PROLOGIS
Form 10-K
February 26, 2010

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

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2009

OR

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 1-12846

(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, CO 80239
(Address of principal executive offices and zip code)

(303) 567-5000

(Registrant s telephone number, including area code)

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

Title of Each Class	Name of each exchange on which registered
Common Shares of Beneficial Interest, par value $0.01 per share	New York Stock Exchange
Series F Cumulative Redeemable Preferred Shares of Beneficial Interest, par value $0.01 per share	New York Stock Exchange

Series G Cumulative Redeemable Preferred Shares of Beneficial Interest par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **NONE**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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)	þ Large accelerated filer	o Accelerated filer
	o Non-accelerated filer (do not check if a smaller reporting company)	o Smaller reporting company

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

Based on the closing price of the registrant s shares on June 30, 2009, the aggregate market value of the voting common equity held by non-affiliates of the registrant was $3,563,239,800.

At February 19, 2010, there were outstanding approximately 474,204,900 common shares of beneficial interest of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement for the 2010 annual meeting of its shareholders are incorporated by reference in Part III of this report.

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PART IV

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Certain statements contained in this discussion or elsewhere in this report may be deemed forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Words and phrases such as expects , anticipates , intends , plans , believes , seeks , estimates , designed to achieve , variations of such words and similar expressio intended to identify such forward-looking statements, which generally are not historical in nature. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future including statements relating to rent and occupancy growth, development activity and changes in sales or contribution volume or profitability of developed properties, economic and market conditions in the geographic areas where we operate and the availability of capital in existing or new property funds are forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Although we believe the expectations reflected in any forward-looking statements are based on reasonable assumptions, we can give no assurance that our expectations will be attained and therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Many of the factors that may affect outcomes and results are beyond our ability to control. For further discussion of these factors see Item 1A Risk Factors in this annual report on Form 10-K. All references to we , us and our refer to ProLogis an our consolidated subsidiaries.

PART I

ITEM 1. Business

ProLogis is a leading global provider of industrial distribution facilities. We are a Maryland real estate investment trust (REIT) and have elected to be taxed as such under the Internal Revenue Code of 1986, as amended (the Code). Our world headquarters is located in Denver, Colorado. Our European headquarters is located in the Grand Duchy of Luxembourg with our European customer service headquarters located in Amsterdam, the Netherlands. Our primary office in Asia is located in Tokyo, Japan.

Our Internet website address is www.prologis.com. All reports required to be filed with the Securities and Exchange Commission (the SEC) are available or may be accessed free of charge through the Investor Relations section of our Internet website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our Internet website and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K. Our common shares trade under the ticker symbol PLD on the New York Stock Exchange (NYSE).

We were formed in 1991, primarily as a long-term owner of industrial distribution space operating in the United States. Over time, our business strategy evolved to include the development of properties for contribution to property funds in which we maintain an ownership interest and the management of those property funds and the properties they own. Originally, we sought to differentiate ourselves from our competition by focusing on our corporate customers distribution space requirements on a national, regional and local basis and providing customers with consistent levels of service throughout the United States. However, as our customers needs expanded to markets outside the United States, so did our portfolio and our management team. Today, we are an international real estate company with operations in North America, Europe and Asia. Our business strategy is to integrate international scope and expertise with a strong local presence in our markets, thereby becoming an attractive choice for our targeted customer base, the largest global users of distribution space, while achieving long-term sustainable growth in cash flow.

Industrial distribution facilities are a crucial link in the modern supply chain, and they serve three primary purposes for supply-chain participants: (i) support accurate and seamless flow of goods to their appointed destinations; (ii) function as processing centers for goods; and (iii) enable companies to store enough inventory to meet surges in demand and to cushion themselves from the impact of a break in the supply chain.

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At December 31, 2009, our total portfolio of properties owned, managed, and under development includes direct-owned properties and properties owned by property funds and joint ventures that we manage. These properties are located in North America, Europe and Asia and are broken down as follows:

	Number of Properties	Square Feet (in thousands)	Investment (in thousands)
Total owned, managed and under development:			
Industrial properties:			
Operating properties	1,188	191,623	$ 11,545,501
Properties under development	5	2,930	191,127
Retail and mixed use properties	29	1,150	291,038
Land held for development	n/a	n/a	2,569,343
Other real estate investments	n/a	n/a	618,887
Total	1,222	195,703	15,215,896
Investment management-industrial properties(1)	1,379	284,262	19,913,874
Total properties owned and under management	2,601	479,965	$ 35,129,770

(1) Amounts represent the entity s investment in the operating property, not our proportionate share.

Business Strategy

In late 2008, we modified our business strategy to adjust to the global financial market and economic disruptions. This new strategy entailed limiting our development activities to conserve capital and focus on strengthening our balance sheet.

Narrowing our focus allowed us to work on specific goals we set forth for 2009, which were to:

- reduce debt by $2.0 billion;
- recast our global line of credit;
- complete the properties under development as of the end of 2008 and focus on leasing our total development portfolio;
- manage our core portfolio of industrial distribution properties to maintain and improve our net operating income stream from these assets;
- generate liquidity through contributions of properties to our property funds and through sales of real estate to third parties; and
- reduce gross general and administrative expenses (G&A) by 20% to 25%.

In 2009, we generated liquidity through the issuance of nearly $1.5 billion of common equity as well as nearly $2.9 billion of asset dispositions and property fund contributions, including $1.3 billion from the sale of certain Asian operations. These transactions allowed us to reduce our debt by $2.7 billion from December 31, 2008. In addition, we renegotiated and extended our global line of credit, simplified the debt covenants related to our senior notes and extended the maturities of our debt. See further discussion in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

We reduced our gross G&A by 26.5% in 2009 from 2008, through various cost savings initiatives, including a reduction in workforce (RIF) program. We executed leasing in our development portfolio in 2009, increasing the leased percentage to 64.3% at December 31, 2009 from 41.4% at the beginning of the year.

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Now that we have achieved our goals for 2009, we believe we are in a better liquidity position and can focus on our longer-term strategy of conservative growth through the ownership, management and development of industrial properties with a concentrated focus on customer service. Included in our objectives for 2010 and beyond are to:

- retain more of our development assets in order to improve the geographic diversification of our direct owned properties, as most of our planned developments are in international markets;
- monetize our investment in land of $2.6 billion at December 31, 2009; and
- continue to focus on staggering and extending our debt maturities.

We plan to accomplish these objectives by generating proceeds through selective sales of real estate properties (primarily located in the U.S.) and land parcels, and limited contribution of development properties to the property funds. We will use the proceeds to fund our development activities, which will allow us to respond to new build-to-suit (pre-leased) opportunities to better serve our customers and to transition our non-income producing land into income producing properties. We will continue to focus on leasing the development portfolio (representing 53.5 million square feet at December 31, 2009 that was 64.3% leased).

Our Operating Segments

The following discussion of our business segments should be read in conjunction with Item 1A Risk Factors , our property information presented in Item 2 Properties , Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations and our segment footnote - Note 20 to our Consolidated Financial Statements in Item 8.

Our current business strategy includes two operating segments: (i) direct owned and (ii) 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, other unconsolidated investees and the properties they own.

Operating Segments - Direct Owned

Our direct owned segment represents the long-term ownership of industrial and retail properties. Our investment strategy focuses primarily on the ownership and leasing of these properties in key distribution markets. We divide our operating properties into two categories, properties that we developed (completed development properties) and all other operating properties (core properties). Prior to December 31, 2008, the completed development properties were referred to as our CDFS properties.

Also included in this segment are industrial properties that are currently under development, land available for development and land subject to ground leases.

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Investments

At December 31, 2009, the following properties are in the direct owned segment and located in North America, Europe and Asia (square feet and investment in thousands):

	Number of Properties	Square Feet	Leased Percentage	Investment (before depreciation) at December 31, 2009
Industrial and retail properties:				
Core properties	1,025	141,019	90.1%	$ 7,436,539
Completed development properties	163	50,604	62.2%	4,108,962
Properties under development	5	2,930	100.0%	191,127
Retail properties	27	1,014	91.5%	251,948
Total industrial and retail properties	1,220	195,567	83.0%	11,988,576
Land held for development				2,569,343
Land subject to ground leases and other				385,222
Total				$ 14,943,141

Results of Operations

We earn rent from our customers, including reimbursement of certain operating costs, under long-term operating leases (with an average lease term of five to six years at December 31, 2009). The revenue in this segment decreased in 2009 principally due to the contributions of properties (generally completed and fully leased development properties) to the unconsolidated property funds and decreases in rental rates on turnovers, offset partially by new leasing activity in our completed development properties. However, rental revenues generated by the lease-up of newly developed properties have not been adequate to offset the loss of rental revenues from fully leased property contributions. We expect our total revenues from this segment to increase slightly in 2010 through increases in occupied square feet predominantly in our development portfolio, offset partially with decreases from contributions of properties we made in 2009 or may make in 2010. We anticipate the increases in occupied square feet to come from leases that were signed in 2009, but have not commenced occupancy, and future leasing activity in 2010.

Market Presence

At December 31, 2009, our 1,188 industrial operating properties in this segment aggregating 191.6 million square feet were located in 39 markets in 3 countries in North America (1 market in Canada, 6 markets in Mexico and 32 markets in the United States), 28 markets in 12 countries in Europe (Czech Republic, France, Germany, Hungary, Italy, the Netherlands, Poland, Romania, Slovakia, Spain, Sweden and the United Kingdom) and 6 markets in 2 countries in Asia (Japan and South Korea). Our largest markets for this segment in North America (based on our investment in the properties) are Atlanta, Chicago, Dallas/Fort Worth, Inland Empire, Los Angeles, New Jersey and San Francisco South Bay. Our largest investments in Europe are in Poland and the United Kingdom and our largest investment in

Asia is in Japan. Our 5 properties under development at December 31, 2009 aggregated 2.9 million square feet and were located in 1 market in North America, 3 markets in Europe and 1 market in Asia. At December 31, 2009, we owned 10,360 acres of land with an investment of $2.6 billion and located in North America (6,275 acres, $1.1 billion investment), Europe (3,959 acres, $1.2 billion investment) and Asia (126 acres, $0.3 billion investment). The retail properties and land subject to ground leases are all located in the United States. See further detail in Item 2 Properties .

Competition

The existence of competitively priced distribution space available in any market could have a material impact on our ability to rent space and on the rents that we can charge. To the extent we wish to acquire land for future development of properties in our direct owned segment, we may compete with local, regional, and national developers. We also face competition from other investment managers in attracting capital for our property funds to be utilized to acquire properties from us or third parties.

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We believe we have competitive advantages due to (i) our ability to quickly respond to customer s needs for high-quality distribution space in key global distribution markets; (ii) our established relationships with key customers serviced by our local personnel; (iii) our ability to leverage our organizational structure to provide a single point of contact for our global customers; (iv) our property management and leasing expertise; (v) our relationships and proven track record with current and prospective investors in the property funds; (vi) our global experience in the development and management of industrial properties; (vii) the strategic locations of our land positions; and (viii) our personnel who are experienced in the land acquisition and entitlement process.

Property Management

Our business strategy includes a customer service focus that enables us to provide responsive, professional and effective property management services at the local level. To enhance our management services, we have developed and implemented proprietary operating and training systems to achieve consistent levels of performance and professionalism and to enable our property management team to give the proper level of attention to our customers. We manage substantially all of our operating properties.

Customers

We have developed a customer base that is diverse in terms of industry concentration and represents a broad spectrum of international, national, regional and local distribution space users. At December 31, 2009, in our direct owned segment, we had 2,468 customers occupying 155.2 million square feet of industrial and retail space. Our largest customer and 25 largest customers accounted for 2.3% and 21.4%, respectively, of our annualized collected base rents at December 31, 2009.

Employees

We employ 1,135 persons in our entire business. Our employees work in 3 countries in North America (725 persons), in 13 countries in Europe (310 persons) and in 2 countries in Asia (100 persons). Of the total, we have assigned 645 employees to our direct owned segment and 40 employees to our investment management segment. We have 450 employees who work in corporate positions who are not assigned to a segment who may assist with segment activities. We believe our relationships with our employees are good. Our employees are not organized under collective bargaining agreements, although some of our employees in Europe are represented by statutory Works Councils and benefit from applicable labor agreements.

Future Plans

Our current business plan allows for the selective development of industrial properties (generally pre-leased) to: (i) address the specific expansion needs of customers; (ii) enhance our market presence in a specific country, market or submarket; (iii) take advantage of opportunities where we believe we have the ability to achieve favorable returns; (iv) monetize our existing land positions through pre-committed development of industrial properties to primarily hold for long-term investment; and (v) improve the geographic diversification of our portfolio. In addition, we expect to complete the development of the properties we have under development, focus on leasing the properties in our development portfolio and complete the properties under development in joint ventures in which we have an ownership interest.

In 2010, we intend to fund our investment activities in the direct owned segment by generating proceeds through selective sales of completed real estate properties and land parcels. Additionally, depending on market conditions and the capital available from our fund partners, we may contribute core properties and/or completed development properties to the property funds.

<u>Operating Segments Investment Management</u>

The investment management segment represents the investment management of unconsolidated property funds and certain joint ventures and the properties they own. We utilize our investment management expertise to

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manage the property funds and joint ventures and we utilize our leasing and property management expertise to manage the properties owned by these entities.

Our property fund strategy:

- allows us, as the manager of the property funds, to maintain and expand our market presence and customer relationships;
- allows us to maintain a long-term ownership position in the properties;
- allows us to earn fees for providing services to the property funds; and
- provides us an opportunity to earn incentive performance participation income based on the investors returns over a specified period.

Investments

As of December 31, 2009, we had investments in and advances to 15 property funds totaling $1.9 billion with ownership interests ranging from 20% to 50%. These investments are in North America 12 aggregating $1,010.2 million; Europe 2 aggregating $845.0 million; and Asia 1 with $21.4 million. These property funds own, on a combined basis, 1,287 distribution properties aggregating 274.2 million square feet with a total entity investment (not our proportionate share) in operating properties of $19.5 billion. Also included in this segment are certain industrial joint ventures, which we manage and that own 92 operating properties with 10.0 million square feet all located in North America.

Results of Operations

We recognize our proportionate share of the earnings or losses from our investments in unconsolidated property funds and certain joint ventures that are accounted for under the equity method. In addition, we recognize fees and incentives earned for services performed on behalf of these and other entities. We provide services to these entities, which may include property management, asset management, leasing, acquisition, financing and development services. We may also earn incentives from our property funds depending on the return provided to the fund partners over a specified period.

We report the costs associated with our investment management segment as a separate line item Investment Management Expenses in our Consolidated Statements of Operations. These costs include the direct expenses associated with the asset management of the property funds provided by 40 individuals (as of December 31, 2009 and as discussed below) who are assigned to our investment management segment. In addition, in order to achieve efficiencies and economies of scale, all of our property management functions are provided by a team of professionals who are assigned to our direct owned segment. These individuals perform the property-level management of the properties we own and the properties we manage that are owned by the unconsolidated investees. We allocate the costs of our property management function to the properties we own (reported in Rental Expenses) and the properties owned by the unconsolidated investees (included in Investment Management Expenses), by using the square feet owned at the beginning of the period by the respective portfolios. For 2009, we allocated approximately 55% of our total property management costs to the investment management segment.

Market Presence

At December 31, 2009, the property funds on a combined basis owned 1,287 properties aggregating 274.2 million square feet located in 45 markets in 3 countries in North America (Canada, Mexico and the United States), 35 markets in 12 countries in Europe (Belgium, the Czech Republic, France, Germany, Hungary, Italy, the Netherlands, Poland, Slovakia, Spain, Sweden, and the United Kingdom) and 2 markets in 1 country in Asia (South Korea). The industrial joint ventures included in this segment are located in the United States and operate 92 industrial properties with 10.0 million square feet that we manage, including one joint venture that is not accounted for on the equity method. See further detail in Item 2 Unconsolidated Investees .

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Competition

As the manager of the property funds, we compete with other fund managers for institutional capital. As the manager of the properties owned by the property funds, we compete with other industrial properties located in close proximity to the properties owned by the property funds. The amount of rentable distribution space available and its current occupancy in any market could have a material effect on the ability to rent space and on the rents that can be charged by the fund properties. We believe we have competitive advantages as discussed above in Operating Segments Direct Owned .

Property Management

We manage the properties owned by unconsolidated investees utilizing our leasing and property management experience from the employees who are in our direct owned segment. Our business strategy includes a customer service focus that enables us to provide responsive, professional and effective property management services at the local level. To enhance our management services, we have developed and implemented proprietary operating and training systems to achieve consistent levels of performance and professionalism and to enable our property management team to give the proper level of attention to our customers.

Customers

As in our direct owned segment, we have developed a customer base in the property funds and joint ventures that is diverse in terms of industry concentration and represents a broad spectrum of international, national, regional and local distribution space users. At December 31, 2009, our unconsolidated investees, on a combined basis, had 2,153 customers occupying 254.9 million square feet of distribution space. The largest customer, and 25 largest customers of our unconsolidated investees, on a combined basis, accounted for 4.0% and 27.3%, respectively, of the total combined annualized collected base rents at December 31, 2009. In addition, in this segment we consider our fund partners to also be our customers. As of December 31, 2009 in our private property funds, we partnered with 42 investors, several of which invest in multiple funds.

Employees

The property funds generally have no employees of their own. We have assigned 40 employees directly to the asset management of the property funds in our investment management segment. As discussed above, we have employees in our direct owned segment that are responsible for the property management functions we provide for the properties owned by the property funds, as well as the properties we own. We have 450 employees who work in corporate positions and are not assigned to a segment who also assist with these activities as well.

Future Plans

We expect to continue to increase our investments in property funds. We expect to achieve these increases through the existing property funds acquisition of properties from us, or from third parties, depending on market factors and available capacity, or through the creation of new property funds. We expect the fee income we earn from the property funds and our proportionate share of net earnings of the property funds will increase as the size and value of the portfolios owned by the property funds grows and as more equity is deployed in the funds. We will continue to explore our options related to both new and existing property funds.

Our Management

Our executive team is led by our Chief Executive Officer, Walter C. Rakowich, who also serves as a member of our Board of Trustees (the Board) and an Executive Committee of eleven people, as follows:

Executive Committee

*Walter C. Rakowich** 52 Chief Executive Officer of ProLogis since November 2008. Mr. Rakowich was ProLogis President and Chief Operating Officer from January 2005 to November 2008 and ProLogis Chief

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Financial Officer from December 1998 to September 2005. Mr. Rakowich has been with ProLogis in various capacities since July 1994. Prior to joining ProLogis, Mr. Rakowich was a consultant to ProLogis in the area of due diligence and acquisitions, and he was a principal with Trammell Crow Company, a diversified commercial real estate company in North America. Mr. Rakowich served on the Board from August 2004 to May 2008 and was reappointed to the Board in November 2008.

Gary E. Anderson 44 Head of Global Investment Management since March 2009, where he is responsible for managing ProLogis property funds as well as raising additional private capital for our investment management business. Mr. Anderson also serves on the board of directors of ProLogis European Properties (PEPR), one of our unconsolidated investees that is publicly traded on the Euronext stock exchange in Amsterdam. Mr. Anderson was President of Europe and the Middle East, as well as Chairman of ProLogis European Operating Committee from November 2006 to March 2009. Mr. Anderson was the Managing Director responsible for investments and development in ProLogis Central and Mexico Regions from May 2003 to November 2006 and has been with ProLogis in various capacities since August 1994. Prior to joining ProLogis, Mr. Anderson was in the management development program of Security Capital Group, a real estate holding company.

*Ted R. Antenucci** 45 President and Chief Investment Officer since May 2007. Mr. Antenucci also serves on the board of directors of PEPR, one of our unconsolidated investees that is publicly traded on the Euronext stock exchange in Amsterdam. Mr. Antenucci was ProLogis President of Global Development from September 2005 to May 2007. From September 2001 to September 2005, Mr. Antenucci was president of Catellus Commercial Development Corporation, an industrial and retail real estate company that was merged with ProLogis in September 2005. Mr. Antenucci was with affiliates of Catellus Commercial Development Corporation in various capacities from April 1999 to September 2001.

Philip N. Dunne 41 President Europe since July 2009, where he is responsible for all aspects of ProLogis business performance in Continental Europe and the United Kingdom, including investments and development. He is also Chairman of ProLogis European Management Executive Committee. Prior to this, Mr. Dunne was Chief Operating Officer, Europe and the Middle East. Prior to joining ProLogis on December 1, 2008, Mr. Dunne was the Chief Operating Officer EMEA at Jones Lang LaSalle, a global financial and professional services firm specializing in real estate services and investment management.

Larry H. Harmsen 47 President United States and Canada since February 2009, where he is responsible for all aspects of business performance for ProLogis U.S. and Canada operations. He has been responsible for capital deployment in North America since July 2005. Previous to this and since 2003, Mr. Harmsen had been responsible for capital deployment in North America s Pacific Region. Prior to this and since 1995, Mr. Harmsen oversaw ProLogis Southern California market. Prior to joining ProLogis, Mr. Harmsen was a vice president and general partner of Lincoln Property Company for 10 years.

John P. Morland 51 Managing Director Global Human Resources since October 2006, where he is responsible for strategic human resources initiatives to align ProLogis human capital strategy with overall business activities. Prior to joining ProLogis, Mr. Morland was the Global Head of Compensation at Barclays Global Investors at its San Francisco headquarters from April 2000 to March 2005.

*Edward S. Nekritz** 44 General Counsel of ProLogis since December 1998, Secretary of ProLogis since March 1999 and Head of Global Strategic Risk Management since March 2009. Mr. Nekritz oversees the provision of all legal services and strategic risk management for ProLogis. Mr. Nekritz is also responsible for ProLogis Investment Services Group, which handles all aspects of contract negotiations, real estate and corporate due diligence and closings on acquisitions, dispositions and financings. Mr. Nekritz has been with ProLogis in various capacities since September 1995. Prior to joining ProLogis, Mr. Nekritz was an attorney with Mayer, Brown & Platt (now Mayer Brown LLP).

John R. Jack Rizzo 60 Chief Sustainability Officer and Head of Global Construction for ProLogis since 2009, where he is responsible for implementing our global sustainability initiatives and for maintaining our leadership position in business excellence, environmental stewardship and corporate social responsibility.

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Mr. Rizzo is also responsible for all new industrial development projects worldwide. Mr. Rizzo has been with ProLogis since 1999. Prior to joining ProLogis, Mr. Rizzo was Senior Vice President and Chief Operating Officer of Perini Management Services, Inc., an affiliate of Perini Corporation, a global construction management and general contracting firm, and was responsible for international construction operations.

Charles E. Sullivan 52 Head of Global Operations since February 2009 where he has overall responsibility for global operations, including property management, leasing, information technology and marketing. Mr. Sullivan was Managing Director of ProLogis with overall responsibility for operations in North America from October 2006 to February 2009 and has been with ProLogis in various capacities since October 1994. Prior to joining ProLogis, Mr. Sullivan was an industrial broker with Cushman & Wakefield of Florida, a real estate brokerage and services company.

*William E. Sullivan** 55 Chief Financial Officer since April 2007. Prior to joining ProLogis, Mr. Sullivan was the founder and president of Greenwood Advisors, Inc., a financial consulting and advisory firm focused on providing strategic planning and implementation services to small and mid-cap companies since 2005. From 2001 to 2005, Mr. Sullivan was chairman and chief executive officer of SiteStuff, an online procurement company serving the real estate industry and he continued as their chairman through June 2007.

Mike Yamada 56 President-Japan since February 2009 where he is responsible for all aspects of business performance for ProLogis Japan operations. Mr. Yamada was Japan Co-President from March 2006 to February 2009, where he was responsible for development and leasing activities in Japan and a Managing Director with ProLogis from December 2004 to March 2006 with similar responsibilities in Japan. He has been with ProLogis in various capacities since April 2002. Prior to joining ProLogis, Mr. Yamada was a senior officer of Fujita Corporation, a construction company in Japan.

* These individuals are our Executive Officers under Item 401 of Regulation S-K.

In addition to the leadership and oversight provided by our executive committee, in the United States, a regional director leads each of our four regions (Midwest, East, West and Southwest), and is responsible for both operations and capital deployment. In Europe, each of the four regions (Northern Europe, Central and Eastern Europe, Southern Europe and the United Kingdom) are led by either one or two individuals responsible for operations and capital deployment. Japan, Mexico and South Korea each have one individual who is responsible for operations and capital deployment.

We maintain a Code of Ethics and Business Conduct applicable to our Board and all of our officers and employees, including the principal executive officer, the principal financial officer and the principal accounting officer, or persons performing similar functions. A copy of our Code of Ethics and Business Conduct is available on our website, www.prologis.com. In addition to being accessible through our website, copies of our Code of Ethics and Business Conduct can be obtained, free of charge, upon written request to Investor Relations, 4545 Airport Way, Denver, Colorado 80239. Any amendments to or waivers of our Code of Ethics and Business Conduct that apply to the principal executive officer, the principal financial officer, or the principal accounting officer, or persons performing similar functions, and that relate to any matter enumerated in Item 406(b) of Regulation S-K, will be disclosed on our website.

Capital Management, Customer Service and Capital Deployment

We have a team of professionals dedicated to managing and leasing all the properties in our portfolio, which includes both direct-owned properties and those owned by the property funds that we manage. Our marketing team comprises a network of regional directors, market officers and property managers who are directly responsible for understanding and meeting the needs of existing and prospective customers in their respective markets.

Our marketing team works closely with our Global Solutions Group to identify and accommodate customers with multiple market requirements. The Global Solutions Group s primary focus is to position us as the preferred provider of distribution space to large users of industrial distribution space. The professionals in our

Global Solutions Group also seek to build long-term relationships with our existing customers by addressing their international distribution and logistics needs. The Global Solutions Group provides our customers with outsourcing options for network optimization tools, strategic site selection assistance, business location services, material handling equipment and design consulting services. The integration of our local market expertise with our global platform enables us to better serve customers throughout all of our markets.

Our network of regional directors and market officers also leads our capital deployment efforts. They are responsible for deploying our capital resources in an efficient and productive manner that will best serve our long-term objective of increasing shareholder value. They evaluate acquisition, disposition and development opportunities in light of market conditions in their respective markets and regions, and they work closely with the Global Development Group to, among other things, create master-planned distribution parks utilizing the extensive experience of the Global Development Group. The Global Development Group incorporates the latest technology with respect to building design and systems and has developed standards and procedures to which we strictly adhere in the development of all properties to ensure that properties we develop are of a consistent quality.

We strive to build in accordance with the accepted green building rating system in all of our regions of operation. Beginning in 2008, all of our new developments in the United States comply with the U.S. Green Building Council s standards for Leadership in Energy and Environmental Design (LEED®). In the United Kingdom, since 2008, we have been committed to developing any new properties to achieve at least a Very Good rating in accordance with the Building Research Establishment s Environmental Assessment Method (BREEAM). In Japan, many of our facilities comply with the Comprehensive Assessment System for Building Environmental Efficiency (CASBEE). Where rating systems do not exist, we implement best practices learned from developing sustainable buildings across our global portfolio. In total, counting all three rating systems, ProLogis has 55 buildings with 23.8 million square feet (2.2 million square meters) of development registered or certified as green buildings.

Environmental Matters

We are exposed to various environmental risks that may result in unanticipated losses that could affect our operating results and financial condition. Either the previous owners or we subjected a majority of the properties we have acquired, including land, to environmental reviews. While some of these assessments have led to further investigation and sampling, none of the environmental assessments has revealed an environmental liability that we believe would have a material adverse effect on our business, financial condition or results of operations. See Note 19 to our Consolidated Financial Statements in Item 8 and Item 1A Risk Factors .

