45,140	$
Cash repayment price	$	$	$ 46,659	$
Total:				
Original principal amount	**$249,603**	**$816,249**	**$1,207,258**	**$864,449**
Cash purchase / repayment price	**$229,328**	**$615,346**	**$1,190,463**	**$640,167**
Gain (loss) on early extinguishment of debt (2)	**$ 975**	**$143,280**	**$ (46,658)**	**$161,208**

(1) Although the cash purchase price is less than the principal amount outstanding, the repurchase of these notes resulted in a non-cash loss of $15.2 million in the first quarter of 2010 due to the non-cash discount.

(2) Represents the difference between the recorded debt (net of premiums and discounts and

including unamortized related debt issuance costs) and the consideration we paid to retire the debt, which may include prepayment penalties and costs.

Global Line

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Information related to our Global Line as of June 30, 2010 is as follows (dollars in millions):

Aggregate lender commitments	$ 2,210.1
Less:	
Borrowings outstanding	433.9
Outstanding letters of credit	98.1
Current availability	**$ 1,678.1**

On June 30, 2010, we amended our Global Line to reduce the size of the aggregate commitments to approximately $2.25 billion (subject to currency fluctuations), by eliminating the Korean won and Canadian dollar tranches and reducing the euro and Japanese yen tranches. In addition to reducing the commitments, among other amended items, we eliminated the borrowing base covenant and replaced it with a debt yield covenant that requires us to maintain a ratio of net operating income from certain unencumbered properties to certain specified debt.

We may draw funds from a syndicate of banks in U.S. dollars, euros, Japanese yen and British pound sterling and Canadian dollars under the U.S. tranche. Based on our public debt ratings and a pricing grid, interest on the borrowings under the Global Line accrues at a variable rate based upon the interbank offered rate in each respective jurisdiction in which the borrowings are outstanding (2.42% per annum at June 30, 2010 based on a weighted average using local currency rates). The facility matures on August 12, 2012.

Senior and Other Notes

On March 16, 2010, we issued $1.1 billion of senior notes, consisting of $300.0 million at 6.25% maturing in 2017, at 99.637% of par value for an all-in-rate of 6.315% and $800.0 million at 6.875% maturing in 2020, at 99.765% of par value for an all-in-rate of 6.908%. The proceeds were used to repay borrowings under our Global Line.

2010 Convertible Notes

On March 16, 2010, we issued $460.0 million of 3.25% convertible notes maturing in 2015 (2010 Convertible Notes). The 2010 Convertible Notes are convertible at any time by holders at an initial conversion rate of 57.8503 shares per $1,000 principal amount of notes, equivalent to an initial conversion price of approximately $17.29 per share, subject to adjustment upon the occurrence of certain events. The holders of the notes have the right to require us to repurchase their notes for cash at any time on or prior to the maturity date upon a change in control or a termination of trading (each as defined in the notes). Due to the terms of the 2010 Convertible Notes, including that a conversion must be settled in common shares, the accounting for these notes is different than our previously issued convertible notes discussed below. The 2010 Convertible Notes are reflected at the issuance amount and interest is recognized based on the stated coupon rate and the amortization of the cash discount. The conversion of these notes into shares, and the corresponding adjustment to interest expense, are included in our computation of diluted earnings per share, unless the impact is anti-dilutive. During the three and six months ended June 30, 2010, the impact of these notes was anti-dilutive.

2007 and 2008 Convertible Notes

We also issued three series of convertible senior notes in 2007 and 2008 and refer to them collectively as 2007 and 2008 Convertible Notes. The 2007 and 2008 Convertible Notes have different terms and, therefore, different accounting than the 2010 Convertible Notes. The value assigned to the debt component of the 2007 and 2008 Convertible Notes is the estimated fair value at the date of issuance of a similar bond without the conversion feature, which results in the debt being recorded at a discount. The resulting debt discount is amortized over the estimated remaining life of the debt (the first cash redemption date in 2012 and 2013) as additional non-cash interest expense.

Secured Mortgage Debt

In 2010, we issued three TMK bonds (i) ¥8.1 billion ($86.7 million) at 2.13% due March 2013 (ii) ¥3.4 billion ($36.7 million) at 3.28% due April 2015 and (iii) ¥300 million ($3.3 million) at 2.19% due June 2013 on three properties with an aggregated undepreciated cost of $350.1 million at June 30, 2010. TMK bonds are a financing vehicle in Japan for special purpose companies known as TMKs.

Long-Term Debt Maturities

Principal payments due on our debt, excluding the Global Line, for the remainder of 2010 and for each of the years in the five-year period ending December 31, 2015 and thereafter are as follows (in thousands):

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2010 (1)	$ 198,860
2011 (1)	169,364
2012 (2)	1,024,891
2013 (2) (3)	915,481
2014	513,671
2015	1,049,530
Thereafter	3,966,162
Total principal due	7,837,959
Less: discount, net	95,705