Insurance Coverage

We carry insurance coverage on our properties. We determine the type of coverage and the policy specifications and limits based on what we deem to be the risks associated with our ownership of properties and our business operations in specific markets. Such coverages include property damage and rental loss insurance resulting from such perils as fire, additional perils as covered under an extended coverage policy, named windstorm, flood, earthquake and terrorism; commercial general liability insurance; and environmental insurance. Insurance is maintained through a combination of commercial insurance, self insurance and through a wholly-owned captive insurance entity. We believe that our insurance coverage contains policy specifications and insured limits that are customary for similar properties, business activities and markets and we believe our properties are adequately insured. However, an uninsured loss could result in loss of capital investment and anticipated profits.

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ITEM 1A. Risk Factors

Our operations and structure involve various risks that could adversely affect our financial condition, results of operations, distributable cash flow and the value of our common shares. These risks include, among others:

General

The current market disruptions may adversely affect our operating results and financial condition.

The global financial markets have been undergoing pervasive and fundamental disruptions since the third quarter of 2008. The continuation or intensification of such volatility may lead to additional adverse impacts on the general availability of credit to businesses and could lead to a further weakening of the U.S. and global economies. To the extent that turmoil in the financial markets continues and/or intensifies, it has the potential to materially affect the value of our properties and our investments in our unconsolidated investees, the availability or the terms of financing that we and our unconsolidated investees have or may anticipate utilizing, our ability and that of our unconsolidated investees to make principal and interest payments on, or refinance, any outstanding debt when due and/or may impact the ability of our customers to enter into new leasing transactions or satisfy rental payments under existing leases.

The market volatility has made the valuation of our properties and those of our unconsolidated investees more difficult. There may be significant uncertainty in the valuation, or in the stability of the value, of our properties and those of our unconsolidated investees, that could result in a substantial decrease in the value of our properties and those of our unconsolidated investees.

As a result, we may not be able to recover the current carrying amount of our properties, our investments in and advances to our unconsolidated investees and/or goodwill, which may require us to recognize an impairment charge in earnings in addition to the charges we recognized in 2009 and 2008. Additionally, certain of the fees we generate from our unconsolidated investees are dependent upon the value of the properties held by the investees or the level of contributions we make to the investees. Therefore, property value decreases have impacted and may continue to impact certain fees paid to us by our unconsolidated investees.

The pervasive and fundamental disruptions that the global financial markets have been experiencing has led to extensive and unprecedented governmental intervention. It is impossible to predict what, if any, additional interim or permanent governmental restrictions and/or increased regulation may be imposed on the financial markets and/or the effect of such restrictions and regulations on us and our results of operations.

General Real Estate Risks

General economic conditions and other events or occurrences that affect areas in which our properties are geographically concentrated, may impact financial results.

We are exposed to the general economic conditions, the local, regional, national and international economic conditions and other events and occurrences that affect the markets in which we own properties. Our operating performance is further impacted by the economic conditions of the specific markets in which we have concentrations of properties. Approximately 24.3% of our direct owned operating properties (based on our investment before depreciation) are located in California. Properties in California may be more susceptible to certain types of natural disasters, such as earthquakes, brush fires, flooding and mudslides, than properties located in other markets and a major natural disaster in California could have a material adverse effect on our operating results. We also have significant holdings (defined as more than 3.0% of our total investment before depreciation in direct owned operating properties), in certain markets located in Atlanta, Chicago, Dallas/Fort Worth, New Jersey and Japan. Our operating performance could be adversely affected if conditions become less favorable in any of the markets in which we have a concentration of properties. Conditions such as an oversupply of distribution space or a reduction in demand for distribution space, among other factors, may impact operating conditions. Any material oversupply of distribution space or material reduction in demand for distribution space could adversely affect our results of operations, distributable cash flow and the value of our securities. In addition, the property funds and joint ventures in which we have an ownership interest have concentrations of properties in the same markets mentioned above, as well as Pennsylvania, Reno, France, Germany, Poland and the United Kingdom and are subject to the economic conditions in those markets.

Real property investments are subject to risks that could adversely affect our business.

Real property investments are subject to varying degrees of risk. While we seek to minimize these risks through geographic diversification of our portfolio, market research and our property management capabilities, these risks cannot be eliminated. Some of the factors that may affect real estate values include:

- local conditions, such as an oversupply of distribution space or a reduction in demand for distribution space in an area;
- the attractiveness of our properties to potential customers;
- competition from other available properties;
- our ability to provide adequate maintenance of, and insurance on, our properties;
- our ability to control rents and variable operating costs;
- governmental regulations, including zoning, usage and tax laws and changes in these laws; and
- potential liability under, and changes in, environmental, zoning and other laws.

Our investments are concentrated in the industrial distribution sector and our business would be adversely affected by an economic downturn in that sector or an unanticipated change in the supply chain dynamics.

Our investments in real estate assets are primarily concentrated in the industrial distribution sector. This concentration may expose us to the risk of economic downturns in this sector to a greater extent than if our business activities were more diversified.

Our real estate development strategies may not be successful.

We have developed a significant number of industrial properties since our inception. In late 2008, we scaled back our development activities in response to current economic conditions and, in 2009, we have resumed development activity in a selective manner through build-to-suit transactions on our land, including opportunities to use development capital or take out commitments from one of our partners or customers.

As of December 31, 2009, we had 163 completed development properties that were 62.2% leased (19.1 million square feet of unleased space) and we had 5 industrial properties under development that were 100.0% leased. As of December 31, 2009, we had approximately $307.8 million of costs remaining to be spent related to our development portfolio to complete the development and lease the space in these properties.

Additionally as of December 31, 2009, we had 10,360 acres of land with a current investment of $2.6 billion for potential future development of industrial properties or other commercial real estate projects or for sale to third parties. Within our land positions, we have concentrations in many of the same markets as our operating properties. Approximately 16.8% of our land (based on the current investment balance) is in the United Kingdom. During 2009, we recorded impairment charges of $137.0 million, due to the decrease in current estimated fair value of the land and increased probability that we will dispose of certain land parcels rather than develop as previously planned. We will look to monetize the land in the future through sale to third parties, development of industrial properties to hold for long-term investment or sale to an unconsolidated investee for development, depending on market conditions, our liquidity needs and other factors.

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We will be subject to risks associated with such development, leasing and disposition activities, all of which may adversely affect our results of operations and available cash flow, including, but not limited to:

- the risk that we may not be able to lease the available space in our recently completed developments at rents that are sufficient to be profitable;
- the risk that we will seek to sell certain land parcels and we will not be able to find a third party to acquire such land or that the sales price will not allow us to recover our investment, resulting in additional impairment charges;
- the risk that development opportunities explored by us may be abandoned and the related investment will be impaired;
- the risk that we may not be able to obtain, or may experience delays in obtaining, all necessary zoning, building, occupancy and other governmental permits and authorizations;
- the risk that due to the increased cost of land, our activities may not be as profitable;
- the risk that construction costs of a property may exceed the original estimates, or that construction may not be concluded on schedule, making the project less profitable than originally estimated or not profitable at all; including the possibility of contract default, the effects of local weather conditions, the possibility of local or national strikes by construction-related labor and the possibility of shortages in materials, building supplies or energy and fuel for equipment; and
- the risk that occupancy levels and the rents that can be earned for a completed project will not be sufficient to make the project profitable.

Our business strategy to provide liquidity to reduce debt by contributing properties to property funds or disposing of properties to third parties may not be successful.

Our ability to contribute or sell properties on advantageous terms is affected by competition from other owners of properties that are trying to dispose of their properties; current market conditions, including the capitalization rates applicable to our properties; and other factors beyond our control. The property funds or third parties who might acquire our properties may need to have access to debt and equity capital, in the private and public markets, in order to acquire properties from us. Should the property funds or third parties have limited or no access to capital on favorable terms, then contributions and dispositions could be delayed resulting in adverse effects on our liquidity, results of operations, distributable cash flow, debt covenant ratios, and the value of our securities.

We may acquire properties, which involves risks that could adversely affect our operating results and the value of our securities.

We may acquire industrial properties in our direct owned segment. The acquisition of properties involves risks, including the risk that the acquired property will not perform as anticipated and that any actual costs for rehabilitation, repositioning, renovation and improvements identified in the pre-acquisition due diligence process will exceed estimates. There is, and it is expected there will continue to be, significant competition for properties that meet our investment criteria as well as risks associated with obtaining financing for acquisition activities.

Our operating results and distributable cash flow will depend on the continued generation of lease revenues from customers.

Our operating results and distributable cash flow would be adversely affected if a significant number of our customers were unable to meet their lease obligations. We are also subject to the risk that, upon the expiration of leases for space located in our properties, leases may not be renewed by existing customers, the space may not be re-leased to new customers or the terms of renewal or re-leasing (including the cost of required renovations or concessions to customers) may be less favorable to us than current lease terms. In the event of default by a significant number of customers, we may experience delays and incur substantial costs in enforcing our rights as landlord. A customer may experience a downturn in its business, which may cause the loss of the customer or may weaken its financial condition, resulting in the customer s failure to make rental payments when due or requiring a restructuring that might reduce cash flow from the lease. In addition, a customer may seek the protection of bankruptcy, insolvency or similar laws, which could result in the rejection and termination of such customer s lease and thereby cause a reduction in our available cash flow.

Our ability to renew leases or re-lease space on favorable terms as leases expire significantly affects our business.

Our results of operations, distributable cash flow and the value of our securities would be adversely affected if we were unable to lease, on economically favorable terms, a significant amount of space in our operating properties. We have 28.4 million square feet of industrial and retail space (out of a total of 155.2 million occupied square feet representing 15.3% of total annual base rents) with leases that expire in 2010, including 4.4 million square feet of leases that are on a month-to-month basis. In addition, our unconsolidated investees have a combined 37.4 million square feet of industrial space (out of a total 254.9 million occupied square feet representing 13.0% of total annual base rent) with leases that expire in 2010, including 5.5 million square feet of leases that are on a month-to-month basis. The number of industrial and retail properties in a market or submarket could adversely affect both our ability to re-lease the space and the rental rates that can be obtained in new leases.

Real estate investments are not as liquid as other types of assets, which may reduce economic returns to investors.

Real estate investments are not as liquid as other types of investments and this lack of liquidity may limit our ability to react promptly to changes in economic or other conditions. In addition, significant expenditures associated with real estate investments, such as mortgage payments, real estate taxes and maintenance costs, are generally not reduced when circumstances cause a reduction in income from the investments. Like other companies qualifying as REITs under the Code, we are only able to hold property for sale in the ordinary course of business through taxable REIT subsidiaries in order to avoid punitive taxation on the gain from the sale of such property. While we are planning to dispose of certain properties that have been held for investment in order to generate liquidity, if we do not satisfy certain safe harbors or if we believe there is too much risk of incurring the punitive tax on the gain from the sale, we may not pursue such sales.

Our insurance coverage does not include all potential losses.

We and our unconsolidated investees currently carry insurance coverage including property damage and rental loss insurance resulting from such perils as fire, additional perils as covered under an extended coverage policy, named windstorm, flood, earthquake and terrorism; commercial general liability insurance; and environmental insurance, as appropriate for the markets where each of our properties and business operations are located. The insurance coverage contains policy specifications and insured limits customarily carried for similar properties, business activities and markets. We believe our properties and the properties of our unconsolidated investees, including the property funds, are adequately insured. However, there are certain losses, including losses from floods, earthquakes, acts of war, acts of terrorism or riots, that are not generally insured against or that are not generally fully insured against because it is not deemed economically feasible or prudent to do so. If an uninsured loss or a loss in excess of insured limits occurs with respect to one or more of our properties, we could experience a significant loss of capital invested and potential revenues in these properties and could potentially remain obligated under any recourse debt associated with the property.

We are exposed to various environmental risks that may result in unanticipated losses that could affect our operating results and financial condition.

Under various federal, state and local laws, ordinances and regulations, a current or previous owner, developer or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic

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substances. The costs of removal or remediation of such substances could be substantial. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such hazardous substances.

A majority of the properties we acquire are subjected to environmental reviews either by us or by the predecessor owners. In addition, we may incur environmental remediation costs associated with certain land parcels we acquire in connection with the development of the land. In connection with the merger in 2005 with Catellus Development Corporation (Catellus), we acquired certain properties in urban and industrial areas that may have been leased to, or previously owned by, commercial and industrial companies that discharged hazardous materials. We established a liability at the time of acquisition to cover such costs. We adjust the liabilities, as appropriate, when additional information becomes available. We purchase various environmental insurance policies to mitigate our exposure to environmental liabilities. We are not aware of any environmental liability that we believe would have a material adverse effect on our business, financial condition or results of operations.

We cannot give any assurance that other such conditions do not exist or may not arise in the future. The presence of such substances on our real estate properties could adversely affect our ability to lease or sell such properties or to borrow using such properties as collateral and may have an adverse effect on our distributable cash flow.

We are exposed to the potential impacts of future climate change and climate-change related risks

We consider that we are exposed to potential physical risks from possible future changes in climate. Our distribution facilities may be exposed to rare catastrophic weather events, such as severe storms and/or floods. If the frequency of extreme weather events increases due to climate change, our exposure to these events could increase.

We do not currently consider our company to be exposed to regulatory risks related to climate change, as our operations do not emit a significant amount of greenhouse gases. However, we may be adversely impacted as a real estate developer in the future by stricter energy efficiency standards for buildings.

Risks Related to Financing and Capital

Our operating results and financial condition could be adversely affected if we are unable to make required payments on our debt or are unable to refinance our debt.

We are subject to risks normally associated with debt financing, including the risk that our cash flow will be insufficient to meet required payments of principal and interest. There can be no assurance that we will be able to refinance any maturing indebtedness, that such refinancing would be on terms as favorable as the terms of the maturing indebtedness, or we will be able to otherwise obtain funds by selling assets or raising equity to make required payments on maturing indebtedness. If we are unable to refinance our indebtedness at maturity or meet our payment obligations, the amount of our distributable cash flow and our financial condition would be adversely affected and, if the maturing debt is secured, the lender may foreclose on the property securing such indebtedness. Our credit facilities and certain other debt bears interest at variable rates. Increases in interest rates would increase our interest expense under these agreements. In addition, our unconsolidated investees have short-term debt that was used to acquire properties from us or third parties and other maturing indebtedness. If these investees are unable to refinance their indebtedness or meet their payment obligations, it may impact our distributable cash flow and our financial condition and/or we may be required to recognize impairment charges to our investments similar to those we recognized in 2009.

Covenants in our credit agreements could limit our flexibility and breaches of these covenants could adversely affect our financial condition.

The terms of our various credit agreements, including our credit facilities, the indenture under which our senior notes are issued and other note agreements, require us to comply with a number of customary financial covenants, such as maintaining debt service coverage, leverage ratios, fixed charge ratios and other operating covenants including maintaining insurance coverage. In addition, our credit facility contains various covenants and certain borrowing limitations based on the value of our unencumbered property pool (as defined in the agreement). These covenants may limit our flexibility in our operations, and breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness. If we default under our covenant provisions and are unable to cure the default, refinance our indebtedness or meet our payment obligations, the amount of our distributable cash flow and our financial condition would be adversely affected.

Federal Income Tax Risks

Failure to qualify as a REIT could adversely affect our cash flows.

We have elected to be taxed as a REIT under the Code commencing with our taxable year ended December 31, 1993. In addition, we have a consolidated subsidiary that has elected to be taxed as a REIT and certain unconsolidated investees that are REITs and are subject to all the risks pertaining to the REIT structure, discussed herein. To maintain REIT status, we must meet a number of highly technical requirements on a continuing basis. Those requirements seek to ensure, among other things, that the gross income and investments of a REIT are largely real estate related, that a REIT distributes substantially all of its ordinary taxable income to shareholders on a current basis and that the REIT s equity ownership is not overly concentrated. Due to the complex nature of these rules, the available guidance concerning interpretation of the rules, the importance of ongoing factual determinations and the possibility of adverse changes in the law, administrative interpretations of the law and changes in our business, no assurance can be given that we, or our REIT subsidiaries, will qualify as a REIT for any particular period.

If we fail to qualify as a REIT, we will be taxed as a regular corporation, and distributions to shareholders will not be deductible in computing our taxable income. The resulting corporate income tax liabilities could materially reduce our cash flow and funds available for dividends and/or reinvestment. Moreover, we might not be able to elect to be treated as a REIT for the four taxable years after the year during which we ceased to qualify as a REIT. In addition, if we later requalified as a REIT, we might be required to pay a full corporate-level tax on any unrealized gains in our assets as of the date of requalification, or upon subsequent disposition, and to make distributions to our shareholders equal to any earnings accumulated during the period of non-REIT status.

REIT distribution requirements could adversely affect our financial condition.

To maintain qualification as a REIT under the Code, generally a REIT must annually distribute to its shareholders at least 90% of its REIT taxable income, computed without regard to the dividends paid deduction and net capital gains. This requirement limits our ability to accumulate capital and, therefore, we may not have sufficient cash or other liquid assets to meet the distribution requirements. Difficulties in meeting the distribution requirements might arise due to competing demands for our funds or to timing differences between tax reporting and cash receipts and disbursements, because income may have to be reported before cash is received or because expenses may have to be paid before a deduction is allowed. In addition, the Internal Revenue Service (the IRS) may make a determination in connection with the settlement of an audit by the IRS that increases taxable income or disallows or limits deductions taken thereby increasing the distribution we are required to make. In those situations, we might be required to borrow funds or sell properties on adverse terms in order to meet the distribution requirements and interest and penalties could apply, which could adversely affect our financial condition. If we fail to make a required distribution, we would cease to qualify as a REIT.

Prohibited transaction income could result from certain property transfers.

We contribute properties to property funds and sell properties to third parties from the REIT and from taxable REIT subsidiaries (TRS). Under the Code, a disposition of a property from other than a TRS could be deemed a prohibited transaction. In such case, a 100% penalty tax on the resulting gain could be assessed. The determination that a transaction constitutes a prohibited transaction is based on the facts and circumstances surrounding each transaction. The IRS could contend that certain contributions or sales of properties by us are prohibited transactions. While we do not believe the IRS would prevail in such a dispute, if the IRS successfully argued the matter, the 100% penalty tax could be assessed against the gains from these transactions, which may be significant.

Additionally, any gain from a prohibited transaction may adversely affect our ability to satisfy the income tests for qualification as a REIT.

Liabilities recorded for pre-existing tax audits may not be sufficient.

We are subject to a pending audit by the IRS for the 2003 through 2005 income tax returns of Catellus, including certain of its subsidiaries and partnerships. We have recorded an accrual for the liabilities that may arise from these audits. See Note 15 to our Consolidated Financial Statements in Item 8. The finalization of the remaining audits may result in an adjustment in which the actual liabilities or settlement costs, including interest and potential penalties, if any, may prove to be more than the liability we have recorded.

Uncertainties relating to Catellus estimate of its earnings and profits attributable to C-corporation taxable years may have an adverse effect on our distributable cash flow.

In order to qualify as a REIT, a REIT cannot have at the end of any REIT taxable year any undistributed earnings and profits that are attributable to a C-corporation taxable year. A REIT has until the close of its first full taxable year as a REIT in which it has non-REIT earnings and profits to distribute these accumulated earnings and profits. Because Catellus first full taxable year as a REIT was 2004, Catellus was required to distribute these earnings and profits prior to the end of 2004. Failure to meet this requirement would result in Catellus disqualification as a REIT. Catellus distributed its accumulated non-REIT earnings and profits in December 2003, well in advance of the 2004 year-end deadline, and believed that this distribution was sufficient to distribute all of its non-REIT earnings and profits. However, the determination of non-REIT earnings and profits is complicated and depends upon facts with respect to which Catellus may have less than complete information or the application of the law governing earnings and profits, which is subject to differing interpretations, or both. Consequently, there are substantial uncertainties relating to the estimate of Catellus non-REIT earnings and profits, and we cannot be assured that the earnings and profits distribution requirement has been met. These uncertainties include the possibility that the IRS could upon audit, as discussed above, increase the taxable income of Catellus, which would increase the non-REIT earnings and profits of Catellus. There can be no assurances that we have satisfied the requirement that Catellus distribute all of its non-REIT earnings and profits by the close of its first taxable year as a REIT, and therefore, this may have an adverse effect on our distributable cash flow.

There are potential deferred and contingent tax liabilities that could affect our operating results or financial condition.

Palmtree Acquisition Corporation, our subsidiary that was the surviving corporation in the merger with Catellus in 2005, is subject to a federal corporate level tax at the highest regular corporate rate (currently 35%) and potential state taxes on any gain recognized within ten years of Catellus conversion to a REIT from a disposition of any assets that Catellus held at the effective time of its election to be a REIT, but only to the extent of the built-in-gain based on the fair market value of those assets on the effective date of the REIT election (which was January 1, 2004). Gain from a sale of an asset occurring more than 10 years after the REIT conversion will not be subject to this corporate-level tax. We do not currently expect to dispose of any asset of the surviving corporation in the merger if such disposition would result in the imposition of a material tax liability unless we can affect a tax-deferred exchange of the property. However, certain assets are subject to third party purchase options that may require us to sell such assets, and those assets may carry deferred tax liabilities that would be triggered on such sales. We have recorded deferred tax liabilities related to these built-in-gains. There can be no assurances that our plans in this regard will not change and, if such plans do change or if a purchase option is exercised, that we will be successful in structuring a tax-deferred exchange.

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Other Risks

We are dependent on key personnel.

Our executive and other senior officers have a significant role in our success. Our ability to retain our management group or to attract suitable replacements should any members of the management group leave is dependent on the competitive nature of the employment market. The loss of services from key members of the management group or a limitation in their availability could adversely affect our financial condition and cash flow. Further, such a loss could be negatively perceived in the capital markets.

Share prices may be affected by market interest rates.

Our current quarterly distribution is $0.15 per common share. The annual distribution rate on common shares as a percentage of our market price may influence the trading price of such common shares. An increase in market interest rates may lead investors to demand a higher annual distribution rate than we have set, which could adversely affect the value of our common shares.

As a global company, we are subject to social, political and economic risks of doing business in foreign countries.

We conduct a significant portion of our business and employ a substantial number of people outside of the United States. During 2009, we generated approximately 34% of our revenue from operations outside the United States, primarily due to proceeds from the sale of our investments in the Japan funds. Circumstances and developments related to international operations that could negatively affect our business, financial condition or results of operations include, but are not limited to, the following factors:

- difficulties and costs of staffing and managing international operations in certain regions;
- currency restrictions, which may prevent the transfer of capital and profits to the United States;
- unexpected changes in regulatory requirements;
- potentially adverse tax consequences;
- the responsibility of complying with multiple and potentially conflicting laws, e.g., with respect to corrupt practices, employment and licensing;
- the impact of regional or country-specific business cycles and economic instability;
- political instability, civil unrest, drug trafficking, political activism or the continuation or escalation of terrorist or gang activities (particularly with respect to our operations in Mexico); and
- foreign ownership restrictions with respect to operations in countries.

Although we have committed substantial resources to expand our global development platform, if we are unable to successfully manage the risks associated with our global business or to adequately manage operational fluctuations, our business, financial condition and results of operations could be harmed.

In addition, our international operations and, specifically, the ability of our non-U.S. subsidiaries to dividend or otherwise transfer cash among our subsidiaries, including transfers of cash to pay interest and principal on our debt, may be affected by currency exchange control regulations, transfer pricing regulations and potentially adverse tax consequences, among other things.

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The depreciation in the value of the foreign currency in countries where we have a significant investment may adversely affect our results of operations and financial position.

We have pursued, and intend to continue to pursue, growth opportunities in international markets where the U.S. dollar is not the national currency. At December 31, 2009, approximately 42% of our total assets are invested in a currency other than the U.S. dollar, primarily the euro, Japanese yen and British pound sterling. As a result, we are subject to foreign currency risk due to potential fluctuations in exchange rates between foreign currencies and the U.S. dollar. A significant change in the value of the foreign currency of one or more countries where we have a significant investment may have a material adverse effect on our results of operations and financial position. Although we attempt to mitigate adverse effects by borrowing under debt agreements denominated in foreign currencies and, on occasion and when deemed appropriate, using derivative contracts, there can be no assurance that those attempts to mitigate foreign currency risk will be successful.

We are subject to governmental regulations and actions that affect operating results and financial condition.

Many laws, including tax laws, and governmental regulations apply to us, our unconsolidated investees and our properties. Changes in these laws and governmental regulations, or their interpretation by agencies or the courts, could occur, which might affect our ability to conduct business.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

We have directly invested in real estate assets that are primarily generic industrial properties. In Japan, our industrial properties are generally multi-level centers, which is common in Japan due to the high cost and limited availability of land. Our properties are typically used for storage, packaging, assembly, distribution, and light manufacturing of consumer and industrial products. Based on the square footage of our operating properties in the direct owned segment at December 31, 2009, our properties are 99.5% industrial properties; including 92.1% used for bulk distribution, 6.5% used for light manufacturing and assembly, and 0.9% used for other purposes, primarily service centers, while the remaining 0.5% of our properties are retail.

At December 31, 2009, we owned 1,215 operating properties in our direct owned segment; including 1,188 industrial properties located in North America, Europe, and Asia and 27 retail properties in North America. In North America, our properties are located in 32 markets in 19 states in the United States and the District of Columbia, 6 markets in Mexico and 1 market in Canada. Our properties are located in 28 markets in 12 countries in Europe and 6 markets in 2 countries in Asia.

Geographic Distribution

For this presentation, we define our markets based on the concentration of properties in a specific area. A market, as defined by us, can be a metropolitan area, a city, a subsection of a metropolitan area, a subsection of a city or a region of a state or country.

Properties

The information in the following tables is as of December 31, 2009 for the operating properties, properties under development and land we own, including 84 buildings owned by entities we consolidate but of which we own less than 100%. All of these assets are included in our direct owned segment. This includes our development portfolio of operating properties we developed or are currently developing. No individual property or group of properties operating as a single business unit amounted to 10% or more of our consolidated total assets at December 31, 2009. No individual property or group of properties operating as a single business unit generated income equal to 10% or more of our consolidated gross revenues for the year

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ended December 31, 2009. These tables do not include properties that are owned by property funds or other unconsolidated investees, which are discussed under Unconsolidated Investees .

	No. of Bldgs.	Percentage Leased (1)	Rentable Square Footage	Investment Before Depreciation	Encumbrances (2)
Operating properties owned in the direct owned segment at December 31, 2009 (dollars and rentable square footage in thousands):					
Industrial properties:					
North America by Country, by Market (39 markets)(3):					
United States:					
Atlanta, Georgia	68	90.24%	10,523	$ 369,616	$ 49,123
Austin, Texas	12	98.16%	870	34,663	
Central Valley, California	12	88.23%	4,447	240,753	9,436
Charlotte, North Carolina	31	95.95%	3,623	119,842	35,115
Chicago, Illinois	83	93.32%	18,354	1,007,796	158,710
Cincinnati, Ohio	21	59.95%	3,603	109,735	22,212
Columbus, Ohio	30	88.09%	5,873	225,940	35,388
Dallas/Fort Worth, Texas	95	89.63%	15,032	605,333	66,237
Denver, Colorado	26	92.24%	4,147	221,381	35,241
El Paso, Texas	16	93.18%	2,050	65,009	
Houston, Texas	65	98.10%	5,875	215,378	8,735
I-81 Corridor, Pennsylvania	10	86.35%	3,737	194,234	
Indianapolis, Indiana	30	88.08%	3,155	115,298	8,147
Inland Empire, California	38	89.63%	16,180	1,280,686	187,045
Las Vegas, Nevada	9	67.95%	1,074	60,671	4,380
Los Angeles, California	65	95.78%	5,464	600,135	67,459
Louisville, Kentucky	12	98.67%	3,261	112,721	3,846
Memphis, Tennessee	20	90.14%	4,661	135,822	
Nashville, Tennessee	29	97.01%	2,985	86,206	
New Jersey	34	94.90%	6,583	426,525	86,281
Orlando, Florida	17	70.96%	1,916	99,012	
Phoenix, Arizona	31	73.11%	2,559	121,935	
Portland, Oregon	14	97.96%	1,635	106,514	35,748
Reno, Nevada	18	91.72%	3,213	133,946	10,576
San Antonio, Texas	41	93.64%	3,742	136,937	3,313
San Francisco (East Bay), California	46	97.63%	4,208	280,602	47,243
San Francisco (South Bay), California	72	92.67%	4,447	406,884	34,078
Seattle, Washington	2	61.67%	246	28,479	7,570
South Florida	19	63.28%	1,732	131,678	11,553
St. Louis, Missouri	6	68.91%	686	23,115	
Tampa, Florida	52	86.27%	3,565	148,196	8,819
Washington D.C./Baltimore, Maryland	28	83.86%	4,537	232,248	14,328

Other	2	80.39%	367	19,387	
Subtotal United States	1,054	89.62%	154,350	8,096,677	950,583
Mexico:					
Guadalajara	2	14.32%	269	11,783	
Juarez	8	51.34%	947	43,255	
Mexico City	9	70.49%	2,301	127,990	
Monterrey	4	52.37%	746	32,025	
Reynosa	4	48.84%	607	25,687	
Tijuana	3	74.43%	692	34,786	
Subtotal Mexico	30	60.21%	5,562	275,526	
Canada Toronto	2	20.91%	526	43,535	
Subtotal North America	1,086	88.00%	160,438	8,415,738	950,583
Europe by Country (28 markets)(4):					
Czech Republic	8	30.97%	2,115	193,666	
France	12	56.46%	3,056	232,464	
Germany	13	65.31%	2,171	170,010	
Hungary	4	64.59%	1,095	63,692	
Italy	4	17.63%	1,330	87,405	
Netherlands	1	0.00%	273	15,131	

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	No. of Bldgs.	Percentage Leased (1)	Rentable Square Footage	Investment Before Depreciation	Encumbrances (2)
Poland	21	36.15%	5,181	306,520	
Romania	4	98.22%	1,154	56,865	
Slovakia	4	83.81%	1,245	85,661	
Spain	3	14.67%	891	53,716	
Sweden	1	60.29%	878	59,417	
United Kingdom	13	23.32%	3,162	325,768	
Subtotal Europe	88	45.18%	22,551	1,650,315	
Asia by Country (6 markets)(5):					
Japan	10	71.03%	8,209	1,434,650	153,818
Korea	4	100.00%	425	44,798	5,185
Subtotal Asia	14	72.45%	8,634	1,479,448	159,003
Total industrial properties	**1,188**	**82.70%**	**191,623**	**11,545,501**	**1,109,586**
Retail properties:					
North America by Country (3 markets):					
United States	27	91.54%	1,014	251,948	4,194
Total retail properties	**27**	**91.54%**	**1,014**	**251,948**	**4,194**
Total operating properties owned in the direct owned segment at December 31, 2009	**1,215**	**82.75%**	**192,637**	**$ 11,797,449**	**$ 1,113,780**

	Land Held for Development		Properties Under Development				
	Acreage	Investment	No. of Bldgs.	Percentage Leased (1)	Rentable Square Footage	Current Investment	Total Expected Cost (6)
Land held for development and properties under development at December 31, 2009 (dollars and rentable square footage in thousands):							

North America by Country, by Market (37 total markets):							
United States:							
Atlanta, Georgia	467	$ 37,454				$	$
Austin, Texas	10	5,475					
Central Valley, California	799	23,602					
Charlotte, North Carolina	20	3,554					
Chicago, Illinois	739	86,876					
Cincinnati, Ohio	76	8,182					
Columbus, Ohio	233	13,918					
Dallas, Texas	470	32,178					
Denver, Colorado	94	10,015					
East Bay, California	27	25,255					
El Paso, Texas	68	4,055					
Houston, Texas	122	8,338					
Indianapolis, Indiana	91	5,147					
Inland Empire, California	466	109,613	1	100.00%	667	18,729	57,178
Jacksonville, Florida	103	18,054					
Las Vegas, Nevada	68	34,715					
Los Angeles, California	20	41,951					
Louisville, Kentucky	13	600					
Memphis, Tennessee	159	10,651					
Nashville, Tennessee	280	158,815					
New Jersey	16	4,195					
Norfolk, Virginia	83	10,029					
Pennsylvania	307	33,119					
Phoenix, Arizona	148	23,755					
Portland, Oregon	23	3,172					
Reno, Nevada	178	18,459					
San Antonio, Texas	55	5,971					
South Florida	82	53,631					
Tampa, Florida	43	3,695					
Washington D.C./Baltimore, Maryland	137	24,050					

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	Land Held for Development		Properties Under Development				Total
	Acreage	Investment	No. of Bldgs.	Percentage Leased (1)	Rentable Square Footage	Current Investment	Expected Cost (6)
Mexico:							
Guadalajara	48	14,979					
Juarez	148	20,532					
Matamoros	122	19,599					
Mexico City	121	46,068					
Monterrey	159	34,048					
Reynosa	107	13,053					
Canada Toronto	173	94,298					
Subtotal North America	6,275	1,061,101	1	100.00%	667	18,729	57,178
Europe by Country (35 total markets):							
Austria	33	29,401					
Belgium	30	13,451					
Czech Republic	367	91,655					
France	316	79,275					
Germany	261	101,879					
Hungary	345	86,074					
Italy	73	21,801					
Netherlands	38	24,725	1	100.00%	548	33,536	43,436
Poland	948	178,623					
Romania	90	19,523					
Slovakia	117	34,876					
Spain	98	67,842	1	100.00%	861	46,741	62,758
Sweden	6	2,139					
United Kingdom	1,237	432,368	1	100.00%	504	11,318	39,370
Subtotal Europe	3,959	1,183,632	3	100.00%	1,913	91,595	145,564
Asia by Country (5 total markets):							
Japan	94	288,123	1	100.00%	350	80,803	92,957
Korea	32	36,487					
Subtotal Asia	126	324,610	1	100.00%	350	80,803	92,957
Total land held for development and properties under development in the	**10,360**	**$ 2,569,343**	**5**	**100.00%**	**2,930**	**$ 191,127**	**$ 295,699**

direct owned segment at December 31, 2009

The following is a summary of our direct-owned investments in real estate assets at December 31, 2009:

		Investment Before Depreciation (in thousands)
Industrial and retail properties	$	11,797,449
Land subject to ground leases and other (7)		385,222
Properties under development		191,127
Land held for development		2,569,343
Mixed use properties		39,090
Other investments (8)		233,665
Total	**$**	**15,215,896**

(1) Represents the percentage leased at December 31, 2009. Operating properties at December 31, 2009 include completed development properties that may be in the initial lease-up phase, which reduces the overall leased percentage (see notes 3, 4 and 5 below for information regarding developed properties).

(2) Certain properties are pledged as security under our secured mortgage debt and assessment bonds at December 31, 2009. For purposes of this table, the total principal balance of a debt issuance that is secured by a pool of properties is allocated among the properties in the pool based on each property s investment balance. In addition to the amounts reflected here, we also have $1.1 million of encumbrances

related to other real estate assets not included in the direct owned segment. See Schedule III Real Estate and Accumulated Depreciation to our Consolidated Financial Statements in Item 8 for additional identification of the properties pledged.

(3) In North America, includes 67 completed development properties aggregating 21.3 million square feet at a total investment of $1.1 billion that are 76.1% leased and in our development portfolio.

(4) In Europe, includes 84 completed development properties aggregating 20.9 million square feet at a total investment of $1.5 billion that are 44.1% leased and in our development portfolio.

(5) In Asia, includes 12 completed development properties aggregating 8.4 million square feet at a total investment of $1.5 billion that are 71.8% leased and in our development portfolio.

(6) Represents the total expected cost to complete a property under development and may include the cost of land, fees, permits, payments to contractors, architectural and engineering fees, interest, project management costs and other appropriate costs to be capitalized during construction and also leasing costs, rather than the total actual costs incurred to date.

(7) Amount represents investments of $314.9 million in land subject to ground leases, an investment of $36.1 million in railway depots, an investment of $29.9 million in parking lots and $4.3 million in solar panels.

(8) Other investments include: (i) restricted funds that are held in escrow pending the completion of tax-deferred exchange transactions involving operating properties ($45.6 million); (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.

Unconsolidated Investees

At December 31, 2009, our investments in and advances to unconsolidated investees totaled $2.2 billion. The property funds totaled $1.9 billion and the industrial and retail joint ventures totaled $134.0 million at December 31, 2009 and are all included in our investment management segment. The remaining unconsolidated investees totaled $141.1 million at December 31, 2009 and are not included in either of our reportable segments.

Investment Management Segment

At December 31, 2009, our ownership interests range from 20% to 50% in 15 property funds and several other entities that are presented under the equity method. We act as manager of each of these entities. We also have an ownership interest in a joint venture that we manage and do not account for under the equity method. These entities primarily own or are developing industrial properties.

The information provided in the table below (dollars and square footage in thousands) is only for our unconsolidated entities included in this segment with operating industrial properties and represents the total entity, not just our proportionate share. See Item 1 Business and Note 6 to our Consolidated Financial Statements in Item 8.

	No. of Bldgs.	No. of Markets	Rentable Square Footage	Percentage Leased	Entity s Investment (1)
North America:					
Property funds:					
ProLogis California	80	2	14,178	94.19%	$ 700,588
ProLogis North American Properties Fund I	35	16	9,033	97.04%	376,176
ProLogis North American Properties Fund VI	21	6	8,384	92.70%	507,627
ProLogis North American Properties Fund VII	29	8	6,205	86.36%	399,520
ProLogis North American Properties Fund VIII	24	8	3,064	94.61%	193,718
ProLogis North American Properties Fund IX	19	7	3,306	70.40%	191,626
ProLogis North American Properties Fund X	29	9	4,191	84.67%	224,237
ProLogis North American Properties Fund XI	12	2	3,616	96.80%	181,869
ProLogis North American Industrial Fund	258	31	49,656	94.85%	2,948,285
ProLogis North American Industrial Fund II	148	31	36,018	89.72%	2,170,506
ProLogis North American Industrial Fund III	120	7	24,693	92.10%	1,752,896
ProLogis Mexico Industrial Fund	72	11	9,144	86.41%	573,849
Property funds	847	45(2)	171,488	91.89%	10,220,897
Industrial joint ventures(3)	92	13	10,021	94.47%	444,985
Total North America	939	46(2)	181,509	92.03%	10,665,882
Europe property funds:					
ProLogis European Properties	232	28	52,978	95.80%	4,518,277
ProLogis European Properties Fund II	196	30	48,041	96.80%	4,579,539
Total Europe	428	35(2)	101,019	96.27%	9,097,816
Asia property funds:					
ProLogis Korea Fund	12	2	1,734	97.82%	150,176
Total Asia	12	2(2)	1,734	97.82%	150,176
Total unconsolidated investees	1,379	83	284,262	93.57%	$ 19,913,874

(1) Investment represents 100% of the carrying value of the properties, before depreciation, of each entity at December 31, 2009.

(2) Represents the total number of markets in each continent on a combined basis.

(3) Includes 90 properties that we manage but do not account for under the equity method.

ITEM 3. Legal Proceedings

From time to time, we and our unconsolidated investees are parties to a variety of legal proceedings arising in the ordinary course of business. We believe that, with respect to any such matters that we are currently a party to, the ultimate disposition of any such matter will not result in a material adverse effect on our business, financial position or results of operations.

ITEM 4. Submission of Matters to a Vote of Security Holders

Not applicable.

PART II

ITEM 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information and Holders

Our common shares are listed on the NYSE under the symbol PLD . The following table sets forth the high and low sale prices, as reported in the NYSE Composite Tape, and distributions per common share, for the periods indicated.

	High Sale Price	Low Sale Price	Per Common Share Cash Distribution
2008:			
First Quarter	$ 64.00	$ 51.04	$ 0.5175
Second Quarter	66.51	53.42	0.5175
Third Quarter	54.89	34.61	0.5175
Fourth Quarter	39.85	2.20	0.5175
2009:			
First Quarter	$ 16.68	$ 4.87	$ 0.25
Second Quarter	9.77	6.10	0.15
Third Quarter	13.30	6.54	0.15
Fourth Quarter	15.04	10.76	0.15
2010:			
First Quarter (through February 19)	$ 14.12	$ 11.32	$ 0.15(1)

(1) Declared on February 1, 2010 and payable on February 26, 2010 to holders of record on February 12, 2010.

On February 19, 2010, we had approximately 474,204,900 common shares outstanding, which were held of record by approximately 7,900 shareholders.

Distributions and Dividends

In order to comply with the REIT requirements of the Code, we are generally required to make common share distributions and preferred share dividends (other than capital gain distributions) to our shareholders in amounts that together at least equal (i) the sum of (a) 90% of our REIT taxable income computed without regard to the dividends paid deduction and net capital gains and (b) 90% of the net income (after tax), if any, from foreclosure property, minus (ii) certain excess non-cash income. Our common share distribution policy is to distribute a percentage of our cash flow that ensures that we will meet the distribution requirements of the Code and that allows us to maximize the cash retained to meet other cash needs, such as capital improvements and other investment activities.

The payment of common share distributions is dependent upon our financial condition, operating results and REIT distribution requirements and may be adjusted at the discretion of the Board during the year.

In addition to common shares, we have issued cumulative redeemable preferred shares of beneficial interest. At December 31, 2009, we had three series of preferred shares outstanding (Series C Preferred Shares , Series F Preferred Shares and Series G Preferred Shares). Holders of each series of preferred shares outstanding have limited voting rights, subject to certain conditions, and are entitled to receive cumulative preferential dividends based upon each series respective liquidation preference. Such dividends are payable quarterly in arrears on the last day of March, June, September and December. Dividends on preferred shares are payable when, and if, they have been declared by the Board, out of funds legally available for payment of dividends. After the respective redemption dates, each series of preferred shares can be redeemed at our option. The cash redemption price (other than the portion consisting of accrued and unpaid dividends) with respect to Series C Preferred Shares is payable solely out of the cumulative sales proceeds of other capital shares of ours, which may include shares of other series of preferred shares. With respect to the payment of dividends, each series of preferred shares ranks on parity with our other series of preferred shares. Annual per share dividends paid on each series of preferred shares were as follows for the periods indicated:

	Years Ended December 31, 2009	2008
Series C Preferred Shares	$ 4.27	$ 4.27
Series F Preferred Shares	$ 1.69	$ 1.69
Series G Preferred Shares	$ 1.69	$ 1.69

Pursuant to the terms of our preferred shares, we are restricted from declaring or paying any distribution with respect to our common shares unless and until all cumulative dividends with respect to the preferred shares have been paid and sufficient funds have been set aside for dividends that have been declared for the then-current dividend period with respect to the preferred shares.

For more information regarding our distributions and dividends, see Note 11 to our Consolidated Financial Statements in Item 8.

Securities Authorized for Issuance Under Equity Compensation Plans

For information regarding securities authorized for issuance under our equity compensation plans see Notes 11 and 12 to our Consolidated Financial Statements in Item 8.

Other Shareholder Matters

Other Issuances of Common Shares

In 2009, we issued 413,500 common shares, upon exchange of limited partnership units in our majority-owned and consolidated real estate partnerships. These common shares were issued in transactions exempt from registration under Section 4(2) of the Securities Act of 1933.

Common Share Plans

We have approximately $84.1 million remaining on our Board authorization to repurchase common shares that began in 2001. We have not repurchased our common shares since 2003.

See our 2010 Proxy Statement for further information relative to our equity compensation plans.

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ITEM 6. Selected Financial Data

The following table sets forth selected financial data relating to our historical financial condition and results of operations for 2009 and the four preceding years. Certain amounts for the years prior to 2009 presented in the table below have been reclassified to conform to the 2009 financial statement presentation and to reflect discontinued operations. The amounts in the table below are in millions, except for per share amounts.

	Years Ended December 31,				
	2009	2008 (1)	2007 (1)	2006	2005
Operating Data:					
Total revenues (2)	$ 1,223	$ 5,566	$ 6,106	$ 2,362	$ 1,748
Total expenses	$ 1,177	$ 4,989	$ 5,007	$ 1,636	$ 1,355
Operating income (2)	$ 46	$ 577	$ 1,099	$ 726	$ 393
Interest expense	$ 373	$ 385	$ 390	$ 296	$ 177
Earnings (loss) from continuing operations (3)	$ (265)	$ (282)	$ 929	$ 679	$ 272
Discontinued operations (4)	$ 289	$ (168)	$ 129	$ 199	$ 129
Consolidated net earnings (loss)	$ 24	$ (450)	$ 1,058	$ 878	$ 401
Net earnings (loss) attributable to common shares	$ (3)	$ (479)	$ 1,028	$ 849	$ 371
Net earnings (loss) per share attributable to common shares Basic:					
Continuing operations	$ (0.73)	$ (1.18)	$ 3.50	$ 2.64	$ 1.19
Discontinued operations	0.72	(0.64)	0.50	0.81	0.63
Net earnings (loss) per share attributable to common shares Basic (3)	$ (0.01)	$ (1.82)	$ 4.00	$ 3.45	$ 1.82
Net earnings (loss) per share attributable to common shares Diluted:					
Continuing operations	$ (0.73)	$ (1.18)	$ 3.38	$ 2.55	$ 1.16
Discontinued operations	0.72	(0.64)	0.48	0.77	0.60
Net earnings (loss) per share attributable to common shares Diluted (3)	$ (0.01)	$ (1.82)	$ 3.86	$ 3.32	$ 1.76
Weighted average common shares outstanding:					
Basic	403	263	257	246	203
Diluted	403	263	267	257	214
Common Share Distributions:					
Common share cash distributions paid	$ 272	$ 543	$ 473	$ 393	$ 297
Common share distributions paid per share	$ 0.70	$ 2.07	$ 1.84	$ 1.60	$ 1.48
FFO (5):					
Reconciliation of net earnings to FFO:					

Net earnings (loss) attributable to common shares	$ (3)	$ (479)	$ 1,028	$ 849	$ 371
Total NAREIT defined adjustments	213	449	150	149	161
Total our defined adjustments	(71)	164	28	(53)	(2)
FFO attributable to common shares as defined by ProLogis, including significant non-cash items	139	134	1,206	945	530
Add (deduct) significant non-cash items:					
Impairment of real estate properties	331	275			
Impairment of goodwill and other assets	164	321			
Impairment (net gain) related to disposed assets China operations	(3)	198			
Gain on early extinguishment of debt	(172)	(91)			
Losses related to temperature-controlled distribution assets					25
Our share of the loss/impairment recorded by an unconsolidated investee		108			
Our share of certain losses recognized by the property funds, net	9				
FFO attributable to common shares as defined by ProLogis, excluding significant non-cash items	$ 468	$ 945	$ 1,206	$ 945	$ 555
Cash Flow Data:					
Net cash provided by operating activities (2)	$ 116	$ 884	$ 1,233	$ 687	$ 488
Net cash provided by (used in) investing activities	$ 1,208	$ (1,343)	$ (4,079)	$ (2,069)	$ (2,223)
Net cash provided by (used in) financing activities	$ (1,463)	$ 358	$ 2,742	$ 1,645	$ 1,713

	As of December 31,				
	2009	**2008 (1)**	**2007 (1)**	**2006**	**2005**
Financial Position:					
Real estate owned, excluding land held for development, before depreciation	$ 12,647	$ 13,243	$ 14,428	$ 12,500	$ 10,830
Land held for development	$ 2,569	$ 2,483	$ 2,153	$ 1,397	$ 1,045
Investments in and advances to unconsolidated investees	$ 2,152	$ 2,270	$ 2,345	$ 1,300	$ 1,050
Total assets	$ 16,885	$ 19,269	$ 19,724	$ 15,904	$ 13,126
Total debt	$ 7,978	$ 10,711	$ 10,217	$ 8,387	$ 6,678
Total liabilities	$ 8,878	$ 12,511	$ 11,920	$ 9,453	$ 7,580
Noncontrolling interests	$ 20	$ 20	$ 79	$ 52	$ 58
ProLogis shareholders equity	$ 7,987	$ 6,738	$ 7,725	$ 6,399	$ 5,488
Number of common shares outstanding	474	267	258	251	244

(1) Effective January 1, 2009, we adopted a new accounting standard related to our convertible debt that resulted in the restatement of 2008 and 2007 amounts. See Note 2 to our Consolidated Financial Statements in Item 8 for more information.

(2) Changes in global economic conditions in late 2008 resulted in changes to our business strategy, including the elimination of our CDFS segment. During 2009, we contributed and sold certain properties. However, they are now reflected as net gains, rather than revenues, in our Consolidated Statements of Operations and as cash provided by investing activities, rather than operating. See our Consolidated Financial Statements in Item 8 for more information.

(3) During 2009, we recognized impairment charges of $331.6 million on certain of our real estate properties, $143.6 million on certain of our unconsolidated investments, and $20.0 million related to other assets. During 2008, we recognized impairment charges of $274.7 million on certain of our real estate properties, $175.4 million related to goodwill, $113.7 million on certain of our unconsolidated investments, $31.5 million related to other assets, and our share of impairment charges recorded by an unconsolidated investee of $108.2 million. See our Consolidated Financial Statements in Item 8 for more information.

(4) Discontinued operations include income (loss) attributable to assets held for sale and disposed properties, net gains recognized on the disposition of properties to third parties and, in 2008, an impairment charge of $198.2 million as a result of our sale in February 2009 of our China operations. Amounts in 2005 include impairment charges related to temperature controlled distribution assets of $25.2 million.

(5) Funds from operations (FFO) is a non-U.S. generally accepted accounting principle (GAAP) measure that is commonly used in the real estate industry. The most directly comparable GAAP measure to FFO is net earnings. Although the National Association of Real Estate Investment Trusts (NAREIT) has published a definition of FFO, modifications to the NAREIT calculation of FFO are common among REITs, as companies seek to provide financial measures that meaningfully reflect their business. FFO, as we define it, is presented as a supplemental financial measure. FFO is not used by us as, nor should it be considered to be, an alternative to net earnings computed under GAAP as an indicator of our operating performance or as an alternative to cash from operating activities computed under GAAP as an indicator of our ability to fund our cash needs.

FFO is not meant to represent a comprehensive system of financial reporting and does not present, nor do we intend it to present, a complete picture of our financial condition and operating performance. We believe net earnings computed under GAAP remains the primary measure of performance and that FFO is only meaningful when it is used in conjunction with net earnings computed under GAAP. Further, we believe that our consolidated financial statements, prepared in accordance with GAAP, provide the most meaningful picture of our financial condition and our operating performance.

At the same time that NAREIT created and defined its FFO concept for the REIT industry, it also recognized that management of each of its member companies has the responsibility and authority to publish financial information that it regards as useful to the financial community. We believe that financial analysts, potential investors and shareholders who review our operating results are best served by a defined FFO measure that includes other adjustments to net earnings computed under GAAP in addition to those included in the NAREIT defined measure of FFO. Our FFO measures are discussed in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Funds From Operations .

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

You should read the following discussion in conjunction with our Consolidated Financial Statements included in Item 8 of this report and the matters described under Item 1A. Risk Factors .

Management s Overview

We are a self-administered and self-managed REIT that owns, operates and develops real estate properties, primarily industrial properties, in North America, Europe and Asia (directly and through our unconsolidated investees). Our business is primarily driven by requirements for modern, well-located industrial space in key global distribution locations. Our focus on our customers needs has enabled us to become a leading global provider of industrial distribution properties.

Our business strategy currently includes two operating 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 certain other unconsolidated investees, and the properties they own. We generate revenues; earnings; FFO, as defined at the end of Item 7; and cash flows through our segments primarily as follows:

Direct Owned Segment-We earn rent from our customers, including reimbursements of certain operating costs, under long-term operating leases for the properties that we own. The revenue in this segment has decreased due to contribution of properties to property funds and a decrease in rental rates on turnover, offset partially with increases in occupancy levels within our development portfolio. Rental revenues generated by the lease-up of newly developed properties have not been adequate to offset the loss of rental revenues from the decrease in the property portfolio. We expect our total revenues from this segment to increase slightly in 2010 through increases in occupied square feet predominantly in our development portfolio, offset partially with decreases from contributions of properties we made in 2009 or may make in 2010. We anticipate the increases in occupied square feet to come from leases that were signed in 2009, but have not commenced occupancy, and future leasing activity in 2010. Our development portfolio, including completed development properties and those currently under development, was 64.3% leased at December 31, 2009 and 41.4% leased at December 31, 2008. Our intent is to hold the properties in our direct owned segment for long-term investment, including the development of new properties utilizing our existing land. However, we may contribute certain properties to a property fund or sell land or properties to third parties, depending on market conditions and liquidity needs.

Investment Management Segment We recognize our proportionate share of the earnings or losses from our investments in unconsolidated property funds and certain joint ventures that are accounted for under the equity method. In addition, we recognize fees and incentives earned for services performed on behalf of these and other entities. We provide services to these entities, which may include property management, asset management, leasing, acquisition, financing and development. We may also earn incentives from our property funds depending on the return provided to the fund partners over a specified period.

As discussed earlier, on December 31, 2008, all of the assets and liabilities in the CDFS business segment were transferred into our two remaining segments. In 2009, we recognized income from the previously deferred gains from the Japan property funds that were deferred upon original contributions and triggered with the sale of our investments. During 2008 and 2007, our CDFS business segment primarily encompassed our development or acquisition of real estate properties that were subsequently contributed to a property fund in which we had an ownership interest and managed, or sold to third parties.

Summary of 2009

In late 2008, we modified our business strategy to adjust to the global financial market and economic disruptions at that time. This new strategy entailed limiting our development activities to conserve capital and focus on strengthening our balance sheet.

Narrowing our focus allowed us to work on specific goals we set forth for 2009, which were to:

- reduce debt by $2.0 billion;
- recast our global line of credit;
- complete the properties under development as of the end of 2008 and focus on leasing our total development portfolio;

manage our core portfolio of industrial distribution properties to maintain and improve our net operating income stream from these assets;

generate liquidity through contributions of properties to our property funds and through sales of real estate to third parties; and

reduce gross G&A by 20% to 25%.

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Since December 31, 2008, we have achieved each of these goals, including reducing our debt by $2.7 billion, through the following activities:

Debt activity (all are discussed in further detail below under - Liquidity and Capital Resources):

In August 2009, we amended and restated our global line of credit (Global Line), extending the maturity to August 2012 and reducing the size of our aggregate commitments to $2.25 billion (subject to currency fluctuations), after October 2010.

On October 1, 2009, pursuant to a consent solicitation and to support our objective of simplifying our debt structure, we amended certain covenants and events of default related to certain of our senior notes.

During 2009, we issued five- and ten-year senior notes for a total of $950.0 million.

During 2009, we closed on $499.9 million of secured mortgage debt in five separate transactions.

In 2009, we repurchased certain senior and other notes and secured mortgage debt that resulted in the recognition of a gain of $172.3 million and reduced our debt obligations by $242.1 million.

Equity issuances:

On April 14, 2009, we completed a public offering of 174.8 million common shares at a price of $6.60 per share and received net proceeds of $1.1 billion (Equity Offering).

During the third quarter, we generated net proceeds of $325.1 million from the issuance of 29.8 million common shares under our at-the-market equity issuance program, after payment of $6.9 million of commissions to the sales agent.

Asset dispositions and contributions:

We generated $1.3 billion of cash from the sale of our China operations ($845.5 million) and our investments in the Japan property funds ($500.0 million) in the first quarter of 2009. We entered into a sale agreement in December 2008, at which time we recorded an impairment charge of $198.2 million on our China operations and classified the assets and liabilities as held for sale.

In connection with the sale of our investments in the Japan property funds, we recognized a net gain of $180.2 million and $20.5 million of current income tax expense. The gain is reflected as CDFS proceeds as it represents the recognition of previously deferred gains on the contributions of properties to the property funds based on our ownership interest in the property fund at the time of original contributions.

During 2009, we generated aggregate proceeds of $1.5 billion from the contribution of 43 properties to ProLogis European Properties Fund II, and the sale of land parcels and 140 properties to third parties.

Other:

We reduced our gross G&A by 26.5% in 2009 from 2008, through various cost savings initiatives, including a RIF program.

We executed leasing in our development portfolio in 2009, including completed properties and properties under development, increasing the leased percentage to 64.3% at December 31, 2009 from 41.4% at the beginning of the year.

Objectives for 2010

Now that we have achieved our goals for 2009, we believe we are in a better liquidity position and can focus on our longer-term strategy of conservative growth through the ownership, management and development of industrial properties with a concentrated focus on customer service. Included in our objectives for 2010 and beyond are to:

- retain more of our development assets in order to improve the geographic diversification of our direct owned properties as most of our planned developments are in international markets;

monetize our investment in land of $2.6 billion at December 31, 2009; and

continue to focus on staggering and extending our debt maturities.

We plan to accomplish these objectives by generating proceeds through selective sales of completed real estate properties (primarily located in the U.S.) and land parcels, and limited contribution of development properties to the property funds. We will use these proceeds to fund our development activities, which will allow us to respond to new build-to-suit opportunities to better serve our customers and to transition our non-income producing land into income producing properties. We will continue to focus on leasing the unleased portion of our development portfolio (representing 53.5 million square feet at December 31, 2009 that was 64.3% leased).

Results of Operations

Summary

The following table illustrates the net operating income for each of our segments, along with the reconciling items to Income (Loss) from Continuing Operations on our Consolidated Statements of Operations (dollars in thousands):

	Years Ended December 31,			Percentage Change	
	2009	2008	2007	2009 vs 2008	2008 vs 2007
Net operating income direct owned segment	$ 606,561	$ 634,542	$ 734,707	(4)%	(14)%
Net operating income investment management segment	122,694	15,680	162,003	682%	(90)%
Net operating income CDFS business segment	180,237	654,746	763,695	(72)%	(14)%
General and administrative expenses	(180,486)	(177,350)	(170,398)	2%	4%
Reduction in workforce	(11,745)	(23,131)		(49)%	N/A
Impairment of real estate properties	(331,592)	(274,705)	(12,600)	21%	2,080%
Depreciation and amortization expense	(315,807)	(317,315)	(286,279)		11%
Earnings from certain other unconsolidated investees, net	4,712	8,796	7,794	(46)%	13%
Interest expense	(373,305)	(385,065)	(389,844)	(3)%	(1)%
Impairment of goodwill and other assets	(163,644)	(320,636)		(49)%	N/A
Other income (expense), net	(39,809)	16,063	31,686	(348)%	(49)%
Net gains on dispositions of real estate properties	35,262	11,668	146,667	202%	(92)%
Foreign currency exchange gains (losses), net	35,626	(148,281)	8,132	124%	(1,923)%
Gain on early extinguishment of debt	172,258	90,719		90%	N/A
Income tax expense	(5,975)	(68,011)	(66,855)	(91)%	2%
	$ (265,013)	$ (282,280)	$ 928,708	(6)%	(130)%

Earnings (loss) from continuing
operations

Effective January 1, 2009, we adopted a new accounting standard related to our convertible debt that resulted in the restatement of 2008 and 2007 amounts (see Note 2 to our Consolidated Financial Statements in Item 8 for more information). Also, see Note 20 to our Consolidated Financial Statements in Item 8 for additional information regarding our segments and a reconciliation of net operating income to earnings (loss) before income taxes.

We began to experience the effects from the global financial market and economic disruptions in late 2008, which resulted in changes to our business strategy. In order to generate liquidity, we identified certain real estate properties that we no longer expected to hold for long-term investment. We recognized impairment charges in 2009 and 2008 due to the change in our intent and based on valuations of that real estate, which had declined due to market conditions. The impairment charges related to goodwill and other assets that we recognized in 2009 and 2008 were similarly caused by the decline in the real estate markets. The decline in the real estate markets has also led to lower profit margins on contributions and sales. The financial market disruption also provided us the opportunity to repurchase some of our debt at a discount, resulting in a net gain.

Our direct owned portfolio has decreased each year since 2007, principally from the contributions of properties to the unconsolidated property funds. This portfolio decrease impacts our direct owned segment through the decrease in net operating income. Occupancy levels also affect net operating income for this segment. We have begun to see an increase in leasing activity in 2009, after declines in 2008.

In February 2009, we sold our investment in the Japan funds, which were included in the Investment Management segment, and continued to manage the properties until July 2009. In connection with the termination of the management agreement, we earned a termination fee of $16.3 million. In 2008, we recognized a loss of $108.2 million representing our share of the loss recognized by PEPR upon the sale and impairment of its ownership interests in ProLogis European Properties Fund II (PEPF II). We also recognized our share of realized and unrealized losses of $32.3 million related to interest rate derivative contracts held by certain property funds. In 2007, we recognized $38.2 million that represented our proportionate share of a gain recognized by PEPR from the sale of certain properties. Without these items in 2009, 2008 and 2007, net operating income from this segment in 2009 decreased $17.2 million from 2008 and increased $32.4 million in 2008 compared to 2007.

As discussed earlier, we changed our business strategy in late 2008 and discontinued the CDFS business segment. In 2009, the only transaction in this segment is the gain from the sale of our investments in the Japan property funds in February 2009. The decrease in net operating income from this segment in 2008 compared to 2007 is due to decreased contribution levels and lower profit margins.

Direct Owned Segment

The net operating income of the direct owned segment consists of rental income and rental expenses from industrial and retail properties that we own and land subject to ground leases. The size and leased percentage of our direct owned operating portfolio fluctuates due to the timing of development and contributions and affects the net operating income we recognize in this segment. Also included in this segment is land we own and lease to customers under ground leases, development management and other income and land holding and acquisition costs. The net operating income from the direct owned segment, excluding amounts presented as discontinued operations in our Consolidated Financial Statements, was as follows (in thousands):

	Years Ended December 31, 2009	2008	2007
Rental and other income	$ 900,082	$ 939,507	$ 996,340
Rental and other expenses	293,521	304,965	261,633
Total net operating income - direct owned segment	$ 606,561	$ 634,542	$ 734,707

We had a direct owned operating portfolio at December 31, 2009 and 2008, as follows (square feet in thousands):

	2009			2008		
	Number of Properties	Square Feet	Leased %	Number of Properties	Square Feet	Leased %
Core industrial properties	1,025	141,019	90.1%	1,157	154,947	92.2%
Retail properties	27	1,014	91.5%	34	1,404	94.5%

Subtotal non-development properties	1,052	142,033	90.1%	1,191	156,351	92.2%
Completed development properties (1)	163	50,604	62.2%	140	40,763	43.5%
Total	1,215	192,637	82.8%	1,331	197,114	82.1%

(1) Included at December 31, 2009 are 51 properties with 14.7 million square feet on which development was completed in 2009. Included as of December 31, 2008 are 42 properties with 9.0 million square feet that were contributed to PEPF II during 2009 and therefore, are no longer in our portfolio as of December 31, 2009. The leased percentage fluctuates based on the composition of properties.

The decrease in rental income in 2009 from 2008, and in 2008 from 2007, is due to the decrease in the property portfolio, which is a result of contributions of properties to the unconsolidated property funds and decreases in rental rates on turnovers, offset partially by increased occupancy in our development properties;

and changes in rental recoveries. Under the terms of our lease agreements, we are able to recover the majority of our rental expenses from customers. Rental expense recoveries, included in both rental income and expenses, were $194.8 million, $210.9 million and $197.9 million for the years ended December 31, 2009, 2008 and 2007 respectively. The decrease from 2008 to 2009 is primarily due to the decrease in the property portfolio. In addition to the decreased recoverable expenses, property management costs and certain non-recoverable costs have decreased as well. The non-recoverable costs in 2008 include a $6.0 million insurance adjustment due to a tornado that struck certain properties owned by us and owned by the property funds and insured by us through our insurance company.

Investment Management Segment

The net operating income of the investment management segment consists of: (i) earnings or losses recognized under the equity method from our investments in property funds and certain joint ventures; (ii) fees and incentives earned for services performed; and (iii) interest earned on advances; offset by (iv) our direct costs of managing these entities and the properties they own.

The net earnings or losses of the unconsolidated investees may include the following income and expense items, in addition to rental income and rental expenses: (i) interest income and interest expense; (ii) depreciation and amortization expenses; (iii) general and administrative expenses; (iv) income tax expense; (v) foreign currency exchange gains and losses; (vi) gains or losses on dispositions of properties or investments; and (vii) impairment charges. The fluctuations in income we recognize in any given period are generally the result of: (i) variances in the income and expense items of the unconsolidated investees; (ii) the size of the portfolio and occupancy levels; (iii) changes in our ownership interest; and (iv) fluctuations in foreign currency exchange rates at which we translate our share of net earnings to U.S. dollars, if applicable.

We report the costs associated with our investment management segment for all periods presented as a separate line item Investment Management Expenses in our Consolidated Statements of Operations of $43.4 million, $50.8 million and $33.9 million in 2009, 2008 and 2007, respectively. These costs include the direct expenses associated with the asset management of the property funds provided individuals who are assigned to our investment management segment. In addition, in order to achieve efficiencies and economies of scale, all of our property management functions are provided by a team of professionals who are assigned to our direct owned segment. These individuals perform the property-level management of the properties we own and the properties we manage that are owned by the unconsolidated investees. We allocate the costs of our property management function to the properties we own (reported in Rental Expenses) and the properties owned by the unconsolidated investees (included in Investment Management Expenses), by using the square feet owned at the beginning of the period by the respective portfolios. The increases in 2008 were due to the increased size of our investment management portfolio, while the decrease in 2009 was due to the sale of our Japan investments.

See Note 6 to our Consolidated Financial Statements in Item 8 for additional information on our unconsolidated investees.

The net operating income from the investment management segment for the years ended December 31 was as follows (in thousands):

	2009	2008	2007
Unconsolidated property funds:			
North America (1)	$ 29,996	$ 40,982	$ 50,140
Europe (2)	67,651	(60,488)	90,617

Asia (3)	6,188	30,640	24,467
Other (4)	18,859	4,546	(3,221)
Total net operating income - investment management segment	$ 122,694	$ 15,680	$ 162,003

(1) Represents the income earned by us from our investments in 12 property funds in North America. Our ownership interests ranged from 20% to 50% at December 31, 2009. These property funds on a combined basis owned 847, 854 and 777 properties that were 91.9%, 94.7% and 96.1% leased at December 31, 2009, 2008 and 2007, respectively. The fluctuation in properties is primarily due to contributions we made to two of the funds (North American Industrial Fund and Mexico Industrial Fund) in 2007 and 2008, offset by the sale of properties to third parties by certain funds in 2009.

Included in 2009 are $15.8 million of expenses that represent our share of deferred tax expense recognized by the Mexico Industrial Fund and $6.3 million of losses that represents our share of realized and unrealized losses that were recognized by certain of the property funds related to derivative contracts that no longer met the requirements for hedge accounting. These expenses are offset by $7.2 million that represents our share of the gain from the early extinguishment of debt by the North American Industrial Fund.

Included in 2008 are $28.2 million of losses that relate to the change in value and settlement of derivative contracts.

(2) Represents the income earned by us from our investments in two property funds in Europe, PEPR and PEPF II. On a combined basis, these funds owned 428, 399 and 288 properties that were 96.3%, 97.6% and 97.7% leased at December 31, 2009, 2008 and 2007, respectively. The increase in properties for all three years is due primarily to contributions we made to PEPF II, offset somewhat by the sale of properties by PEPR to third parties.

Our common ownership interest in PEPR and PEPF II was 24.8% and 32.1%, respectively, at December 31, 2009. At December 31, 2008, our ownership interest in PEPR was 24.9% and our ownership interest in PEPF II included our direct ownership interest of 34.3% and our indirect 2.6% interest through our ownership in PEPR.

Included in 2008 are $108.2 million of losses representing our share of losses recognized by PEPR on the sale of its 20% investment in PEPF II to us and an impairment charge related to the sale of its remaining 10% interest. In February 2009, PEPR sold its 10% interest to a third party, which decreased our ownership interest in PEPF II to 34.3%.

(3) Represents the income earned by us from our 20% ownership interest in one property fund in South Korea and two property funds in Japan through February 2009, at which time we sold our investments in Japan. These property funds on a combined basis owned 12, 83 and 66 properties that were 97.8%, 99.6% and 99.3% leased at December 31, 2009, 2008 and 2007.

(4) Includes property management fees from joint ventures and other entities offset by investment management expenses. 2009 includes fees earned from the Japan property funds after February 2009 through July 2009 and, in connection with the termination of the property management agreement for these properties, we earned a termination fee of $16.3 million.

CDFS Business Segment

Net operating income of the CDFS business segment for 2009, 2008 and 2007 was $180.2 million, $654.7 million and $763.7 million, respectively. As previously discussed, our business strategy no longer includes the CDFS business segment. The amount in 2009 is the gain from the sale of our investments in the Japan property funds in February 2009, while the amounts in 2008 and 2007 consisted of gains recognized principally from the contributions of 180 properties and 262 properties, respectively, to the property funds.

Operational Outlook

During 2009, industrial property fundamentals continued to mirror the global economic weakness. We are experiencing a very challenging leasing environment throughout the majority of our markets with increased leasing costs and lower rental rates due to the competitive markets. Partially offsetting the impact of these market trends on our business is our continued strong customer retention.

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However, during the third quarter of 2009 and into the fourth quarter, the global market fundamentals began to show signs of stability. Globally, industrial demand is still soft, but we are seeing signs of increased customer activity. Market occupancy declines are slowing globally and leasing activity has increased. Market rents remain lower than a year ago and we expect this to remain the case in the near future. However, we believe this situation will reverse itself when market occupancies trend upward.

The industry as a whole has had sharply reduced levels of new supply. We expect demand in the U.S. to improve as Gross Domestic Product (GDP) growth returns. We believe significant obsolescence and ownership shifts in Europe and Asia will continue to drive demand in those regions.

In our total operating portfolio, including properties managed by us and owned by our unconsolidated investees that are accounted for under the equity method, we leased 108.1 million square feet, 121.5 million square feet, and 108.6 million square feet of space during 2009, 2008 and 2007, respectively. The total operating portfolio was 89.2% leased at December 31, 2009, as compared to 88.4% leased at December 31, 2008.

In our direct owned portfolio, we leased 57.9 million square feet, including 21.1 million square feet of leases in our development portfolio (both completed properties and those under development) in 2009. Repeat business with our global customers is important to our long-term growth. During 2009, 57.4% of the space leased in our newly developed properties was with repeat customers. Although leasing activity was slower on expiring leases during 2009, existing customers renewed their leases 75.1% of the time in 2009 as compared with 79.3% in 2008. As of December 31, 2009, our total direct owned operating portfolio of industrial and retail properties was 82.8% leased, as compared with 82.1% at December 31, 2008. Excluding the development portfolio, our direct owned operating portfolio was 90.1% leased at December 31, 2009, as compared to 92.2% leased at December 31, 2008.

As we previously disclosed, we have significantly reduced our development activity. During 2009, we started development of seven properties totaling 2.3 million square feet that were all 100% leased prior to the commencement of development. We are receiving an increase in requests for build-to-suit (pre-leased) proposals. In an effort to monetize our land holdings, we have begun to take advantage of opportunities to develop principally pre-leased buildings on our land, including opportunities to use development capital or take out commitments from one of our partners or customers. We will continue to evaluate future opportunities for such developments directly and within unconsolidated investees.

In addition during 2009, we completed the development of 67 buildings aggregating 19.1 million square feet that were 66.9% leased at December 31, 2009, contributed 43 development properties to PEPF II aggregating 9.2 million square feet that were 97.6% leased, and sold 2 development properties to a third party. As of December 31, 2009, our development portfolio consisted of 163 completed properties that were 62.2% leased and 5 properties under development that were 100% leased, resulting in the development portfolio being 64.3% leased at December 31, 2009, as compared to 41.4% leased at December 31, 2008. As of December 31, 2009, we expect to incur an additional $307.8 million of development and leasing costs related to our development portfolio.

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Other Components of Operating Income

General and Administrative Expenses (G&A) *and* Reduction in Workforce (RIF)

Net G&A expenses for the years ended December 31, consisted of the following (in thousands):

	2009	2008	2007
Gross G&A	$ 294,598	$ 400,648	$ 359,792
Reclassed to discontinued operations, net of capitalized amounts	(1,305)	(21,721)	(11,354)
Reported as rental expenses	(19,446)	(25,306)	(27,460)
Reported as investment management expenses	(43,416)	(50,761)	(33,948)
Capitalized amounts	(49,945)	(125,510)	(116,632)
Reported as net G&A	$ 180,486	$ 177,350	$ 170,398

In response to the difficult economic environment, in late 2008 we implemented G&A cost cutting initiatives with a near-term target of a 20% to 25% reduction in G&A, prior to capitalization or allocations for 2009. These initiatives included a RIF program and reductions to other expenses through various cost saving measures.

Due to the changes in our business strategy in the fourth quarter of 2008, we significantly reduced our new development activities, which, along with lower gross G&A, resulted in lower capitalized G&A in 2009.

We recognized $2.0 million in 2009 and $5.0 million in 2007 of expense related to a contribution to our charitable foundation.

Impairment of Real Estate Properties

During 2009, 2008 and 2007, we recognized impairment charges of real estate properties of $331.6 million, $274.7 million and $12.6 million, respectively. During 2009 and 2008, as a result of significant adverse changes in market conditions, we reviewed our assets for potential impairment under the appropriate accounting literature. We considered current market conditions, as well as our intent with regard to owning or disposing of the asset, and recognized impairments of certain operating buildings, land and predevelopment costs, all included in our direct owned segment. In 2007, the impairment charge related to a portfolio of buildings we had decided to sell. See Note 14 to our Consolidated Financial Statements in Item 8 for more information.

Depreciation and Amortization

Depreciation and amortization expenses were $315.8 million, $317.3 million, and $286.3 million in 2009, 2008, and 2007, respectively. The increase in 2008 over 2007 is due primarily to an adjustment in depreciation expense and a higher level of amortization expense related to leasing commissions and other leasing costs. As of September 30, 2008, we had classified a group of properties that we had developed or acquired with the intent to contribute to a property fund or sell to a third party. Our policy was to not depreciate these properties during the period from completion until contribution, provided they met certain criteria. With the changes in our business segments and the uncertainty as to when, or if, these properties will be contributed, in the fourth quarter of 2008, we recorded an adjustment of $30.9 million to depreciate these buildings through December 31, 2008 based on our depreciation policy for buildings we expect to hold for long-term investment.

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Interest Expense

Interest expense for the years ended December 31, includes the following components (in thousands):

	2009	2008	2007
Interest expense	$ 382,899	$ 477,933	$ 487,410
Amortization of discount, net	67,542	63,676	15,952
Amortization of deferred loan costs	17,069	12,238	10,362
Interest expense before capitalization	467,510	553,847	513,724
Capitalized amounts	(94,205)	(168,782)	(123,880)
Net interest expense	$ 373,305	$ 385,065	$ 389,844

As previously discussed, on January 1, 2009, we adopted a new accounting standard that required separate accounting for the debt and equity components of certain convertible debt. As a result, we restated 2008 and 2007 amounts to reflect the additional interest expense and the additional capitalized interest related to our development activities for both properties we currently own, as well as properties we contributed during the applicable periods.

The decrease in interest expense in 2009 over 2008 is due to significantly lower debt levels, offset by higher average borrowing rates and lower capitalization due to less development activity in 2009. Our future interest expense, both gross and the portion capitalized, will vary depending on, among other things, the level of our development activities.

Impairment of Goodwill and Other Assets

We performed our annual impairment review of the goodwill allocated to the direct owned segment in North America and the investment management segment in Europe during the fourth quarter of 2009 and no impairment was indicated. We own a substantial portfolio of operating real estate properties within our direct owned segment in North America and the carrying value of this segment, including goodwill, was significantly lower than the estimated net asset value. The fair value of the investment management segment in Europe was also significantly in excess of the carrying value, including goodwill. Within our investment management segment, we include our investments in property funds, as well as the fee income that is generated from the management of the property funds and the properties they own.

During the fourth quarter of 2009 we also performed our annual impairment review of the goodwill allocated to the direct owned segment in Europe. First, we estimated the fair value of this segment using a combination of net asset value analyses, discounted cash flows and market based valuation methodologies. The carrying value of this segment, including goodwill, was in excess of the estimated fair value so in accordance with our accounting policy we performed further analysis. As part of this analysis the estimated fair value of the segment was allocated to all of the identifiable assets and liabilities, with any residual value being the implied fair value of goodwill. As the implied fair value of the goodwill was in excess of the carrying value of the goodwill, we concluded that goodwill was recoverable and that no impairment was necessary.

In connection with our review of goodwill in 2008, which was triggered by the significant decrease in our common stock price and the decline in fair value of certain of our real estate properties, specifically investments in land in the United Kingdom, we recognized an impairment charge of $175.4 million related to goodwill allocated to the direct owned segment in the Europe reporting unit. This goodwill related to an acquisition made in 2007.

In 2009 and 2008, we recorded impairment charges of $163.6 million and $145.2 million, respectively, on certain of our investments in and advances to unconsolidated investees, notes receivable and other assets, as we did not believe these amounts to be recoverable based on the present value of the estimated future cash flows associated with these assets.

See Notes 6 and 14 to our Consolidated Financial Statements in Item 8 for further information on the impairment of our investments in and advances to unconsolidated investees, goodwill and other assets.

Other Income (Expense), Net

We recognized other expense not allocated to a segment of $39.8 million in 2009 and income of $16.0 million and $31.7 million in 2008 and 2007, respectively. The primary components in 2009 were adjustments of $20.3 million to accruals we had related to rent indemnifications we had made to certain property funds due to changes in leasing and other assumptions and settlement costs of $13.0 million related to an obligation we assumed in the 2005 acquisition of Catellus. The income in 2008 and 2007 was primarily interest income.

Net Gains on Dispositions of Real Estate Properties

During 2009, we recognized net gains of $35.3 million related to the contribution of properties ($13.0 million), the recognition of previously deferred gains from PEPR and ProLogis Korea Fund on properties they sold to third parties ($9.9 million), the sale of land parcels ($6.4 million), and a gain on settlement of an obligation to our fund partner in connection with the restructure of the North American Industrial Fund II ($6.0 million). The contribution activity resulted in total cash proceeds of $643.7 million and included 43 properties aggregating 9.2 million square feet to PEPF II.

In 2008 and 2007, we recognized gains of $11.7 million and $146.7 million on the contribution of 2 properties and 77 properties, respectively, from our direct owned segment (non-CDFS properties) to certain of the unconsolidated property funds. If we realize a gain on contribution of a property, we recognize the portion attributable to the third party ownership in the property fund. 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, these dispositions are not included in discontinued operations.

As discussed earlier, in 2008 and 2007, contribution activity of CDFS/development properties and land was reported as CDFS Proceeds and Cost of CDFS Dispositions within our CDFS business segment.

Foreign Currency Exchange Gains (Losses), Net

We and certain of our foreign consolidated subsidiaries have intercompany or third party debt that is not denominated in the entity s functional currency. When the debt is remeasured against the functional currency of the entity, a gain or loss may result. To mitigate our foreign currency exchange exposure, we borrow in the functional currency of the borrowing entity when appropriate. Certain of our intercompany debt is remeasured with the resulting adjustment recognized as a cumulative translation adjustment in Other Comprehensive Income (Loss). This treatment is applicable to intercompany debt that is deemed to be long-term in nature. If the intercompany debt is deemed short-term in nature, when the debt is remeasured, we recognize a gain or loss in earnings.

We recognized net foreign currency exchange gains of $35.6 million in 2009, losses of $148.3 million in 2008, and gains of $8.1 million in 2007. Predominantly, the gains or losses recognized in earnings relate to intercompany loans between the U.S. parent and our consolidated subsidiaries in Japan and Europe due to the fluctuations in the exchange rates of U.S. dollars to the yen, euro and British pound sterling.

Additionally, we may utilize derivative financial instruments to manage certain foreign currency exchange risks. During 2009, we entered into and settled forward contracts to buy yen to manage the foreign currency fluctuations related to the sale of our investments in the Japan property funds and recognized losses of $5.7 million. During the year ended December 31, 2008, we recognized net losses of $3.1 million associated with forward contracts on certain intercompany loans. Included in our 2007 foreign currency exchange gains was $26.6 million from the settlement of several foreign currency forward contracts we purchased to manage the foreign currency fluctuations of an acquisition price, which was denominated in Australian dollars. See Note 18 to our Consolidated Financial Statements in Item 8 for more information on our derivative financial instruments.

Gain on Early Extinguishment of Debt

During late 2008 and all of 2009, in connection with our announced initiatives discussed earlier, we purchased portions of several series of notes outstanding at a discount and extinguished some secured mortgage debt prior to maturity, which resulted in the recognition of gains of $172.3 million in 2009 and $90.7 million in 2008. The gain represents the difference between the recorded debt, including related debt issuance costs, premiums and discounts, and the consideration we paid to retire the debt. See Note 9 to our Consolidated Financial Statements in Item 8 for more information.

Income Tax Expense

During 2009, 2008 and 2007, our current income tax expense was $29.3 million, $63.4 million and $66.3 million, respectively. We recognize current income tax expense for income taxes incurred by our taxable REIT subsidiaries and in certain foreign jurisdictions, as well as certain state taxes. We also include in current income tax expense the interest accrual associated with our unrecognized tax benefit liabilities. Our current income tax expense fluctuates from period to period based primarily on the timing of our taxable income and changes in tax and interest rates. In the first quarter of 2009, in connection with the sale of our investments in the Japan property funds, we recognized current tax expense of $20.5 million.

Certain 1999 through 2005 federal and state income tax returns of Catellus have been under audit by the Internal Revenue Service (IRS) and various state taxing authorities. In November 2008, we agreed to enter into a closing agreement with the IRS for the settlement of the 1999 through 2002 audits. As a result, in 2008, we increased our unrecognized tax liability by $85.4 million, including interest and penalties. As this liability was an income tax uncertainty related to an acquired company, we increased goodwill by $66.9 million related to the liability that existed at the acquisition date. The remaining amount is included in current income tax expense in 2008. We made cash payments of $226.6 million in 2009 in connection with this closing agreement and settlement of certain state tax audits.

In 2009, we recognized a deferred tax benefit of $23.3 million, and in 2008 and 2007, we recognized deferred tax expense of $4.6 million and $0.5 million, respectively. Deferred income tax expense is generally a function of the period s temporary differences and the utilization of net operating losses generated in prior years that had been previously recognized as deferred income tax assets in certain of our taxable subsidiaries operating in the U.S. or in foreign jurisdictions. Deferred income tax liabilities also relate to indemnification agreements for contributions to certain property funds.

Our income taxes and the current tax indemnification agreements are discussed in more detail in Note 15 to our Consolidated Financial Statements in Item 8.

Discontinued Operations

Discontinued operations represent a component of an entity that has either been disposed of or is classified as held for sale if both the operations and cash flows of the component have been or will be eliminated from ongoing operations of the entity as a result of the disposal transaction and the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction. The results of operations of the component of the entity that has been classified as discontinued operations are reported separately in our consolidated financial statements.

In February 2009, we sold our operations in China. Accordingly, we classified our China operations as held for sale at December 31, 2008 and included the results in discontinued operations for all periods presented in our Consolidated

Statements of Operations. Based on the carrying values of the assets and liabilities to be sold as compared with the estimated sales proceeds, less costs to sell, we recognized an impairment charge of $198.2 million in 2008, which is included in discontinued operations. See additional information on the China sale in Note 3 to our Consolidated Financial Statements in Item 8. In addition to our China operations, we had one and two properties classified as held for sale as of December 31, 2008 and 2007 and the results of these properties are also included in discontinued operations.

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During 2009, 2008 and 2007, in addition to our China operations, we disposed of land subject to ground leases and 140, 15 and 80 properties, respectively, to third parties. These properties met the requirements to be classified as discontinued operations. Therefore, the results of operations for these properties, as well as the gain recognized upon disposition, are included in discontinued operations.

Other Comprehensive Income (Loss) Foreign Currency Translation Gains (Losses), Net

For our consolidated subsidiaries whose functional currency is not the U.S. dollar, we translate their financial statements into U.S. dollars at the time we consolidate those subsidiaries financial statements. Generally, assets and liabilities are translated at the exchange rate in effect as of the balance sheet date. The resulting translation adjustments, due to the fluctuations in exchange rates from the beginning of the period to the end of the period, are included in Other Comprehensive Income (Loss).

During 2009, we recognized net gains in Other Comprehensive Income (Loss) of $59.9 million. This includes $209.2 million in gains related to foreign currency translations of our international business units into U.S. dollars upon consolidation, mainly as a result of the strengthening of the British pound sterling to the U.S. dollar offset partially by the strengthening of the U.S. dollar to the euro and yen, from the beginning of the year to December 31, 2009. These gains were offset by a decrease in other comprehensive income of $149.3 million, as a result of the sale of our China operations and our investments in the Japan property funds in February 2009, and represents the gains previously included as currency translation adjustments. During 2008, we recognized $279.6 million of net losses due to the strengthening of the U.S dollar to the euro and British pound sterling, offset partially by the strengthening of the yen to the U.S. dollar. During 2007, we recognized net gains of $90.0 million due primarily to the strengthening of the euro and British pound sterling to the U.S. dollar.

Portfolio Information

Our total operating portfolio of properties includes industrial and retail properties owned by us and industrial properties owned by the property funds and joint ventures we manage and account for on the equity method. The operating portfolio does not include properties under development, properties held for sale or any other properties owned by unconsolidated investees, and was as follows (square feet in thousands):

	December 31,					
	2009		2008		2007	
Reportable Business Segment	**Number of Properties**	**Square Feet**	**Number of Properties**	**Square Feet**	**Number of Properties**	**Square Feet**
Direct Owned	1,215	192,637	1,331	197,114	1,409	208,530
Investment Management	1,289	274,617	1,339	297,665	1,170	250,951
Totals	2,504	467,254	2,670	494,779	2,579	459,481

Same Store Analysis

We evaluate the performance of the operating properties we own and manage using a same store analysis because the population of properties in this analysis is consistent from period to period, thereby eliminating the effects of changes in the composition of the portfolio on performance measures. We include properties owned by us, and properties owned by the unconsolidated investees (accounted for on the equity method) that are managed by us (referred to as unconsolidated investees), in our same store analysis. We have defined the same store portfolio for the three months ended December 31, 2009 as those properties that were in operation at October 1, 2008 and have been in operation throughout the three-month periods in both 2009 and 2008, including completed development properties. We have removed all properties that were disposed of to a third party or were classified as held for sale from the population for both periods. We believe the factors that impact rental income, rental expenses and net operating income in the same store portfolio are generally the same as for the total portfolio. In order to derive an appropriate measure of period-to-period operating performance, we remove the effects of foreign currency exchange rate movements by using the current exchange rate to translate from local currency into U.S. dollars, for both periods, to derive the same store results. The same store portfolio, for the three months ended December 31, 2009, included 2,402 properties that aggregated 436.2 million square feet.

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The following is a reconciliation of our consolidated rental income, rental expenses and net operating income (calculated as rental income less rental expenses), for the full year as included in our Consolidated Statements of Operations in Item 8, to the respective amounts in our same store portfolio analysis for the fourth quarter.

	Three Months Ended				
	March 31,	June 30,	September 30,	December 31,	Full Year
2009					
Rental income	$ 216,662	$ 225,455	$ 221,616	$ 227,362	$ 891,095
Rental expenses	66,974	69,154	68,233	65,595	269,956
Net operating income	$ 149,688	$ 156,301	$ 153,383	$ 161,767	$ 621,139
2008					
Rental income	$ 241,663	$ 234,689	$ 222,102	$ 215,196	$ 913,650
Rental expenses	77,639	72,014	67,343	60,324	277,320
Net operating income	$ 164,024	$ 162,675	$ 154,759	$ 154,872	$ 636,330

	For the Three Months Ended December 31,		Percentage
	2009	2008	Change
Rental Income (1)(2)			
Consolidated:			
Rental income per our Consolidated Statements of Operations (see above)	$ 227,362	$ 215,196	
Adjustments to derive same store results:			
Rental income of properties not in the same store portfolio properties developed and acquired during the period and land subject to ground leases	(31,703)	(15,144)	
Effect of changes in foreign currency exchange rates and other	(1,803)	2,869	
Unconsolidated investees :			
Rental income of properties managed by us and owned by our unconsolidated investees	395,410	386,907	
Same store portfolio rental income (2)(3)	589,266	589,828	(0.10)%
Less completed development properties (4)	(49,644)	(35,425)	
Adjusted same store portfolio rental income (2)(3)(4)	$ 539,622	$ 554,403	(2.67)%
Rental Expenses (1)(5)			
Consolidated:			
Rental expenses per our Consolidated Statements of Operations (see above)	$ 65,595	$ 60,324	

Adjustments to derive same store results:			
Rental expenses of properties not in the same store portfolio properties developed and acquired during the period and land subject to ground leases	(15,220)	(7,959)	
Effect of changes in foreign currency exchange rates and other	5,596	4,773	
Unconsolidated investees :			
Rental expenses of properties managed by us and owned by our unconsolidated investees	94,727	84,659	
Same store portfolio rental expenses (3)(5)	150,698	141,797	6.28%
Less completed development properties (4)	(19,325)	(13,320)	
Adjusted same store portfolio rental expenses (3)(4)(5)	$ 131,373	$ 128,477	2.25%

	For the Three Months Ended December 31, 2009	2008	Percentage Change
Net Operating Income (1)			
Consolidated:			
Net operating income per our Consolidated Statements of Operations (see above)	$ 161,767	$ 154,872	
Adjustments to derive same store results:			
Net operating income of properties not in the same store portfolio properties developed and acquired during the period and land subject to ground leases	(16,483)	(7,185)	
Effect of changes in foreign currency exchange rates and other	(7,399)	(1,904)	
Unconsolidated investees :			
Net operating income of properties managed by us and owned by our unconsolidated investees	300,683	302,248	
Same store portfolio net operating income (3)	438,568	448,031	(2.11)%
Less completed development properties (4)	(30,319)	(22,105)	
Adjusted same store portfolio rental expenses (3)(4)	$ 408,249	$ 425,926	(4.15)%

(1) As discussed above, our same store portfolio aggregates industrial and retail properties from our consolidated portfolio and industrial properties owned by the unconsolidated investees (accounted for on the equity method) that are managed by us. During the periods presented, certain properties owned by us were contributed to a property fund and are included in the same store portfolio on an aggregate basis. Neither our consolidated results nor that of the unconsolidated investees, when viewed individually, would be comparable on a same store basis due to the changes in composition of the respective portfolios from period to period (for example, the results of a contributed property would be included in our consolidated results through the contribution date and in the results of the unconsolidated investee subsequent to the contribution date).

(2) Rental income in the same store portfolio includes straight-line rents and rental recoveries, as well as base rent. We exclude the net termination and renegotiation fees from our same store rental income to allow us to evaluate the growth or decline in each property s rental income without regard to items that are not indicative of the property s recurring operating performance. Net termination and renegotiation fees represent the gross fee negotiated to allow a customer to terminate or renegotiate their lease, offset by the write-off of the asset recognized due to the adjustment to straight-line rents over the lease term. The adjustments to remove these items are included as effect of changes in foreign currency exchange rates and other in the tables above.

(3) These amounts include rental income, rental expenses and net operating income of both our consolidated industrial and retail properties and those industrial properties owned by our unconsolidated investees (accounted for on the equity method) and managed by us.

(4) The same store portfolio results include the benefit of leasing in certain of our completed development properties that meet our definition. We have also presented the results for the adjusted same store portfolio, for core

properties only, by excluding the 156 completed development properties in operation that we owned as of October 1, 2008 and that are still included in the same store portfolio (either owned by us or our unconsolidated investees that we manage).

(5) Rental expenses in the same store portfolio include the direct operating expenses of the property such as property taxes, insurance, utilities, etc. In addition, we include an allocation of the property management expenses for our direct-owned properties based on the property management fee that is provided for in the individual management agreements under which our wholly owned management companies provides property management services to each property (generally, the fee is based on a percentage of revenues). On consolidation, the management fee income earned by the management company and the management fee expense recognized by the properties are eliminated and the actual costs of providing property management services are recognized as part of our consolidated rental expenses. These expenses fluctuate based

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on the level of properties included in the same store portfolio and any adjustment is included as effect of changes in foreign currency exchange rates and other in the above table.

Environmental Matters

For a discussion of environmental matters, see Note 19 to our Consolidated Financial Statements in Item 8 and also Item 1A Risk Factors.

Liquidity and Capital Resources

Overview

We consider our ability to generate cash from operating activities, contributions and dispositions of properties and from available financing sources to be adequate to meet our anticipated future development, acquisition, operating, debt service and shareholder distribution requirements.

As discussed earlier, our focus in 2009 placed significant emphasis on liquidity. During the fourth quarter of 2008, we set a goal to simplify our debt structure and reduce our total debt by at least $2.0 billion by December 31, 2009. As of December 31, 2009, we have exceeded this goal and reduced debt since December 31, 2008 by $2.7 billion through the following actions:

generated cash through contributions of properties to the unconsolidated property funds or sales of assets to third parties;	During 2009, we received $1.3 billion in proceeds from the sale of our China operations and investments in the Japan property funds. In addition, we generated $1.5 billion in proceeds during 2009 from the contributions of properties to the property funds and sales of land and properties to third parties.
repurchased our senior notes and convertible notes at a discount and extinguished certain secured mortgage debt prior to maturity;	We purchased $1.2 billion notional amount of portions of several series of senior and other notes and extinguished $227.0 million of secured mortgage debt during 2009. This resulted in the reduction of $242.1 million in debt and a gain of $172.3 million in 2009.
recasted our Global Line and simplified our debt structure;	In August 2009, we amended and extended our Global Line, and in October 2009 we amended the financial covenants of our senior notes --both discussed below.
issued equity;	In April 2009, we completed the Equity Offering that resulted in net proceeds to us of $1.1 billion. During 2009, we generated net proceeds of $325.1 million through the issuance of 29.8 million common shares under our at-the-market equity issuance program.
reduced cash needs;	We halted early-stage infrastructure on development projects and implemented G&A cost savings initiatives and a RIF program with a target to reduce gross G&A in 2009 by 20% to 25%. Our gross G&A in 2009 was 26.5% lower than 2008.
and lowered our common share distribution.	We reduced our annual distributions on our common shares in 2009 from $542.8 million to $271.8 million.

During 2009, we focused on staggering and extending our debt maturities through the following activities:

We issued $350.0 million of 7.625% senior notes due August 2014, at 99.489% of par, for an all-in-rate of 7.75%.

We issued $600.0 million of 7.375% senior notes due October 2019, at 99.728% of par value for an all-in-rate of 7.414%.

We closed on $499.9 million in secured mortgage debt, which includes $101.8 million at 6.5% due July 2014, $245.5 million at 7.55% due July 2019, ¥4.3 billion of 4.09% TMK bonds ($44.4 million) that matures in June 2012, and ¥10.0 billion of 2.74% TMK bonds ($108.2 million) that matures in December 2012. Both TMK bonds have variable interest rates, but were fixed using derivative swap contracts. TMK bonds are a financing vehicle in Japan for special purpose companies known as TMKs.

The proceeds from the issuance of the senior notes and secured mortgage debt were used to repay borrowings on our credit facilities or other debt. See Note 9 to our Consolidated Financial Statements in Item 8 for further information.

Credit Facilities

Information related to our Global Line as of December 31, 2009 (dollars in millions):

Borrowing base	$ 3,907.7
Borrowing capacity (1)	$ 2,149.2
Less:	
Borrowings outstanding	736.6
Outstanding letters of credit	99.3
Debt due within one year	232.9
Current availability	$ 1,080.4

(1) Borrowing capacity represents 55% of the borrowing base related to the Global Line.

In August 2009, we amended our Global Line to, among other things, extend the maturity to August 21, 2012 and reduce the size of the aggregate commitments to $2.25 billion, after October 2010, from the current level of $3.7 billion (in each case subject to currency fluctuations). The Global Line includes covenants that may limit the amount of indebtedness that we and our subsidiaries can incur to an amount that may be less than the aggregate lender commitments under the Global Line, depending on the timing and use of proceeds of the borrowings. The borrowing base covenant in the Global Line limits the aggregate amount of indebtedness (including obligations under the Global Line and other recourse indebtedness maturing within one year) to no more than 55% of the value (determined by a formula as of the end of each fiscal quarter) of our unencumbered property pool, as defined in the Global Line.

Our current availability to borrow under the Global Line is calculated as the lesser of (i) the aggregate lender commitments and (ii) the borrowing capacity, in each case reduced by the outstanding borrowings, letters of credit and recourse debt due within one year; resulting in current availability of $1.1 billion at December 31, 2009. Therefore, the amount of funds that we may borrow under the Global Line will vary from time to time based upon the outstanding amount of such specified indebtedness and the quarterly formulaic valuation of our unencumbered property pool. Our current availability to borrow would remain $1.1 billion at December 31, 2009, even if the aggregate lender commitments were reduced to $2.25 billion.

We may draw funds from a syndicate of banks in U.S. dollars, euros, Japanese yen, British pound sterling and Canadian dollars, and until October 2010, South Korean won. Lenders who did not participate in the amended and extended facility will be subject to the pre-amendment pricing structure through October 2010, while the new pricing structure is effective immediately to extending lenders. 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 and we pay utilization fees that are calculated on the outstanding balance. The interest and utilization fees result in a weighted average borrowing rate of 2.27% per annum at December 31, 2009 using local currency rates.

In connection with the amendment of the Global Line, we repaid the balance outstanding and terminated our existing multi-currency credit facility, which was scheduled to mature in October, 2009, with borrowings under the Global Line. We have a 9.7 million British pound sterling facility, which matures December 31, 2010 and is equal to the outstanding letters of credit under the facility.

Near-Term Principal Cash Sources and Uses

In addition to common share distributions and preferred share dividend requirements, we expect our primary short and long-term cash needs will consist of the following:

- completion of the development and leasing of the properties in our development portfolio *(a)*;
- selective development of new operating properties, that are generally pre-leased, for long-term investment utilizing our existing land;
- repayment of debt, including payments on our credit facilities or opportunistic repurchases of convertible, senior or other notes;
- scheduled principal payments in 2010 of $232.9 million;
- capital expenditures and leasing costs on properties;
- investments in current or future unconsolidated property funds, including the purchase of additional common units in PEPR (at this time, we do not intend to increase our equity ownership of PEPR beyond 33.33 percent) and our expected remaining capital commitments of $280.0 million *(b)*; and
- depending on market conditions, direct acquisition of operating properties and/or portfolios of operating properties in key distribution markets for direct, long-term investment.

(a) As of December 31, 2009, we had 5 properties under development with a current investment of $192.0 million and a total expected investment of $295.7 million when completed and leased, with $103.7 million remaining to be spent. We also had 163 completed development properties with a current investment of $4.1 billion and a total expected investment of $4.3 billion when leased, with $204.1 million remaining to be spent.

(b) We may fulfill our equity commitment with properties we contribute to the property funds or cash, depending on the property fund as discussed below. However, to the extent a property fund acquires properties from a third party or requires cash to retire debt or has other cash needs, we may be required or agree to contribute our proportionate share of the equity component in cash to the property fund. During the year ended December 31, 2009, we used cash for investments in or advances to our unconsolidated investees of approximately $401.4 million, as discussed below.

We expect to fund cash needs for 2010 and future years primarily with cash from the following sources, all subject to market conditions:

- available cash balances ($34.4 million at December 31, 2009);

property operations;

fees and incentives earned for services performed on behalf of the property funds and distributions received from the property funds;

proceeds from the disposition of properties or land parcels to third parties;

- cash proceeds from the contributions of properties to property funds;
- borrowing capacity under existing credit facilities ($1.1 billion available as of December 31, 2009), other future facilities or borrowing arrangements;
- proceeds from the issuance of equity securities, including sales under our at-the-market equity issuance program, under which we have 10.2 million common shares remaining; and
- proceeds from the issuance of debt securities, including secured mortgage debt.

We may seek to retire or purchase our outstanding debt or equity securities through cash purchases, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. We have approximately $84.1 million remaining on authorization to repurchase common shares that was approved by our Board in 2001. We have not repurchased our common shares since 2003.

Debt Covenants

On October 1, 2009, we completed a consent solicitation with regard to our senior notes, other than our convertible notes, to amend certain covenants and events of default contained in the indenture governing the notes and to provide that all series of the senior notes issued under the indenture, other than convertible notes, will have the same financial covenants and events of default. Due to the terms of the convertible notes, they are not subject to financial covenants.

We are also subject to covenants under our Global Line. The financial covenants include leverage ratios, fixed charge and debt service coverage ratios, investments and indebtedness to total asset value ratios, minimum consolidated net worth and restrictions on distributions, redemptions and borrowing limitations.

The most restrictive covenants relate to the total leverage ratio, the fixed charge coverage ratio and the borrowing limitations. All covenants are calculated based on the definitions and calculations included in the respective debt agreements.

As of December 31, 2009, we were in compliance with all of our debt covenants.

Equity Commitments Related to Certain Property Funds

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 we may not be required to fulfill them before expiration. Our fund partners fulfill their equity commitment with cash. We are committed to offer to contribute substantially all of the properties that we develop and stabilize in Europe and Mexico to these respective funds. These property funds are committed to acquire such properties, subject to certain exceptions, including that the properties meet certain specified leasing and other criteria, and that the property funds have available capital. We are not obligated to contribute properties at a loss. Depending on market conditions, our liquidity needs and other factors, we may make contributions of properties to these property funds through the remaining commitment period in 2010.

The following table outlines the activity of these commitments in 2009 (in millions):

	NAIF (1)		Mexico (2)		PEPF II (3)		
	ProLogis	Fund Partners	ProLogis	Fund Partners	ProLogis Series A	ProLogis Series B	Fund Partners
Remaining equity commitments at December 31, 2008 (4)	$ 72.5	$ 211.7	$ 44.3	$ 246.7	295.9	272.2	857.4
Capital called for the repayment of debt	(54.1)	(174.2)					
Capital called for the acquisition of properties from us						(108.5)	(341.6)
Remaining equity commitments at December 31, 2009 (local currency)	$ 18.4	$ 37.5	$ 44.3	$ 246.7	295.9	163.7	515.8
Remaining equity commitments at December 31, 2009 (in U.S. dollars)	$ 18.4	$ 37.5	$ 44.3	$ 246.7	$ 424.5	$ 234.9	$ 739.8
Expiration date for remaining commitments	Feb 2010		Aug 2010			Aug 2010	

(1) During 2009, the ProLogis North American Industrial Fund called capital to repay borrowings outstanding under its credit facility and to repay certain secured mortgage debt, which resulted in a gain on early extinguishment of $31.1 million. In February 2010, the property fund called $23.2 million of capital, including $0.8 million in cash from ProLogis, to acquire one property from us. The remaining equity commitments expire at the end of February 2010.

(2) ProLogis Mexico Industrial Fund may use the remaining equity commitments to pay down existing debt or other liabilities, including amounts due to us, or to make acquisitions of properties from us or third parties depending on market conditions and other factors.

(3) PEPF II s equity commitments are denominated in euro. The ProLogis commitments include a commitment on the Series B units we acquired from PEPR in December 2008 that we are required to fund with cash. During 2009, we contributed 43 properties to PEPF II for gross proceeds of $643.7 million that were financed by PEPF II with all equity, including our co-investment of $152.7 million in cash under this commitment. We did not make any contributions in 2009 under the Series A commitment. We are not required to fund the remaining Series A commitment in cash and we anticipate it will expire unused.

(4) Excludes commitments related to the ProLogis Korea Fund as the agreements were amended and there are no longer any remaining commitments.

Generally, the properties are contributed based on third-party appraised value, other than PEPF II in 2009. For contributions we made in 2009 to PEPF II, the capitalization rate was determined based on a third party appraisal then a margin of 0.25 to 0.75 percentage points was added to the capitalization rate, depending on the quarter the properties were contributed. We may receive additional proceeds for the 2009 contributions if values at the end of 2010 are higher than those used to determine contribution values.

In addition to the capital contributions we made under these commitments, we also made additional discretionary investments in the property funds of $173.5 million in 2009. These investments included the purchase of preferred convertible units in PEPR ($59.4 million), a preferred investment in ProLogis North American Industrial Fund II ($85.0 million), contributions to ProLogis North American Properties Fund XI and ProLogis North American Properties Fund I to repay debt ($3.7 million) and advances to ProLogis North American Industrial Fund III ($25.4 million).

For more information on the property funds, see Note 6 to our Consolidated Financial Statements in Item 8.

Cash Provided by Operating Activities

Net cash provided by operating activities was $116.0 million for 2009, $884.2 million for 2008, and $1.2 billion for 2007. The decrease is due primarily to gains of $654.7 million and $763.7 million recognized in 2008 and 2007, respectively, on the contributions of CDFS properties. These gains were lower in 2009 and, due to the changes in our business strategy, no longer included in cash provided by operating activities.

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In addition in 2009, we paid $226.6 million in taxes related to the settlement of audits that were in process at the time of our acquisition of Catellus Development Corporation in 2005. Prior to payment, these amounts were included in the liability for unrecognized tax benefits. Excluding these payments, cash provided by operating activities exceeded the cash distributions paid on common shares and dividends paid on preferred shares in all three periods.

Cash Investing and Cash Financing Activities

For 2009, investing activities provided net cash of $1.2 billion. For 2008 and 2007, investing activities used net cash of $1.3 billion and $4.1 billion, respectively. The following are the more significant activities for all periods presented:

In 2009, we received $1.3 billion in proceeds from the sale of our China operations and our property fund interests in Japan. The proceeds were used to pay down borrowings on our credit facilities.

We generated net cash from contributions and dispositions of properties and land parcels of $1.5 billion, $4.5 billion and $3.6 billion in 2009, 2008 and 2007, respectively.

We invested $1.3 billion in real estate during the year ended December 31, 2009, $5.6 billion for the same period in 2008, and $5.3 billion for the same period in 2007, excluding Macquarie ProLogis Trust (MPR), which owned 88.7% of a property fund, and Parkridge Holdings Limited (Parkridge) acquisitions (see below). The real estate investment amounts include costs for current and future development projects; the acquisition of operating properties (25 properties and 41 properties with an aggregate purchase price of $324.0 million and $351.6 million in 2008 and 2007, respectively); acquisitions of land or land use rights for future development; and recurring capital expenditures and tenant improvements on existing operating properties. At December 31, 2009, we had 5 properties aggregating 2.9 million square feet under development, with a total expected investment of $295.7 million.

We invested cash of $401.4 million, $329.6 million and $661.8 million in 2009, 2008 and 2007, respectively, in unconsolidated investees in connection with property contributions we made, repayment of debt by the investees and two new preferred investments in existing property funds. In 2009, our investments principally include $152.7 million in PEPF II, $59.4 million in PEPR, $85.0 million in North American Industrial Fund II and $54.1 million in the North American Industrial Fund. In 2008, our investments principally include $167.3 million in PEPF II and $68.5 million in joint ventures operating in China. In 2007, our investments principally include $100.0 million in ProLogis North American Industrial Fund II (discussed below), $360.0 million in ProLogis North American Industrial Fund III, and excludes the initial investment in the Parkridge retail business, which is detailed separately.

We received distributions from unconsolidated investees as a return of investment of $78.1 million, $127.0 million and $50.2 million in 2009, 2008 and 2007, respectively.

We generated net cash proceeds from payments on notes receivable of $10.7 million, $4.2 million, and $97.4 million in 2009, 2008 and 2007, respectively.

In February 2007, we purchased the industrial business and made a 25% investment in the retail business of Parkridge. The total purchase price was $1.3 billion of which we paid cash of $733.9 million and the balance in common shares or assumption of liabilities.

On July 11, 2007, we completed the acquisition of MPR for total consideration of approximately $2.0 billion, consisting of $1.2 billion of cash and the assumption of debt and other liabilities of $0.8 billion. The cash portion was financed by the issuance of a $473.1 million term loan and a $646.2 million convertible loan with an affiliate of Citigroup. On August 27, 2007, when Citigroup converted $546.2 million of the convertible loan into equity of a newly created property fund, ProLogis

North American Industrial Fund II, we made a $100.0 million cash equity contribution to the property fund, which it used to repay the remaining balance on the convertible loan.

For 2009, financing activities used net cash of $1.5 billion. For 2008 and 2007, financing activities provided net cash of $358.1 million and $2.7 billion, respectively. The following are the more significant activities for all periods presented as summarized below:

In April 2009, we closed on the Equity Offering and received net proceeds of $1.1 billion. In addition to the Equity Offering, we generated proceeds from the sale and issuance of common shares of $337.4 million, $222.2 million and $46.9 million in 2009, 2008 and 2007, respectively. The proceeds in 2009 include $331.9 million from our at-the-market equity issuance program.

In 2009, we purchased and extinguished $1.5 billion original principal amount of our senior, convertible senior and other notes, along with certain secured mortgage debt, for a total of $1.2 billion. In 2008, we purchased and extinguished $309.7 million original principal amount of our senior notes for a total of $216.8 million.

In 2009, we issued $950.0 million of senior notes and closed on $499.9 million of secured mortgage debt, which includes ¥14.3 billion in TMK bonds. In 2008, we issued $550.0 million convertible senior notes and $600.0 million of senior notes. In 2007, we issued $2.4 billion convertible senior notes and $781.8 million of senior notes.

During 2007, we received proceeds of $1.1 billion and $600.1 million under facilities used to partially finance the MPR and Parkridge acquisitions, respectively (see Note 5 and Note 6 to our Consolidated Financial Statements in Item 8).

We had net payments on our credit facilities of $2.4 billion and $431.5 million in 2009 and 2007, respectively and net borrowings of $743.9 million in 2008.

We had net payments on our other debt of $351.8 million, $985.2 million and $1.2 billion for the years ended December 31, 2009, 2008 and 2007, respectively.

We paid distributions to holders of common shares of $271.8 million, $542.8 million and $472.6 million in 2009, 2008 and 2007, respectively. We paid dividends on preferred shares of $25.4 million, $25.4 million and $31.8 million in 2009, 2008 and 2007, respectively.

Off-Balance Sheet Arrangements

Unconsolidated Investees

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We had investments in and advances to property funds at December 31, 2009 of $2.2 billion. The property funds had total third party debt of $9.3 billion (for the entire entity, not our proportionate share) at December 31, 2009 that matures as follows (dollars in millions):

	2010	2011	2012	2013	2014	Thereafter	Discount	Total (1)
ProLogis California LLC	$	$	$	$	$ 137.5	$ 172.5	$	$ 310.0
ProLogis North American Properties Fund I (2)	122.7	111.8						234.5
ProLogis North American Properties Fund VI-X	1.9	2.2	871.0	12.4				887.5
ProLogis North American Properties Fund XI	42.9	0.6	0.7	0.4			(0.1)	44.5
ProLogis North American Industrial Fund (3)			52.0	80.0		1,112.2		1,244.2
ProLogis North American Industrial Fund II (4)	157.5		154.0	64.0	566.3	391.2	(9.5)	1,323.5
ProLogis North American Industrial Fund III (5)	2.4	120.7	94.3	385.6	146.5	280.0	(2.6)	1,026.9
ProLogis Mexico Industrial Fund (6)			99.1	170.0				269.1
ProLogis European Properties (7)	664.9		384.1	453.8	847.9			2,350.7
ProLogis European	627.1		160.0	517.6	243.7	49.8		1,598.2

Properties Fund II (8)								
ProLogis Korea Fund		16.0	32.1					48.1
Total property funds	$ 1,619.4	$ 251.3	$ 1,847.3	$ 1,683.8	$ 1,941.9	$ 2,005.7	$ (12.2)	$ 9,337.2

(1) As of December 31, 2009, we had not guaranteed any of the third party debt. See note (4) below. In our role as the manager of the property funds, we work with the property funds to refinance their maturing debt. We are in various stages of discussions with banks on extending or refinancing the 2010 maturities. As noted below, a majority of the 2010 maturities have been substantially addressed. There can be no assurance that the property funds will be able to refinance any maturing indebtedness at terms as favorable as the maturing debt, or at all. If the property funds are unable to refinance the maturing indebtedness with newly issued debt, they may be able to otherwise obtain funds by capital contributions from us and our fund partners, or by selling assets. Certain of the property funds also have credit facilities, which may be used to obtain funds. Generally, the property funds issue long-term debt and utilize the proceeds to repay borrowings under the credit facilities. Information on remaining equity commitments of the property funds is presented above.

(2) The debt included in 2010 maturities is due December 2010. The property fund is in discussions about a re-financing or extending the term of this debt.

(3) ProLogis North American Industrial Fund has a $50.0 million credit facility that matures July 17, 2010, and was completely available at December 31, 2009.

(4) We have pledged properties we own directly, valued at approximately $275.0 million, to serve as additional collateral on a loan payable to an affiliate of our fund partner that is due in 2014 and outstanding derivative contracts. Of the $157.5 million due in 2010, $85.0 million matures in June and the remaining amount matures in September. The property fund has a loan commitment for $71.0 million of new secured mortgage debt with a seven year maturity and a commitment to refinance $81 million with the current lender for five years. The remaining balance will be paid with cash.

(5) During the first quarter of 2009, we and our fund partner each loaned the property fund $25.4 million that is payable with operating cash flow, matures at dissolution of the partnership and bears interest at LIBOR plus 8%. The outstanding balance at December 31, 2009 was $22.6 million and is not included in the maturities above as it is not third party debt.

(6) In addition to its existing third party debt, this property fund has a note payable to us for $14.3 million at December 31, 2009.

(7) PEPR has three credit facilities with aggregate borrowing capacity of 867 million (approximately $1.2 billion). As of December 31, 2009, two facilities had outstanding borrowings of $535.0 million due December 2010 and another facility had outstanding borrowings of $384.1 million due December 2012. The aggregate remaining capacity at December 31, 2009 was $325.6 million. In January 2010, PEPR issued 392.7 million ($553.3 million) of secured mortgage debt due 2014, the proceeds of which were used to repay outstanding debt that was scheduled to mature in 2010, including a portion of the credit facility.

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(8) As of December 31, 2009, PEPF II had a 600 million credit facility (approximately $860.6 million) due May 2010, under which $627.1 million was outstanding and $233.5 million was available to borrow under this facility. In January 2010, PEPF II issued 181 million ($255.0 million) of secured mortgage debt due 2014; the proceeds of which were used to pay down the outstanding balance on the credit facility that is scheduled to mature in 2010. In February 2010, PEPF II decreased the commitments under the facility to 300 million.

Contractual Obligations

Long-Term Contractual Obligations

We had long-term contractual obligations at December 31, 2009 as follows (in millions):

		Payments Due By Period			
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Debt obligations, other than credit facilities	$ 7,420	$ 233	$ 1,758	$ 2,011	$ 3,418
Interest on debt obligations, other than credit facilities	2,262	373	674	513	702
Unfunded commitments on development projects (1)	104	104			
Unfunded capital commitments to unconsolidated investees (2)	280	280			
Amounts due on credit facilities	737		737		
Interest on lines of credit	45	17	28		
Tax liabilities (3)	65	16	48	1	
Totals	$ 10,913	$ 1,023	$ 3,245	$ 2,525	$ 4,120

(1) We had properties under development at December 31, 2009 with a total expected investment of $295.7 million. The unfunded commitments presented include not only those costs that we are obligated to fund under construction contracts, but all costs necessary to place the property into service, including the costs of tenant improvements, marketing and leasing costs.

(2) Generally, we fulfill our equity commitment with a portion of the proceeds from properties we contribute to the property fund. However, to the extent a property fund acquires properties from a third party or requires cash to pay-off debt or has other cash needs, we may be required to contribute our proportionate share of the equity component in cash to the property fund. See discussion above in - Off-Balance Sheet Arrangements .

(3) These amounts represent an estimate of our income tax liabilities, including an estimate of the period of settlement. See Note 15 to our Consolidated Financial Statements in Item 8.

Other Commitments

On a continuing basis, we are engaged in various stages of negotiations for the acquisition and/or disposition of individual properties or portfolios of properties.

Distribution and Dividend Requirements

Our common share distribution policy is to distribute a percentage of our cash flow to ensure we will meet the distribution requirements of the Code, relative to maintaining our REIT status, while still allowing us to maximize the cash retained to meet other cash needs such as capital improvements and other investment activities.

Cash distributions per common share paid in 2009, 2008 and 2007 were $0.70, $2.07 and $1.84, respectively. Our 2009 dividend was $0.25 for the first quarter and $0.15 for each of the second, third and fourth quarters. The payment of common share distributions is dependent upon our financial condition, operating results and

REIT distribution requirements and may be adjusted at the discretion of the Board during the year. A cash distribution of $0.15 per common share for the first quarter of 2010 was declared on February 1, 2010. This distribution will be paid on February 26, 2010 to holders of common shares on February 12, 2010.

At December 31, 2009, we had three series of preferred shares outstanding. The annual dividend rates on preferred shares are $4.27 per Series C Preferred Share, $1.69 per Series F Preferred Share and $1.69 per Series G Preferred Share.

Pursuant to the terms of our preferred shares, we are restricted from declaring or paying any distribution with respect to our common shares unless and until all cumulative dividends with respect to the preferred shares have been paid and sufficient funds have been set aside for dividends that have been declared for the then current dividend period with respect to the preferred shares.

Critical Accounting Policies

A critical accounting policy is one that is both important to the portrayal of an entity s financial condition and results of operations and requires judgment on the part of management. Generally, the judgment requires management to make estimates and assumptions about the effect of matters that are inherently uncertain. Estimates are prepared using management s best judgment, after considering past and current economic conditions and expectations for the future. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions. Changes in estimates could affect our financial position and specific items in our results of operations that are used by shareholders, potential investors, industry analysts and lenders in their evaluation of our performance. Of the accounting policies discussed in Note 2 to our Consolidated Financial Statements in Item 8, those presented below have been identified by us as critical accounting policies.

Impairment of Long-Lived Assets and Goodwill

We assess the carrying values of our respective long-lived assets, including goodwill, whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be fully recoverable.

Recoverability of real estate assets is measured by comparison of the carrying amount of the asset to the estimated future undiscounted cash flows. In order to review our real estate assets for recoverability, we consider current market conditions, as well as our intent with respect to holding or disposing of the asset. Fair value is determined through various valuation techniques; including discounted cash flow models, quoted market values and third party appraisals, where considered necessary. If our analysis indicates that the carrying value of the real estate asset is not recoverable on an undiscounted cash flow basis, we recognize an impairment charge for the amount by which the carrying value exceeds the current estimated fair value of the real estate property.

We use a two step approach to our goodwill impairment evaluation. The first step of the goodwill impairment test is used to identify whether there is any potential impairment. If the fair value of a reporting unit exceeds its corresponding book value, including goodwill, the goodwill of the reporting unit is not considered to be impaired and the second step of the impairment test is unnecessary. If the carrying amount of the reporting unit exceeds its fair value, the second step of the impairment test is performed. The second step requires that we compare the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill to measure the amount of impairment loss, if any.

Generally, we use net asset value analyses to estimate the fair value of the reporting unit where the goodwill is allocated. We estimate the current fair value of the assets and liabilities in the reporting unit through various valuation techniques; including discounted cash flow models, applying a capitalization rate to estimated net operating income of a property, quoted market values and third-party appraisals, as considered necessary. The fair value of the reporting unit also includes an enterprise value premium that we estimate a third party would be willing to pay for the particular reporting unit. The use of projected future cash flows is based on assumptions that are consistent with our estimates of future expectations and the strategic plan we use to manage our underlying business. However, assumptions and estimates about future cash flows, discount rates and capitalization rates are complex and subjective. Changes in economic and operating conditions that occur subsequent to our impairment analyses could impact these assumptions and result in future impairment of our goodwill.

The use of projected future cash flows and other estimates of fair value are based on assumptions that are consistent with our estimates of future expectations and the strategic plan we use to manage our underlying business. However, assumptions and estimates about future cash flows, discount rates and capitalization rates are complex and subjective. Use of other estimates and assumptions may result in changes in the impairment charges recognized. Changes in economic and operating conditions that occur subsequent to our impairment analyses could impact these assumptions and result in future impairment charges of our real estate properties and/or goodwill. In addition, our intent with regard to the underlying assets might change as market conditions change, as well as other factors, especially in the current global economic environment.

Investments in Unconsolidated Investees

When circumstances indicate there may have been a reduction in the value of an equity investment, we evaluate the equity investment and any advances made to the investee for impairment by estimating our ability to recover our investment from future expected cash flows. If we determine the loss in value is other than temporary, we recognize an impairment charge to reflect the investment at fair value. The use of projected future cash flows and other estimates of fair value, the determination of when a loss is other than temporary, and the calculation of the amount of the loss, is complex and subjective. Use of other estimates and assumptions may result in different conclusions. Changes in economic and operating conditions that occur subsequent to our review could impact these assumptions and result in future impairment charges of our equity investments.

Revenue Recognition

We recognize gains from the contributions and sales of real estate assets, generally at the time the title is transferred, consideration is received and we no longer have substantial continuing involvement with the real estate sold. In many of our transactions, an entity in which we have an ownership interest will acquire a real estate asset from us. We make judgments based on the specific terms of each transaction as to the amount of the total profit from the transaction that we recognize given our continuing ownership interest and our level of future involvement with the investee that acquires the assets. We also make judgments regarding the timing of recognition in earnings of certain fees and incentives when they are fixed and determinable.

Business Combinations

We acquire individual properties, as well as portfolios of properties or businesses. When we acquire a business or individual operating properties, with the intention to hold the investment for the long-term, we allocate the purchase price to the various components of the acquisition based upon the fair value of each component. The components typically include land, building, debt and other assumed liabilities, intangible assets related to above and below market leases, value of costs to obtain tenants and goodwill, deferred tax liabilities and other assets and liabilities in the case of an acquisition of a business. In an acquisition of multiple properties, we must also allocate the purchase price among the properties. The allocation of the purchase price is based on our assessment of estimated fair value and often times based upon the expected future cash flows of the property and various characteristics of the markets where the property is located. The initial allocation of the purchase price is based on management s preliminary assessment, which may differ when final information becomes available. Subsequent adjustments made to the initial purchase price allocation are made within the allocation period, which typically does not exceed one year.

Consolidation

We consolidate all entities that are wholly owned and those in which we own less than 100% but control, as well as any variable interest entities in which we are the primary beneficiary. We evaluate our ability to

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control an entity and whether the entity is a variable interest entity and we are the primary beneficiary through the consideration of various factors, including: the form of our ownership interest and legal structure; our representation on the entity s governing body; the size of our investment (including loans); estimates of future cash flows; our ability and the rights of other investors to participate in significant decisions; and the ability of other investors or partners to replace us as manager or general partner and/or liquidate the entity, if applicable. Investments in entities in which we do not control but over which we have the ability to exercise significant influence over operating and financial policies are presented under the equity method. Investments in entities that we do not control and over which we do not exercise significant influence are carried at the lower of cost or fair value, as appropriate. Our ability to correctly assess our influence and/or control over an entity affects the presentation of these investments in our consolidated financial statements.

Capitalization of Costs and Depreciation

We capitalize costs incurred in developing, renovating, acquiring and rehabilitating real estate assets as part of the investment basis. Costs incurred in making certain other improvements are also capitalized. During the land development and construction periods, we capitalize interest costs, insurance, real estate taxes and certain general and administrative costs of the personnel performing development, renovations, rehabilitation and leasing activities if such costs are incremental and identifiable to a specific activity. Capitalized costs are included in the investment basis of real estate assets except for the costs capitalized related to leasing activities, which are presented as a component of other assets. We estimate the depreciable portion of our real estate assets and related useful lives in order to record depreciation expense. Prior to 2008, if we developed properties with the intent to contribute the property to a property fund, we did not depreciate these properties during the period from completion of the development through the date the property was contributed. With the changes in our business strategy, and the uncertainty with respect to the timing of future contributions to the property funds, we expect to hold these properties long-term and have begun to depreciate them. Our ability to accurately assess the properties to depreciate and to estimate the depreciable portions of our real estate assets and useful lives is critical to the determination of the appropriate amount of depreciation expense recorded and the carrying value of the underlying assets. Any change to the assets to be depreciated and the estimated depreciable lives of these assets would have an impact on the depreciation expense recognized.

Income Taxes

As part of the process of preparing our consolidated financial statements, significant management judgment is required to estimate our income tax liability, the liability associated with open tax years that are under review and our compliance with REIT requirements. Our estimates are based on interpretation of tax laws. We estimate our actual current income tax due and assess temporary differences resulting from differing treatment of items for book and tax purposes resulting in the recognition of deferred income tax assets and liabilities. These estimates may have an impact on the income tax expense recognized. Adjustments may be required by a change in assessment of our deferred income tax assets and liabilities, changes in assessments of the recognition of income tax benefits for certain non-routine transactions, changes due to audit adjustments by federal and state tax authorities, our inability to qualify as a REIT, the potential for built-in-gain recognition, changes in the assessment of properties to be contributed to TRSs and changes in tax laws. Adjustments required in any given period are included within income tax expense. We recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities.

New Accounting Pronouncements

See Note 2 to our Consolidated Financial Statements in Item 8.

Funds from Operations

FFO is a non-GAAP measure that is commonly used in the real estate industry. The most directly comparable GAAP measure to FFO is net earnings. Although National Association of Real Estate Investment Trusts

(NAREIT) has published a definition of FFO, modifications to the NAREIT calculation of FFO are common among REITs, as companies seek to provide financial measures that meaningfully reflect their business.

FFO is not meant to represent a comprehensive system of financial reporting and does not present, nor do we intend it to present, a complete picture of our financial condition and operating performance. We believe net earnings computed under GAAP remains the primary measure of performance and that FFO is only meaningful when it is used in conjunction with net earnings computed under GAAP. Further, we believe our consolidated financial statements, prepared in accordance with GAAP, provide the most meaningful picture of our financial condition and our operating performance.

NAREIT s FFO measure adjusts net earnings computed under GAAP to exclude historical cost depreciation and gains and losses from the sales of previously depreciated properties. We agree that these two NAREIT adjustments are useful to investors for the following reasons:

(i) historical cost accounting for real estate assets in accordance with GAAP assumes, through depreciation charges, that the value of real estate assets diminishes predictably over time. NAREIT stated in its White Paper on FFO since real estate asset values have historically risen or fallen with market conditions, many industry investors have considered presentations of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Consequently, NAREIT s definition of FFO reflects the fact that real estate, as an asset class, generally appreciates over time and depreciation charges required by GAAP do not reflect the underlying economic realities.

(ii) REITs were created as a legal form of organization in order to encourage public ownership of real estate as an asset class through investment in firms that were in the business of long-term ownership and management of real estate. The exclusion, in NAREIT s definition of FFO, of gains and losses from the sales of previously depreciated operating real estate assets allows investors and analysts to readily identify the operating results of the long-term assets that form the core of a REIT s activity and assists in comparing those operating results between periods. We include the gains and losses from dispositions of land, development properties and properties acquired in our CDFS business segment, as well as our proportionate share of the gains and losses from dispositions recognized by the property funds, in our definition of FFO.

Our FFO Measures

At the same time that NAREIT created and defined its FFO measure for the REIT industry, it also recognized that management of each of its member companies has the responsibility and authority to publish financial information that it regards as useful to the financial community. We believe shareholders, potential investors and financial analysts who review our operating results are best served by a defined FFO measure that includes other adjustments to net earnings computed under GAAP in addition to those included in the NAREIT defined measure of FFO. Our FFO measures are used by management in analyzing our business and the performance of our properties and we believe that it is important that shareholders, potential investors and financial analysts understand the measures management uses.

We use our FFO measures as supplemental financial measures of operating performance. We do not use our FFO measures as, nor should they be considered to be, alternatives to net earnings computed under GAAP, as indicators of our operating performance, as alternatives to cash from operating activities computed under GAAP or as indicators of our ability to fund our cash needs.

FFO, including significant non-cash items

To arrive at *FFO, including significant non-cash items*, we adjust the NAREIT defined FFO measure to exclude:

(i) deferred income tax benefits and deferred income tax expenses recognized by our subsidiaries;

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(ii) current income tax expense related to acquired tax liabilities that were recorded as deferred tax liabilities in an acquisition, to the extent the expense is offset with a deferred income tax benefit in GAAP earnings that is excluded from our defined FFO measure;

(iii) certain foreign currency exchange gains and losses resulting from certain debt transactions between us and our foreign consolidated subsidiaries and our foreign unconsolidated investees;

(iv) foreign currency exchange gains and losses from the remeasurement (based on current foreign currency exchange rates) of certain third party debt of our foreign consolidated subsidiaries and our foreign unconsolidated investees; and

(v) mark-to-market adjustments associated with derivative financial instruments utilized to manage foreign currency and interest rate risks.

We calculate FFO, including significant non-cash items for our unconsolidated investees on the same basis as we calculate our FFO, including significant non-cash items.

We use this FFO measure, including by segment and region, to: (i) evaluate our performance and the performance of our properties in comparison to expected results and results of previous periods, relative to resource allocation decisions; (ii) evaluate the performance of our management; (iii) budget and forecast future results to assist in the allocation of resources; (iv) assess our performance as compared to similar real estate companies and the industry in general; and (v) evaluate how a specific potential investment will impact our future results. Because we make decisions with regard to our performance with a long-term outlook, we believe it is appropriate to remove the effects of short-term items that we do not expect to affect the underlying long-term performance of the properties. The long-term performance of our properties is principally driven by rental income. While not infrequent or unusual, these additional items we exclude in calculating *FFO, including significant non-cash items*, are subject to significant fluctuations from period to period that cause both positive and negative short-term effects on our results of operations, in inconsistent and unpredictable directions that are not relevant to our long-term outlook.

We believe investors are best served if the information that is made available to them allows them to align their analysis and evaluation of our operating results along the same lines that our management uses in planning and executing our business strategy.

FFO, excluding significant non-cash items

When we began to experience the effects of the global economic crises in the fourth quarter of 2008, we decided that *FFO, including significant non-cash items*, did not provide all of the information we needed to evaluate our business in this environment. As a result, we developed *FFO, excluding significant non-cash items* to provide additional information that allows us to better evaluate our operating performance in this unprecedented economic time.

To arrive at *FFO, excluding significant non-cash items,* we adjust *FFO, including significant non-cash items,* to exclude the following items that we recognized directly or our share recognized by our unconsolidated investees:

<u>Non-recurring items</u>

(i) impairment charges related to the sale of our China operations;

(ii) impairment charges of goodwill; and

(iii) our share of the losses recognized by PEPR on the sale of its investment in PEPF II.

Recurring items

(i) impairment charges of completed development properties that we contributed or expect to contribute to a property fund;

(ii) impairment charges of land or other real estate properties that we sold or expect to sell;

(iii) impairment charges of other non-real estate assets, including equity investments;

(iv) our share of impairment charges of real estate that is sold or expected to be sold by an unconsolidated investee; and

(v) gains from the early extinguishment of debt.

We believe that these items, both recurring and non-recurring are driven by factors relating to the fundamental disruption in the global financial and real estate markets, rather than factors specific to the company or the performance of our properties or investments.

The impairment charges of real estate properties that we recognized in 2008 and 2009 were primarily based on valuations of real estate, which had declined due to market conditions, that we no longer expected to hold for long-term investment. In order to generate liquidity, we decided to sell our China operations in the fourth quarter of 2008 at a loss and, therefore, we recognized an impairment charge. Also, to generate liquidity, we have contributed or intend to contribute certain completed properties to property funds and sold or intend to sell certain land parcels or properties to third parties. To the extent these properties are expected to be sold at a loss, we record an impairment charge when the loss is known. The impairment charges related to goodwill and other assets that we recognized in 2009 and the fourth quarter of 2008 were similarly caused by the decline in the real estate markets. All of these impairment charges are discussed in further detail in Note 14 to our Consolidated Financial Statements in Item 8.

Also, PEPR sold its entire equity investment in PEPF II in order to generate liquidity, which resulted in the recognition of a loss in the fourth quarter of 2008. Certain of our unconsolidated investees have recognized and may continue to recognize similar impairment charges of real estate that they expect to sell, which impacts our equity in earnings of such investees.

In connection with our announced initiatives to reduce debt, we have purchased portions of our debt securities in 2008 and 2009. The substantial decrease in the market price of our debt securities presented us with an opportunity to acquire our outstanding indebtedness at a cost less than the principal amount of that indebtedness. As a result, we recognized net gains on the early extinguishment of this debt. Certain of our unconsolidated investees have recognized or may recognize similar gains or losses, which impacts our equity in earnings of such investees.

During this turbulent time, we have recognized certain of these recurring charges and gains over several quarters in 2008 and 2009 and we believe it is reasonably likely that we will recognize similar charges and gains in the near future, which we anticipate to be through the second or third quarter of 2010. As we continue to focus on generating liquidity, we believe it is likely that we will recognize additional impairment charges of land, completed properties and certain other non-real estate assets that we or our unconsolidated investees will sell in the near future. However, we believe that as the financial markets stabilize, our liquidity needs change and the capital available to the existing unconsolidated property funds to acquire our completed development properties is expended, the potential for impairment charges of real estate properties or other non-real estate assets will disappear or become immaterial in the near future. We may purchase more of our outstanding debt securities, which could result in us recognizing additional gains from the early extinguishment of debt, although given the recovery that has already occurred in the market price of these securities, we would expect the gains to become immaterial in the near future.

We analyze our operating performance primarily by the rental income of our real estate, net of operating, administrative and financing expenses, which is not directly impacted by short-term fluctuations in the market value of our real estate or debt securities. As a result, although these significant non-cash items have had a material impact on our operations and are reflected in our financial statements, the removal of the effects of these items allows us to better understand the core operating performance of our properties over the long-term.

As described above, in the fourth quarter of 2008, we began using *FFO*, *excluding significant non-cash items*, including by segment and region, to: (i) evaluate our performance and the performance of our properties in comparison to expected results and results of previous periods, relative to resource allocation decisions; (ii) evaluate the performance of our management; (iii) budget and forecast future results to assist in the allocation of resources; (iv) assess our performance as compared to similar real estate companies and the industry in general; and (v) evaluate how a specific potential investment will impact our future results. Because we make decisions with regard to our performance with a long-term outlook, we believe it is appropriate to remove the effects of short-term items that we do not expect to affect the underlying long-term performance of the properties we own. As noted above, we believe the long-term performance of our properties is principally driven by rental income. We believe investors are best served if the information that is made available to them allows them to align their analysis and evaluation of our operating results along the same lines that our management uses in planning and executing our business strategy.

As the impact of these recurring items dissipates, we expect that the usefulness of *FFO, excluding significant non-cash items* will similarly dissipate and we will go back to using only *FFO, including significant non-cash items.*

Limitations on Use of our FFO Measures

While we believe our defined FFO measures are important supplemental measures, neither NAREIT s nor our measures of FFO should be used alone because they exclude significant economic components of net earnings computed under GAAP and are, therefore, limited as an analytical tool. Accordingly they are two of many measures we use when analyzing our business. Some of these limitations are:

The current income tax expenses that are excluded from our defined FFO measures represent the taxes that are payable.

Depreciation and amortization of real estate assets are economic costs that are excluded from FFO. FFO is limited, as it does not reflect the cash requirements that may be necessary for future replacements of the real estate assets. Further, the amortization of capital expenditures and leasing costs necessary to maintain the operating performance of industrial properties are not reflected in FFO.

Gains or losses from property dispositions represent changes in the value of the disposed properties. By excluding these gains and losses, FFO does not capture realized changes in the value of disposed properties arising from changes in market conditions.

The deferred income tax benefits and expenses that are excluded from our defined FFO measures result from the creation of a deferred income tax asset or liability that may have to be settled at some future point. Our defined FFO measures do not currently reflect any income or expense that may result from such settlement.

The foreign currency exchange gains and losses that are excluded from our defined FFO measures are generally recognized based on movements in foreign currency exchange rates through a specific point in time. The ultimate settlement of our foreign currency-denominated net assets is indefinite as to timing and amount. Our FFO measures are limited in that they do not reflect the current period changes in these net assets that result from periodic foreign currency exchange rate movements.

The non-cash impairment charges that we exclude from our *FFO, excluding significant non-cash items*, have been or may be realized as a loss in the future upon the ultimate disposition of the related real estate properties or other assets through the form of lower cash proceeds.

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The gains on extinguishment of debt that we exclude from our *FFO, excluding significant non-cash items*, provides a benefit to us as we are settling our debt at less than our future obligation.

We compensate for these limitations by using our FFO measures only in conjunction with net earnings computed under GAAP when making our decisions. To assist investors in compensating for these limitations, following is a reconciliation of our defined FFO measures to our net earnings computed under GAAP. This information should be read with our complete financial statements prepared under GAAP and the rest of the disclosures we file with the SEC to fully understand our FFO measures and the limitations on its use.

FFO, including significant non-cash items, attributable to common shares as defined by us was $138.9 million, $133.8 million and $1,205.7 million for the years ended December 31, 2009, 2008 and 2007, respectively. FFO, excluding significant non-cash items, attributable to common shares as defined by us was $467.8 million, $944.9 million and $1,205.7 million for the years ended December 31, 2009, 2008 and 2007, respectively. The

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reconciliations of FFO attributable to common shares as defined by us to net earnings attributable to common shares computed under GAAP are as follows for the periods indicated (in thousands):

	Years Ended December 31,		
	2009	2008	2007
FFO:			
Reconciliation of net earnings to FFO:			
Net earnings (loss) attributable to common shares	$ (2,650)	$ (479,226)	$ 1,027,635
Add (deduct) NAREIT defined adjustments:			
Real estate related depreciation and amortization	299,910	300,983	275,397
Adjustments to gains on dispositions for depreciation	(5,387)	(2,866)	(6,196)
Gains on dispositions of non-development/non-CDFS properties	(4,937)	(11,620)	(146,667)
Reconciling items attributable to discontinued operations:			
Gains on dispositions of non-development/non-CDFS properties	(220,815)	(9,718)	(52,776)
Real estate related depreciation and amortization	11,319	33,661	25,588
Total discontinued operations	(209,496)	23,943	(27,188)
Our share of reconciling items from unconsolidated investees:			
Real estate related depreciation and amortization	154,315	155,067	99,026
Adjustment to on dispositions for depreciation	(9,569)	(492)	(35,672)
Other amortization items	(11,775)	(15,840)	(8,731)
Total unconsolidated investees	132,971	138,735	54,623
Total NAREIT defined adjustments	213,061	449,175	149,969
Subtotal NAREIT defined FFO	210,411	(30,051)	1,177,604
Add (deduct) our defined adjustments:			
Foreign currency exchange losses (gains), net	(58,128)	144,364	16,384
Current income tax expense	3,658	9,656	3,038
Deferred income tax expense (benefit)	(23,299)	4,073	550
Our share of reconciling items from unconsolidated investees:			
Foreign currency exchange losses (gains), net	(1,737)	2,331	1,823
Unrealized losses (gains) on derivative contracts, net	(7,561)	23,005	
Deferred income tax expense (benefit)	15,541	(19,538)	6,327
Total unconsolidated investees	6,243	5,798	8,150
Total our defined adjustments	(71,526)	163,891	28,122
FFO, including significant non-cash items, attributable to common shares, as defined by us	138,885	133,840	1,205,726
Impairment of goodwill and other assets	163,644	320,636	
Impairment related to assets held for sale (gain on sale) China operations	(3,315)	198,236	
Impairment of real estate properties	331,592	274,705	
Our share of the loss/impairment recorded by PEPR		108,195	

Our share of certain losses recognized by the property funds, net	9,240		
Gain on early extinguishment of debt	(172,258)	(90,719)	
FFO, excluding significant non-cash items, attributable to common shares, as defined by us	$ 467,788	$ 944,893	$ 1,205,726

ITEM 7A. Quantitative and Qualitative Disclosure About Market Risk

We are exposed to the impact of interest rate changes and foreign-exchange related variability and earnings volatility on our foreign investments. We have used certain derivative financial instruments, primarily foreign currency put option and forward contracts, to reduce our foreign currency market risk, as we deem appropriate. We have also used interest rate swap agreements to reduce our interest rate market risk. We do not use financial instruments for trading or speculative purposes and all financial instruments are entered into in accordance with established polices and procedures.

We monitor our market risk exposures using a sensitivity analysis. Our sensitivity analysis estimates the exposure to market risk sensitive instruments assuming a hypothetical 10% adverse change in year end interest rates. The results of the sensitivity analysis are summarized below. The sensitivity analysis is of limited predictive value. As a result, our ultimate realized gains or losses with respect to interest rate and foreign currency exchange rate fluctuations will depend on the exposures that arise during a future period, hedging strategies at the time and the prevailing interest and foreign currency exchange rates.

Interest Rate Risk

Our interest rate risk management objective is to limit the impact of future interest rate changes on earnings and cash flows. To achieve this objective, we primarily borrow on a fixed rate basis for longer-term debt issuances. In 2009, we entered into two three-year TMK bond agreements totaling ¥14.3 billion ($153.8 million as of December 31, 2009) with variable interest rates and concurrently entered into interest rate swap agreements to fix the interest rate for the term of the notes. We have no other derivative contracts outstanding at December 31, 2009.

Our primary interest rate risk is created by our variable rate lines of credit. During the year ended December 31, 2009, we had weighted average daily outstanding borrowings of $1.6 billion on our variable rate lines of credit. Based on the results of the sensitivity analysis, which assumed a 10% adverse change in interest rates, the estimated market risk exposure for the variable rate lines of credit was approximately $2.7 million of cash flow for the year ended December 31, 2009.

As a result of a change in accounting effective January 1, 2009, our non-cash interest expense for the year ended December 31, 2009 increased $63.0 million, prior to capitalization of interest related to our development activities. See Note 2 to our Consolidated Financial Statements in Item 8 for further information.

The unconsolidated property funds that we manage, and in which we have an equity ownership, may enter into interest rate swap contracts. See Note 6 to our Consolidated Financial Statements in Item 8 for further information on these derivatives.

Foreign Currency Risk

Foreign currency risk is the possibility that our financial results could be better or worse than planned because of changes in foreign currency exchange rates.

Our primary exposure to foreign currency exchange rates relates to the translation of the net income of our foreign subsidiaries into U.S. dollars, principally euro, British pound sterling and yen. To mitigate our foreign currency exchange exposure, we borrow in the functional currency of the borrowing entity, when appropriate. We also may use foreign currency put option contracts to manage foreign currency exchange rate risk associated with the projected net operating income of our foreign consolidated subsidiaries and unconsolidated investees. At December 31, 2009, we had no put option contracts outstanding and, therefore, we may experience fluctuations in our earnings as a result of changes in foreign currency exchange rates.

We also have some exposure to movements in exchange rates related to certain intercompany loans we issue from time to time and we may use foreign currency forward contracts to manage these risks. At December 31, 2009, we had no forward contracts outstanding and, therefore, we may experience fluctuations in our earnings from the remeasurement of these intercompany loans due to changes in foreign currency exchange rates.

Fair Value of Financial Instruments

See Note 17 to our Consolidated Financial Statements in Item 8.

ITEM 8. Financial Statements and Supplementary Data

Our Consolidated Balance Sheets as of December 31, 2009 and 2008, our Consolidated Statements of Operations, Comprehensive Income (Loss), Equity and Cash Flows for each of the years in the three-year period ended December 31, 2009, Notes to Consolidated Financial Statements and Schedule III Real Estate and Accumulated Depreciation, together with the reports of KPMG LLP, Independent Registered Public Accounting Firm, are included under Item 15 of this report and are incorporated herein by reference. Selected unaudited quarterly financial data is presented in Note 22 of our Consolidated Financial Statements.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

An evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) as of December 31, 2009. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms. Subsequent to December 31, 2009, there were no significant changes in our internal controls or in other factors that could significantly affect these controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

Management s Report on Internal Control over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934.

Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of our internal control over financial reporting was conducted as of December 31, 2009 based on the criteria described in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management determined that, as of December 31, 2009, our internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting as of December 31, 2009 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Limitations of the Effectiveness of Controls

Management s assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of our internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ITEM 9B. Other Information

On February 25, 2010, William D. Zollars notified ProLogis of his decision to retire from the board of trustees of ProLogis effective following the meeting of the board of trustees on May 14, 2010. He will not stand for re-election as trustee at the next annual meeting of the shareholders of ProLogis on May 14, 2010.

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PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

Trustees and Officers

The information required by this item is incorporated herein by reference to the description under Item 1 Our Management Executive Committee (but only with respect to Walter C. Rakowich, Ted R. Antenucci, Edward S. Nekritz and William E. Sullivan), and to the descriptions under the captions Election of Trustees Nominees, Additional Information Section 16(a) Beneficial Ownership Reporting Compliance, Corporate Governance Code of Ethics and Business Conduct, and Board of Trustees and Committees Audit Committee in our 2010 Proxy Statement.

ITEM 11. Executive Compensation

The information required by this item is incorporated herein by reference to the descriptions under the captions Compensation Matters and Board of Trustees and Committees Management Development and Compensation Committee Compensation Committee Interlocks and Insider Participation in our 2010 Proxy Statement.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated herein by reference to the descriptions under the captions Information Relating to Trustees, Nominees and Executive Officers Common Shares Beneficially Owned and Compensations Matters Equity Compensation Plans in our 2010 Proxy Statement.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated herein by reference to the descriptions under the captions Information Relating to Trustees, Nominees and Executive Officers Certain Relationships and Related Transactions and Corporate Governance Trustee Independence in our 2010 Proxy Statement.

ITEM 14. Principal Accounting Fees and Services

The information required by this item is incorporated herein by reference to the description under the caption Independent Registered Public Accounting Firm in our 2010 Proxy Statement.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules

The following documents are filed as a part of this report:

(a) Financial Statements and Schedules:

1. Financial Statements:

See Index to Consolidated Financial Statements and Schedule III on page 133 of this report, which is incorporated herein by reference.

2. Financial Statement Schedules:

Schedule III Real Estate and Accumulated Depreciation

All other schedules have been omitted since the required information is presented in the Consolidated Financial Statements and the related Notes or is not applicable.

(b) Exhibits: The Exhibits required by Item 601 of Regulation S-K are listed in the Index to Exhibits on pages 154 to 158 of this report, which is incorporated herein by reference.

(c) Financial Statements: See Index to Consolidated Financial Statements and Schedule III on page 133 of this report, which is incorporated by reference.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE III

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Trustees and Shareholders
ProLogis:

We have audited the accompanying consolidated balance sheets of ProLogis and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, comprehensive income (loss), equity, and cash flows for each of the years in the three-year period ended December 31, 2009. These consolidated financial statements are the responsibility of ProLogis management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ProLogis and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company adopted FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)*, included in ASC subtopic 470-20, *Debt with Conversion and Other Options*, as of January 1, 2009.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), ProLogis internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2010 expressed an unqualified opinion on the effectiveness of ProLogis internal control over financial reporting.

KPMG LLP

Denver, Colorado
February 26, 2010

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Trustees and Shareholders
ProLogis:

We have audited ProLogis internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). ProLogis management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on ProLogis internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, ProLogis maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of ProLogis and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, comprehensive income (loss), equity, and cash flows for each of the years in the three-year period ended December 31, 2009, and our report dated February 26, 2010 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Denver, Colorado

February 26, 2010

PROLOGIS

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

	December 31, 2009	December 31, 2008
ASSETS		
Real estate	$ 15,215,896	$ 15,725,272
Less accumulated depreciation	1,671,100	1,583,299
	13,544,796	14,141,973
Investments in and advances to unconsolidated investees	2,151,723	2,269,993
Cash and cash equivalents	34,362	174,636
Accounts and notes receivable	136,754	244,778
Other assets	1,017,780	1,126,993
Discontinued operations-assets held for sale		1,310,754
Total assets	$ 16,885,415	$ 19,269,127
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Debt	$ 7,977,778	$ 10,711,368
Accounts payable and accrued expenses	455,919	658,868
Other liabilities	444,432	751,238
Discontinued operations assets held for sale		389,884
Total liabilities	8,878,129	12,511,358
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 December 31, 2009 and 2008	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 December 31, 2009 and 2008	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 December 31, 2009 and 2008	125,000	125,000
Common shares; $0.01 par value; 474,162 shares issued and outstanding at December 31, 2009 and 267,005 shares issued and outstanding at December 31, 2008	4,742	2,670
Additional paid-in capital	8,524,867	7,070,108
Accumulated other comprehensive income (loss)	42,298	(29,374)
Distributions in excess of net earnings	(934,583)	(655,513)

Total ProLogis shareholders equity	7,987,324	6,737,891
Noncontrolling interests	19,962	19,878
Total equity	8,007,286	6,757,769
Total liabilities and equity	$ 16,885,415	$ 19,269,127

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

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PROLOGIS

CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2009, 2008 and 2007
(In thousands, except per share data)

	2009	2008	2007
Revenues:			
Rental income	$ 891,095	$ 913,650	$ 970,018
Property management and other fees and incentives	142,763	131,011	104,719
CDFS disposition proceeds:			
Developed and repositioned properties	180,237	4,206,446	2,530,377
Acquired property portfolios		289,019	2,475,035
Development management and other income	8,987	25,857	26,322
Total revenues	1,223,082	5,565,983	6,106,471
Expenses:			
Rental expenses	269,956	277,320	249,713
Investment management expenses	43,416	50,761	33,948
Cost of CDFS dispositions:			
Developed and repositioned properties		3,551,700	1,835,291
Acquired property portfolios		289,019	2,406,426
General and administrative	180,486	177,350	170,398
Reduction in workforce	11,745	23,131	
Impairment of real estate properties	331,592	274,705	12,600
Depreciation and amortization	315,807	317,315	286,279
Other expenses	24,025	28,104	12,363
Total expenses	1,177,027	4,989,405	5,007,018
Operating income	46,055	576,578	1,099,453
Other income (expense):			
Earnings (loss) from unconsolidated property funds, net	24,908	(69,116)	94,453
Earnings from other unconsolidated investees, net	3,151	13,342	4,573
Interest expense	(373,305)	(385,065)	(389,844)
Impairment of goodwill and other assets	(163,644)	(320,636)	
Other income (expense), net	(39,349)	16,522	32,129
Net gains on dispositions of real estate properties	35,262	11,668	146,667
Foreign currency exchange gains (losses), net	35,626	(148,281)	8,132
Gain on early extinguishment of debt	172,258	90,719	
Total other income (expense)	(305,093)	(790,847)	(103,890)
Earnings (loss) before income taxes	(259,038)	(214,269)	995,563
Current income tax expense	29,262	63,441	66,339
Deferred income tax expense (benefit)	(23,287)	4,570	516

Total income taxes	5,975	68,011	66,855
Earnings (loss) from continuing operations	(265,013)	(282,280)	928,708
Discontinued operations:			
Income attributable to disposed properties, net	24,163	11,049	47,667
Net gain (impairment) related to disposed assets - China operations	3,315	(198,236)	
Net gains on dispositions:			
Non-development properties	220,815	9,718	52,776
Development properties and land subject to ground leases	40,649	9,783	28,721
Total discontinued operations	288,942	(167,686)	129,164
Consolidated net earnings (loss)	23,929	(449,966)	1,057,872
Net earnings attributable to noncontrolling interests	(1,156)	(3,837)	(4,814)
Net earnings (loss) attributable to controlling interests	22,773	(453,803)	1,053,058
Less preferred share dividends	25,423	25,423	25,423
Net earnings (loss) attributable to common shares	$ (2,650)	$ (479,226)	$ 1,027,635

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PROLOGIS

CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)
Years Ended December 31, 2009, 2008 and 2007
(In thousands, except per share data)

	2009	2008	2007
Weighted average common shares outstanding Basic	403,149	262,729	256,873
Weighted average common shares outstanding Diluted	403,149	262,729	267,226
Net earnings (loss) per share attributable to common shares Basic:			
Continuing operations	$ (0.73)	$ (1.18)	$ 3.50
Discontinued operations	0.72	(0.64)	0.50
Net earnings (loss) per share attributable to common shares Basic	$ (0.01)	$ (1.82)	$ 4.00
Net earnings (loss) per share attributable to common shares Diluted:			
Continuing operations	$ (0.73)	$ (1.18)	$ 3.38
Discontinued operations	0.72	(0.64)	0.48
Net earnings (loss) per share attributable to common shares Diluted	$ (0.01)	$ (1.82)	$ 3.86
Distributions per common share	$ 0.70	$ 2.07	$ 1.84

PROLOGIS

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Years Ended December 31, 2009, 2008 and 2007
(In thousands)

	2009	2008	2007
Net earnings (loss) attributable to controlling interests	$ 22,773	$ (453,803)	$ 1,053,058
Comprehensive income (loss):			
Foreign currency translation gains (losses), net	59,888	(279,568)	90,015
Unrealized gains (losses) on derivative contracts, net	11,784	(25,128)	(31,615)
Comprehensive income (loss) attributable to common shares	$ 94,445	$ (758,499)	$ 1,111,458

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

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PROLOGIS

CONSOLIDATED STATEMENTS OF EQUITY
For the Years Ended December 31, 2009, 2008 and 2007
(In thousands)

	Preferred Stock	Common Shares Number of Shares	Common Shares Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Net Earnings	Non-controlling Interests	Total
Balance as of January 1, 2007	$ 350,000	250,912	$ 2,509	$ 6,000,119	$ 216,922	$ (170,971)	$ 52,268	$ 6,450,847
Effect of adoption of new accounting standards				310,575		(30,554)		280,021
Consolidated net earnings						1,074,340	6,003	1,080,343
Issuances of common shares in connection with acquisitions		4,781	48	339,449				339,497
Issuances of common shares under common share plans, net of issuance costs		1,891	19	37,558				37,577
Non controlling issuances (conversions), net		128	1	4,444			28,766	33,211
Foreign currency translation gains, net					90,015		1,180	91,195
Unrealized gains/amortization on derivative contracts, net					(31,615)			(31,615)
Cost of share-based compensation awards				30,903				30,903
Distributions						(498,073)	(9,556)	(507,629)
Balance as of December 31, 2007	$ 350,000	257,712	$ 2,577	$ 6,723,048	$ 275,322	$ 374,742	$ 78,661	$ 7,804,350

Effect of adoption of new accounting standard				70,918		(47,030)		23,888
Consolidated net earnings (loss)						(406,773)	3,837	(402,936)
Issuances of common shares under common share plans, net of issuance costs		5,381	54	218,926				218,980
Non controlling issuances (conversions), net		3,912	39	17,126			(12,942)	4,223
Foreign currency translation gains, net					(279,568)		96	(279,472)
Unrealized gains/amortization on derivative contracts, net					(25,128)			(25,128)
Cost of share-based compensation awards				40,090				40,090
Distributions						(576,452)	(9,129)	(585,581)
Reclassification of non-controlling interests to held for sale							(40,645)	(40,645)
Balance as of December 31, 2008	$ 350,000	267,005	$ 2,670	$ 7,070,108	$ (29,374)	$ (655,513)	$ 19,878	$ 6,757,769
Consolidated net earnings						22,773	1,156	23,929
Issuances of common shares in Equity Offering, net of issuance costs		174,800	1,748	1,105,272				1,107,020
Issuances of common shares under common share plans, net of issuance costs		31,943	320	324,909				325,229
Non controlling issuances (conversions), net		414	4	1,483			(1,386)	101
Foreign currency translation gains,					59,888		1,937	61,825

net								
Unrealized gains/amortization on derivative contracts, net					11,784			11,784
Cost of share-based compensation awards				23,095				23,095
Distributions						(301,843)	(1,623)	(303,466)
Balance as of December 31, 2009	$ 350,000	474,162	$ 4,742	$ 8,524,867	$ 42,298	$ (934,583)	$ 19,962	$ 8,007,286

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2009, 2008 and 2007
(In thousands)

	2009	2008	2007
Operating activities:			
Net earnings (loss) attributable to controlling interests	$ 22,773	$ (453,803)	$ 1,053,058
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Noncontrolling interests share in earnings (loss), net	1,300	(6,231)	6,003
Straight-lined rents	(38,997)	(34,063)	(44,403)
Cost of share-based compensation awards	17,242	28,321	23,934
Depreciation and amortization	327,126	350,976	311,867
Equity in earnings from unconsolidated investees	(28,861)	71,956	(105,618)
Changes in operating receivables and distributions from unconsolidated investees	69,656	19,956	74,348
Amortization of deferred loan costs	17,069	12,239	10,362
Amortization of debt discount, net	67,542	63,676	15,952
Debt related expenses	14,547		
Impairment of goodwill and other assets	163,644	320,636	
Impairment related to assets held for sale China operations		198,236	
Impairment of real estate properties	331,592	274,705	13,259
Gains on dispositions of assets included in discontinued operations	(264,779)	(19,501)	(28,721)
Gains recognized on disposition of investments in Japan property funds	(180,237)		
Gains recognized on property dispositions, net	(35,262)	(11,668)	(199,443)
Gain on early extinguishment of debt	(172,258)	(90,719)	
Unrealized foreign currency exchange losses (gains), net	(58,128)	144,364	16,229
Deferred income tax expense (benefit)	(23,299)	4,072	550
Decrease (increase) in accounts and notes receivable and other assets	100,253	87,551	(130,821)
(Decrease) increase in accounts payable and accrued expenses and other liabilities	(214,921)	(76,472)	216,338
Net cash provided by operating activities	116,002	884,231	1,232,894
Investing activities:			
Real estate investments	(1,268,743)	(5,523,402)	(5,240,809)
Tenant improvements and lease commissions on previously leased space	(49,783)	(58,076)	(67,317)
Non-development capital expenditures	(26,506)	(36,902)	(37,948)
Cash consideration paid in Parkridge acquisition, net of cash acquired			(700,812)
			(1,137,028)

Purchase of Macquarie ProLogis Trust (MPR), net of cash acquired			
Investments in and advances to unconsolidated investees	(401,386)	(329,553)	(661,796)
Proceeds from disposition of investments in Japan property funds	500,000		
Return of investment from unconsolidated investees	78,079	126,983	50,243
Proceeds from dispositions of real estate assets China operations	845,468		
Proceeds from dispositions of real estate assets	1,520,519	4,474,228	3,618,622
Advances on notes receivable			(18,270)
Proceeds from repayment of notes receivable	10,722	4,200	115,620
Net cash provided by (used in) investing activities	1,208,370	(1,342,522)	(4,079,495)
Financing activities:			
Proceeds from sales and issuances of common shares	1,491,137	222,162	46,855
Distributions paid on common shares	(271,845)	(542,792)	(472,645)
Dividends paid on preferred shares	(25,416)	(25,423)	(31,781)
Noncontrolling interest (distributions) contributions, net	(1,548)	23,827	(9,341)
Debt and equity issuance costs paid	(125,190)	(12,121)	(15,830)
Net (payments on) proceeds from credit facilities	(2,400,194)	743,934	(431,506)
Repurchase of senior and other notes and extinguishment of secured mortgage debt	(1,226,658)	(216,805)	
Proceeds from issuance of debt to finance MPR and Parkridge acquisitions			1,719,453
Proceeds from issuance of senior notes and secured mortgage debt	1,448,871	1,150,544	3,110,818
Payments on senior notes, secured mortgage debt and assessment bonds	(351,793)	(985,223)	(1,174,335)
Net cash (used in) provided by financing activities	(1,462,636)	358,103	2,741,688
Effect of foreign currency exchange rate changes on cash	(2,010)	(13,950)	29,032
Net decrease in cash and cash equivalents	(140,274)	(114,138)	(75,881)
Cash and cash equivalents, beginning of year	174,636	399,910	475,791
Cash and cash equivalents, assets held for sale		(111,136)	
Cash and cash equivalents, end of year	$ 34,362	$ 174,636	$ 399,910

See Note 21 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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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business:

ProLogis, collectively with our consolidated subsidiaries (we , our , us , the Company or ProLogis), is a publicly h 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. Through 2008, our business consisted of three reportable business segments: (i) direct owned; (ii) investment management; and (iii) CDFS business. Our direct owned segment represents the direct long-term ownership of industrial properties. Our investment management segment represents the long-term investment management of property funds and joint ventures and the properties they own. Our CDFS business segment primarily encompassed our development or acquisition of real estate properties that were generally contributed to a property fund in which we had an ownership interest and managed or sold to third parties. Changes in global economic conditions resulted in changes in our business strategy in late 2008 and therefore, as of December 31, 2008, our business strategy no longer includes the CDFS business segment. See Note 20 for further discussion of our business segments.

2. Summary of Significant Accounting Policies:

Basis of Presentation and Consolidation. The accompanying consolidated financial statements are presented in our reporting currency, the U.S. dollar. All material intercompany transactions with consolidated entities have been eliminated.

We consolidate all entities that are wholly owned and those in which we own less than 100% but control, as well as any variable interest entities in which we are the primary beneficiary. We evaluate our ability to control an entity and whether the entity is a variable interest entity and we are the primary beneficiary through the consideration of the following factors:

- (i) the form of our ownership interest and legal structure;
- (ii) our representation on the entity s governing body;
- (iii) the size of our investment (including loans);
- (iv) estimates of future cash flows;
- (v) our ability to participate in policy making decisions, including but not limited to, the acquisition or disposition of investment properties and the incurrence or refinancing of debt;
- (vi) the rights of other investors to participate in the decision making process; and
- (vii) the ability for other partners or owners to replace us as manager and/or liquidate the venture, if applicable.

Adjustments and Reclassifications. Certain amounts included in the accompanying consolidated financial statements for 2008 and 2007 have been adjusted due to the required retroactive application of a new accounting standard that we adopted as of January 1, 2009, as further discussed below. In addition in 2009, we began reporting the costs associated with our investment management segment as Investment Management Expenses in our Consolidated Statements of Operations. These costs include the property-level management expenses associated with the properties owned by the unconsolidated investees (previously included in Rental Expenses) and the direct expenses associated with the asset management of the property funds (previously included in General and Administrative Expenses). Therefore, we have reclassified these expenses in 2008 and 2007, as well as certain other 2008 and 2007 amounts, to conform to the 2009 financial statement presentation. We have evaluated all subsequent events for adjustment to or disclosure in these financial statements through the issuance of these financial statements.

Use of Estimates. The accompanying consolidated financial statements 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

PROLOGIS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. Although we believe the assumptions and estimates we made are reasonable and appropriate, as discussed in the applicable sections throughout these Consolidated Financial Statements, different assumptions and estimates could materially impact our reported results. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions and changes in market conditions could impact our future operating results.

Foreign Operations. The U.S. dollar is the functional currency for our consolidated subsidiaries and unconsolidated investees operating in the United States and Mexico and certain of our consolidated subsidiaries that operate as holding companies for foreign investments. The functional currency for our consolidated subsidiaries and unconsolidated investees operating in countries other than the United States and Mexico is the principal currency in which the entity s assets, liabilities, income and expenses are denominated, which may be different from the local currency of the country of incorporation or the country where the entity conducts its operations.

The functional currencies of our consolidated subsidiaries and unconsolidated investees generally include the British pound sterling, Canadian dollar, euro, Japanese yen and Korean won. The Chinese remnimbi was also a functional currency through February 2009 and is included in discontinued operations. We are parties to business transactions denominated in these and other currencies.

For our consolidated subsidiaries whose functional currency is not the U.S. dollar, we translate their financial statements into U.S. dollars at the time we consolidate those subsidiaries financial statements. Generally, assets and liabilities are translated at the exchange rate in effect as of the balance sheet date. The resulting translation adjustments are included in the Accumulated Other Comprehensive Income (Loss) in ProLogis Shareholders Equity. Certain balance sheet items, primarily equity-related accounts, are reflected at the historical exchange rate. Income statement accounts are translated using the average exchange rate for the period and income statement accounts that represent significant non-recurring transactions are translated at the rate in effect as of the date of the transaction. We translate our share of the net earnings or losses of our unconsolidated investees whose functional currency is not the U.S. dollar at the average exchange rate for the period.

We and certain of our consolidated subsidiaries have intercompany and third party debt that is not denominated in the entity s functional currency. When the debt is remeasured against the functional currency of the entity, a gain or loss can result. The resulting adjustment is generally reflected in results of operations, unless it is intercompany debt that is deemed to be long-term in nature. The remeasurement of such long-term debt results in the recognition of a cumulative translation adjustment in Accumulated Other Comprehensive Income (Loss) in ProLogis Shareholders Equity.

Gains or losses are included in results of operations when transactions with a third party, denominated in a currency other than the entity s functional currency, are settled. We occasionally utilize derivative financial instruments to manage certain foreign currency exchange risks.

We are subject to foreign currency risk due to potential fluctuations in exchange rates between certain foreign currencies and the U.S. dollar. A significant change in the value of the foreign currency of one or more countries where we have a significant investment would have an effect on our reported results of operations and financial position. Although we attempt to mitigate adverse effects by borrowing under debt agreements denominated in the same functional currency as the investment and, on occasion and when deemed appropriate, through the use of derivative contracts, there can be no assurance that those attempts to mitigate foreign currency risk will be successful.

See our policy footnote on financial instruments and Note 18 for more information related to our derivative financial instruments.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Business Combinations. In December 2007, the Financial Standards Accounting Board (FASB) issued a new accounting standard for business combinations that we adopted January 1, 2009. This accounting standard requires most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at full fair value . This accounting standard broadened the scope of what qualifies as a business combination to include the acquisition of an operating property by us and our unconsolidated investees. Transaction costs related to the acquisition of a business that were previously capitalized are expensed under this new standard. The transaction costs related to the acquisition of land and equity method investments continue to be capitalized. This accounting standard requires subsequent adjustments of tax uncertainties that occur after the purchase price allocation period to be recognized in earnings. Previously, these adjustments were recognized in the purchase price as an adjustment to goodwill. The initial adoption of this accounting standard did not have a material impact on our financial position or results of operations, although it may have a more significant impact in the future depending on our acquisition activity.

When we acquire a business or individual operating properties, with the intention to hold the investment for the long-term, we allocate the purchase price to the various components of the acquisition based upon the fair value of each component. We estimate the following:

the fair value of the buildings as if vacant;	The fair value allocated to land is generally based on relevant market data.
the market value of above and below market leases based upon our best estimate of current market rents;	The value of each lease is recorded in either other assets or other liabilities, as appropriate.
the value of costs to obtain tenants, primarily leasing commissions;	These costs are recorded in other assets.
the value of debt based on quoted market rates for the same or similar issues, or by discounting future cash flows using rates currently available for debt with similar terms and maturities;	Any discount or premium is included in the principal amount.
the value of any management contracts by discounting future expected cash flows under these contracts; and	
the value of all other assumed assets and liabilities based on the best information available.	

We amortize the acquired assets or liabilities as follows:

- Above and below market leases are charged to rental income over the average remaining estimated life of the lease.
- Leasing commissions are charged to amortization expense over the average remaining estimated life of the lease.
- Debt discount or premium is charged to interest expense using the effective interest method over the remaining term of the related debt.
- Management contracts are charged against income over the remaining term of the contract.

Goodwill represents the excess of the purchase price over the fair value of net tangible and intangible assets acquired in a business combination. A gain may be recognized to the extent the purchase price is less than the fair value of net tangible and intangible assets acquired.

PROLOGIS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Long-Lived Assets

Real Estate Assets. Real estate assets are carried at depreciated cost. Costs incurred that are directly associated with the successful acquisition of real estate assets were capitalized as part of the investment basis of the real estate assets through December 31, 2008. Beginning January 1, 2009, these costs are now expensed as discussed above, other than as they relate to the acquisition of land. Costs incurred in developing, renovating, rehabilitating and improving real estate assets are capitalized as part of the investment basis of the real estate assets. Costs incurred in making repairs and maintaining real estate assets are expensed as incurred.

During the land development and construction periods of qualifying projects, we capitalize interest costs, insurance, real estate taxes and general and administrative costs of the personnel performing the development, renovation, rehabilitation and leasing activities; if such costs are incremental and identifiable to a specific activity. Capitalized costs are included in the investment basis of real estate assets, except for the costs capitalized related to leasing activities that are included in other assets. When a municipal district finances costs we incur for public infrastructure improvements, we record the costs in real estate until we are reimbursed.

The depreciable portions of real estate assets are charged to depreciation expense on a straight-line basis over their respective estimated useful lives. Depreciation commences at the earlier of stabilization (defined as 93% occupied) or one year after completion of construction. We generally use the following useful lives: 5 to 7 years for capital improvements, 10 years for standard tenant improvements, 25 years for depreciable land improvements on developed buildings, 30 years for industrial properties acquired, 40 years for office and retail properties acquired and 40 years for properties we develop. Capitalized leasing costs are amortized over the respective lease term. Our average lease term for all leases in effect at December 31, 2009 was between five and six years. Prior to 2008, if we developed properties with the intent to contribute the property to a property fund, we did not depreciate these properties during the period from the completion of the development through the date the property was contributed. With the changes in our business strategy, and the uncertainty with respect to the timing of future contributions to the property funds, we expect to hold these properties long-term and began to depreciate them in 2008.

We assess the carrying values of our respective long-lived assets, whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be fully recoverable. Recoverability of the assets is measured by comparison of the carrying amount of the asset to the estimated future undiscounted cash flows. In order to review our assets for recoverability, we consider current market conditions, as well as our intent with respect to holding or disposing of the asset. Fair value is determined through various valuation techniques; including discounted cash flow models; quoted market values; and third party appraisals, where considered necessary. If our analysis indicates that the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, we recognize an impairment charge for the amount by which the carrying value exceeds the current estimated fair value of the real estate property.

We estimate the future undiscounted cash flows based on our intent as follows:

(i) for real estate properties that we intend to hold long-term, including land held for development, properties currently under development and operating buildings, recoverability is assessed based on the estimated future net rental income from operating the property;

(ii) for land parcels we intend to sell, recoverability is assessed based on estimated fair value, less costs to sell;

(iii) for real estate properties currently under development and operating buildings we intend to sell, recoverability is assessed based on proceeds from disposition that are estimated based on future net rental income of the property and expected market capitalization rates; and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(iv) for costs incurred related to the potential acquisition of land or development of a real estate property, recoverability is assessed based on the probability that the acquisition or development is likely to occur as of the measurement date.

The use of projected future cash flows is based on assumptions that are consistent with our estimates of future expectations and the strategic plan we use to manage our underlying business. However, assumptions and estimates about future cash flows, discount rates and capitalization rates are complex and subjective. Changes in economic and operating conditions and our ultimate investment intent that occur subsequent to our impairment analyses could impact these assumptions and result in future impairment of our real estate properties.

Goodwill. Goodwill represents the excess of the purchase price over the fair value of net tangible and intangible assets acquired in a business combination. We perform an annual impairment test for goodwill at the reporting unit level. The annual review is performed during the fourth quarter for all our reporting units. Additionally, we evaluate the recoverability of goodwill whenever events or changes in circumstances indicate that the carrying amounts of goodwill may not be fully recoverable.

We use a two step approach to our goodwill impairment evaluation. The first step of the goodwill impairment test is used to identify whether there is any potential impairment. If the fair value of a reporting unit exceeds its corresponding book value, including goodwill, the goodwill of the reporting unit is not considered to be impaired and the second step of the impairment test is unnecessary. If the carrying amount of the reporting unit exceeds its fair value, the second step of the impairment test is performed. The second step requires that we compare the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill to measure the amount of impairment loss, if any.

Generally, we use net asset value analyses to estimate the fair value of the reporting unit where the goodwill is allocated. We estimate the current fair value of the assets and liabilities in the reporting unit through various valuation techniques; including discounted cash flow models, applying a capitalization rate to estimated net operating income of a property, quoted market values and third-party appraisals, as considered necessary. The fair value of the reporting unit also includes an enterprise value premium that we estimate a third party would be willing to pay for the particular reporting unit. The use of projected future cash flows is based on assumptions that are consistent with our estimates of future expectations and the strategic plan we use to manage our underlying business. However, assumptions and estimates about future cash flows, discount rates and capitalization rates are complex and subjective. Changes in economic and operating conditions that occur subsequent to our impairment analyses could impact these assumptions and result in future impairment of our goodwill.

Assets Held for Sale and Discontinued Operations. Discontinued operations represent a component of an entity that has either been disposed of or is classified as held for sale if both the operations and cash flows of the component have been or will be eliminated from ongoing operations of the entity as a result of the disposal transaction and the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction. The results of operations of a component of our business or properties that have been classified as discontinued operations are also reported as discontinued operations for all periods presented. We classify a component of our business or property as held for sale when certain criteria are met. At such time, the respective assets and liabilities are presented separately on our Consolidated Balance Sheets and depreciation is no longer recognized. Assets held for sale are reported at the lower of their carrying amount or their estimated fair value less the costs to sell the assets.

Properties disposed of to third parties are considered discontinued operations unless such properties were developed under a pre-sale agreement. Properties contributed to property funds in which we maintain an

PROLOGIS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ownership interest, act as manager and account for the property fund under the equity method are not considered discontinued operations due to our continuing involvement with the properties.

Investments in Unconsolidated Investees. Our investments in certain entities are presented under the equity method. The equity method is used when we have the ability to exercise significant influence over operating and financial policies of the investee but do not have control of the investee. Under the equity method, these investments (including advances to the investee) are initially recognized in the balance sheet at our cost and are subsequently adjusted to reflect our proportionate share of net earnings or losses of the investee, distributions received, deferred gains from the contribution of properties and certain other adjustments, as appropriate. When circumstances indicate there may have been a reduction in the value of an equity investment, we evaluate the equity investment and any advances made for impairment by estimating our ability to recover our investment from future expected cash flows. If we determine the loss in value is other than temporary, we recognize an impairment charge to reflect the equity investment and any advances made at fair value.

Cash and Cash Equivalents. We consider all cash on hand, demand deposits with financial institutions, and short-term highly liquid investments with original maturities of three months or less to be cash equivalents. Our cash and cash equivalents are financial instruments that are exposed to concentrations of credit risk. We invest our cash with high-credit quality institutions. Cash balances may be invested in money market accounts that are not insured. We have not realized any losses in such cash investments or accounts and believe that we are not exposed to any significant credit risk.

Convertible Debt. In May 2008, the FASB issued an accounting standard that required separate accounting for the debt and equity components of certain convertible debt, such as the debt we have issued. The value assigned to the debt component 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 for our outstanding convertible notes) as additional non-cash interest expense. We adopted this accounting standard on January 1, 2009 on a retroactive basis to the convertible notes we issued in 2007 and 2008. As a result, we adjusted 2008 and 2007 amounts to reflect the adjustments to debt and equity, as well as the additional interest expense. This adjustment also impacted the interest we would have capitalized related to our development activities for both properties we currently own, as well as properties that were contributed or sold during the periods the convertible notes were outstanding.

The following tables illustrate the impact of this accounting standard on our Consolidated Balance Sheets and Consolidated Statements of Operations for these periods (in thousands):

	As of December 31, 2008		
	As Reported	**Adjustments**	**As Adjusted**
Consolidated Balance Sheet:			
Net investments in real estate assets	$ 15,706,172	$ 19,100	$ 15,725,272
Other assets	$ 1,129,182	$ (2,189)	$ 1,126,993

Debt	$ 11,007,636	$ (296,268)	$ 10,711,368
Additional paid-in capital	$ 6,688,615	$ 381,493	$ 7,070,108
Distributions in excess of net earnings	$ (587,199)	$ (68,314)	$ (655,513)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	For the Year Ended December 31, 2008 As Reported	Adjustments	As Adjusted (before 2009 discontinued operations adjustment)
Consolidated Statements of Operations:			
Cost of CDFS dispositions	$ 3,836,519	$ 4,200	$ 3,840,719
Interest expense, net of capitalization	$ 341,305	$ 42,830	$ 384,135
Net loss attributable to controlling interests	$ (406,773)	$ (47,030)	$ (453,803)
Net loss per share attributable to common shares Basic	$ (1.65)	$ (0.17)	$ (1.82)
Net loss per share attributable to common shares Diluted	$ (1.65)	$ (0.17)	$ (1.82)

	For the Year Ended December 31, 2007 As Reported	Adjustments	As Adjusted (before 2009 discontinued operations adjustment)
Consolidated Statements of Operations:			
Cost of CDFS dispositions	$ 4,241,700	$ 17	$ 4,241,717
Interest expense, net of capitalization	$ 368,512	$ 21,265	$ 389,777
Net earnings attributable to controlling interests	$ 1,074,340	$ (21,282)	$ 1,053,058
Net earnings per share attributable to common shares Basic	$ 4.08	$ (0.08)	$ 4.00
Net earnings per share attributable to common shares Diluted	$ 3.94	$ (0.08)	$ 3.86

See Note 9 for additional information on our convertible notes.

Noncontrolling Interests. In December 2007, the FASB issued a new accounting standard for noncontrolling interests in consolidated financial statements. We adopted this accounting standard on January 1, 2009, which required noncontrolling interests (previously referred to as minority interests) to be reported as a component of equity, and changed the accounting for transactions with noncontrolling interest holders. The adoption of the accounting standard changed the classification and reporting of our noncontrolling interests.

We recognize the noncontrolling interests in real estate partnerships in which we consolidate using each noncontrolling holder s respective share of the estimated fair value of the real estate as of the date of formation.

Noncontrolling interest that was created or assumed as a part of a business combination is recognized at fair value as of the date of the transaction. Noncontrolling interest is subsequently adjusted for additional contributions, distributions to noncontrolling holders and the noncontrolling holders proportionate share of the net earnings or losses of each respective entity.

Certain limited partnership interests issued by us in connection with the formation of a real estate partnership and as consideration in a business combination are exchangeable into our common shares. Common shares issued upon exchange of a holder s noncontrolling interest are accounted for at our carrying value of the surrendered noncontrolling interest.

Costs of Raising Capital. Costs incurred in connection with the issuance of both common shares and preferred shares are treated as a reduction to additional paid-in capital. Costs incurred in connection with the issuance or renewal of debt are capitalized in other assets, and amortized to interest expense over the term of the related debt.

PROLOGIS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revenue Recognition.

Rental and other income. We lease our operating properties to customers under agreements that are classified as operating leases. We recognize the total minimum lease payments provided for under the leases on a straight-line basis over the lease term. Generally, under the terms of our leases, some or all of our rental expenses are recovered from our customers. We reflect amounts recovered from customers as a component of rental income. A provision for possible loss is made if the collection of a receivable balance is considered doubtful. Some of our retail and ground leases provide for additional rent based on sales over a stated base amount during the lease year. We recognize this additional rent when each customer s sales exceed their sales threshold. We recognize interest income and management, development and other fees and incentives when earned, fixed and determinable.

Gains on Disposition of Real Estate. Gains on the disposition of real estate are recorded when the recognition criteria have been met, generally at the time title is transferred, and we no longer have substantial continuing involvement with the real estate sold.

When we contribute a property to a property fund or joint venture in which we have an ownership interest, we do not recognize a portion of the gain realized. If a loss is realized it is recognized when known. The amount of gain not recognized, based on our ownership interest in the entity acquiring the property, is deferred by recognizing a reduction to our investment in the applicable unconsolidated investee. We adjust our proportionate share of net earnings or losses recognized in future periods to reflect the investees recorded depreciation expense as if it were computed on our lower basis in the contributed properties rather than on the entity s basis. Through 2008, we reflected the gains recognized from contributions of CDFS properties to property funds and joint ventures in operating cash flows. As a result of the changes in our segments in 2009, these gains are now included in investing activities.

When a property that we originally contributed to a property fund or joint venture is disposed of to a third party, we recognize the amount of the gain we had previously deferred, along with our proportionate share of the gain recognized by the investee. During periods when our ownership interest in an investee decreases, we recognize gains relating to previously deferred gains to coincide with our new ownership interest in the investee.

Rental Expenses. Rental expenses primarily include the cost of on-site property management personnel, utilities, repairs and maintenance, property insurance and real estate taxes.

Investment Management Expenses. These costs include the property management expenses associated with the property-level management of the properties owned by our unconsolidated investees (previously included in Rental Expenses) and the direct investment management expenses associated with the asset management of the property funds (previously included in General and Administrative Expenses).

Share-Based Compensation. We account for stock-based compensation by measuring the cost of employee services received in exchange for an award of an equity instrument based on the fair value of the award on the grant date. We recognize the cost over the period during which an employee is required to provide service in exchange for the award, generally the vesting period. We treat dividend equivalent units (DEUs) as dividends, which are charged to retained earnings and factored into the computation of the fair value of the underlying share award at grant date. See Note 12 for more information on our stock based compensation.

Income Taxes. ProLogis was formed as a Maryland REIT in January 1993 and we have, along with our consolidated REIT subsidiary, elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the Code). Under the Code, REITs are generally not required to pay federal income taxes if they distribute 100% of their taxable income and meet certain income, asset and shareholder tests. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income taxes at regular corporate rates

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(including any alternative minimum tax) and may not be able to qualify as a REIT for the four subsequent taxable years. Even as a REIT, we may be subject to certain state and local taxes on our own income and property, and to federal income and excise taxes on our undistributed taxable income.

We have elected taxable REIT subsidiary (TRS) status for some of our consolidated subsidiaries. This allows us to provide services that would otherwise be considered impermissible for REITs. Many of the foreign countries in which we have operations do not recognize REITs or do not accord REIT status under their respective tax laws to our entities that operate in their jurisdiction. In the United States, we are taxed in certain states in which we operate. Accordingly, we recognize income tax expense for the federal and state income taxes incurred by our TRSs, taxes incurred in certain states and foreign jurisdictions, and interest and penalties associated with our unrecognized tax benefit liabilities.

In July 2006, the FASB issued an interpretation of the existing accounting standard for accounting for income taxes. The interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and provides guidance on various income tax accounting issues, including derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result, we may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities. We adopted the provisions of this interpretation in 2007 and, as a result, we recognized a $9.3 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of distributions in excess of net earnings.

Deferred income taxes are recognized in certain taxable entities. Deferred income tax is generally a function of the period s temporary differences (items that are treated differently for tax purposes than for financial reporting purposes), the utilization of tax net operating losses generated in prior years that had been previously recognized as deferred income tax assets and deferred income tax liabilities related to indemnification agreements related to certain contributions to property funds. A valuation allowance for deferred income tax assets is provided if we believe all or some portion of the deferred income tax asset may not be realized. Any increase or decrease in the valuation allowance that results from a change in circumstances that causes a change in the estimated realizability of the related deferred income tax asset is included in deferred tax expense. See Note 15 for further discussion of income taxes.

Financial Instruments. We may use certain types of derivative financial instruments for the purpose of managing certain foreign currency exchange rate and interest rate risk. We reflect our derivative financial instruments at fair value and record changes in the fair value of these derivatives each period in earnings, unless specific hedge accounting criteria are met. To qualify for hedge accounting treatment, generally the derivative instruments used for risk management purposes must effectively reduce the risk exposure that they are designed to hedge (primarily interest rate swaps) and, if a derivative instrument is utilized to hedge an anticipated transaction, the anticipated transaction must be probable of occurring. Derivative instruments meeting these hedging criteria are formally designated as hedges at the inception of the contract.

The unrealized gains and losses resulting from changes in fair value of an effective hedge are recorded in Accumulated Other Comprehensive Income (Loss) and are amortized to earnings over the remaining term of the hedged items. The ineffective portion of a hedge, if any, is immediately recognized in earnings to the extent that the change in value of the derivative instrument does not perfectly offset the change in value of the item being hedged.
We estimate the fair value of our financial instruments through a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date. Primarily, we use quoted market prices or quotes from brokers or dealers for the same or similar instruments. These values represent a general approximation of possible value and may never actually be realized.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In March 2008, the FASB issued an accounting standard that required enhanced disclosures related to derivative instruments and hedging activities. This accounting standard required disclosures relating to: (i) how and why an entity uses derivative instruments; (ii) how derivative instruments and related hedge items are accounted for; and (iii) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. We adopted this accounting standard on January 1, 2009 and as it only required enhanced disclosures, the adoption did not have a significant impact on our consolidated financial statements. See Note 18 for information on our financial instruments.

Fair value measurements. On January 1, 2008, we adopted a new accounting standard for our financial assets and liabilities, primarily derivative instruments, to which either we or our unconsolidated investees are a party. This accounting standard established a framework for measuring fair value and disclosures about fair value measurements. On January 1, 2009, we adopted the provisions of this accounting standard for our non-financial assets and liabilities.

We have estimated fair value using available market information and valuation methodologies we believe to be appropriate for these purposes. Considerable judgment and a high degree of subjectivity are involved in developing these estimates and, accordingly, they are not necessarily indicative of amounts that we would realize upon disposition. The fair value hierarchy consists of three broad levels, which are described below:

Level 1 Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2 Observable inputs, other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Environmental costs. We incur certain environmental remediation costs, including cleanup costs, consulting fees for environmental studies and investigations, monitoring costs, and legal costs relating to cleanup, litigation defense, and the pursuit of responsible third parties. Costs incurred in connection with operating properties and properties previously sold are expensed. Costs related to undeveloped land are capitalized as development costs. Costs incurred for properties to be disposed are included in the cost of the properties upon disposition. We maintain a liability for the estimated costs of environmental remediation expected to be incurred in connection with undeveloped land, operating properties and properties previously sold that we adjust as appropriate as information becomes available.

Recent Accounting Pronouncements. In June 2009, the FASB issued a new accounting standard that will be 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 will also require continuous reassessments of which party within the VIE is considered the primary beneficiary and will require a number of new disclosures related to VIE s. We are still evaluating this accounting standard but do not believe that it will have a material impact on our financial position and results of operations upon adoption.

On July 1, 2009, the FASB issued the FASB Accounting Standards Codification (ASC or the Codification) that establishes the exclusive authoritative reference for U.S. GAAP for use in financial statements, except for Securities and Exchange Commission (SEC) rules and interpretive releases, which are also authoritative

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

GAAP for SEC registrants. The Codification supersedes all existing non-SEC accounting and reporting standards.

3. 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 (GIC RE), 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 these proceeds primarily to pay down borrowings on our credit facilities.

All of the assets and liabilities associated with our China operations were classified as Discontinued Operations Assets and Liabilities Held for Sale in our accompanying Consolidated Balance Sheet as of December 31, 2008, at which time we recognized an impairment of $198.2 million. At the completion of the sale in 2009, we recognized a net gain of $3.3 million. The results of our China operations, including the impairment and gain on sale, are presented as discontinued operations in our accompanying Consolidated Statements of Operations for all periods.

In connection with the sale of our investments in the Japan property funds, we recognized a net gain of $180.2 million. The gain is reflected as CDFS 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.

In addition, as part of this transaction, we entered into an agreement to sell one property in Japan to GIC RE. Therefore, this property was classified as held for sale as of December 31, 2008, along with borrowings of $108.6 million under our credit facilities, and its operations have been included in discontinued operations for all periods presented in our accompanying Consolidated Statements of Operations. In April 2009, we sold the Japan property for proceeds of $128.1 million, resulting in a gain of $13.1 million. See Note 8 for detail of all amounts included in discontinued operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Real Estate:

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

	December 31, 2009	December 31, 2008
Industrial properties (1):		
Improved land	$ 2,625,885	$ 2,413,840
Buildings and improvements	8,919,616	8,542,116
Retail and mixed use properties (2):		
Improved land	74,511	81,117
Buildings and improvements	216,527	277,875
Properties under development, including cost of land (3)	191,127	1,181,344
Land held for development (4)	2,569,343	2,482,582
Land subject to ground leases and other (5)	385,222	425,001
Other investments (6)	233,665	321,397
Total real estate assets	15,215,896	15,725,272
Less accumulated depreciation	1,671,100	1,583,299
Net real estate assets	$ 13,544,796	$ 14,141,973

(1) At December 31, 2009 and 2008, we had 1,188 and 1,297 distribution properties consisting of 191.6 million square feet and 195.7 million square feet, respectively.

(2) At December 31, 2009 and 2008, we had 29 and 34 retail properties consisting of 1.2 million square feet and 1.4 million square feet, respectively. We also owned two office properties with aggregate cost of $39.1 million at December 31, 2009 and one office property with a cost of $7.9 million at December 31, 2008.

(3) Properties under development consisted of 5 properties aggregating 2.9 million square feet at December 31, 2009 and 65 properties aggregating 19.8 million square feet at December 31, 2008. Our total expected investment upon completion of the properties under development at December 31, 2009 was $295.7 million, including development and leasing costs.

(4) Land held for development consisted of 10,360 acres and 10,134 acres at December 31, 2009 and 2008, respectively, and includes land parcels that we may develop or sell depending on market conditions and other

factors.

(5) At December 31, 2009 and 2008, amount represents investments of $314.9 million and $367.9 million in land we own and lease to our customers under long-term ground leases, an investment of $36.1 million and $35.3 million in railway depots and $29.9 million and $21.8 million in parking lots, respectively. At December 31, 2009, this amount also includes $4.3 million in solar panels.

(6) Other investments include: (i) restricted funds that are held in escrow pending the completion of tax-deferred exchange transactions involving operating properties ($45.6 million and $9.0 million at December 31, 2009 and 2008, respectively); (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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At December 31, 2009, 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 2008 and 2007, we completed individual and portfolio acquisitions of industrial properties, other than those discussed in Note 5, as follows (aggregated, dollars and square feet in thousands). No such acquisitions were made in 2009:

	Number of Properties	Aggregate Square Feet	Aggregate Purchase Price	Debt Assumed
2008	25	5,812	$ 324,029	$ 6,599
2007	41	7,347	$ 351,639	$ 27,305

During 2009, we recognized net gains of $35.3 million related to the contribution of properties ($13.0 million), the recognition of previously deferred gains from PEPR and ProLogis Korea Fund on properties they sold to third parties ($9.9 million), the sale of land parcels ($6.4 million), and a gain on settlement of an obligation to our fund partner in connection with the restructure of the North American Industrial Fund II ($6.0 million). The contribution activity resulted in total cash proceeds of $643.7 million and included 43 properties aggregating 9.2 million square feet to ProLogis European Property Fund II (PEPF II).

If we realize a gain on contribution of a property, we recognize the portion attributable to the third party ownership in 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, these dispositions are not included in discontinued operations. As discussed earlier, in 2008 and 2007, contribution activity was reported as CDFS Proceeds and Cost of CDFS Dispositions within our CDFS business segment. See Note 8 for further discussion of properties we sold to third parties that are reported in discontinued operations.

During the years ended December 31, 2009 and 2008, we recorded impairment charges of $331.6 and $274.7 million, respectively, related to our real estate. See Note 14 for further discussion of these impairment charges.

Prior to 2008, we identified properties that we developed or acquired with the intent to contribute to an unconsolidated property fund. Our policy was to not depreciate these properties during the period from completion or acquisition until their contribution to the property fund. In 2008, in connection with the changes in our business strategy discussed earlier, including uncertainty as to when, or if, these properties will be contributed and our intent to hold and operate these properties for our own use, we no longer identify specific properties for contribution to property funds. As a result, we recorded a $30.9 million adjustment to depreciation expense to depreciate these properties through December 31, 2008.

Operating Lease Agreements

We lease our operating properties and certain land parcels to customers under agreements that are generally classified as operating leases. Our largest customer and 25 largest customers accounted for 2.28% and 21.39%, respectively, of our annualized collected base rents at December 31, 2009. At December 31, 2009, minimum lease payments on leases with lease periods greater than one year for space in our operating properties and

PROLOGIS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

leases of land subject to ground leases, during each of the years in the five-year period ending December 31, 2014 and thereafter are as follows (in thousands):

2010	$ 673,599
2011	605,827
2012	495,619
2013	389,026
2014	298,730
Thereafter	1,705,610
	$ 4,168,411

These amounts do not reflect future rental revenues from the renewal or replacement of existing leases and exclude reimbursements of operating expenses. In addition to minimum rental payments, our customers pay reimbursements for their pro rata share of specified operating expenses, which amounted to $194.8 million, $210.9 million and $197.3 million for the years ended December 31, 2009, 2008 and 2007, respectively. These reimbursements are reflected as rental income and rental expenses in the accompanying Consolidated Statements of Operations.

5. Acquisitions:

In February 2007, we purchased the industrial business and made a 25% investment in the retail business of Parkridge Holdings Limited (Parkridge), a European developer. The total purchase price was $1.3 billion, which was financed with $733.9 million in cash, including amounts settled in cash subsequent to the purchase date, the issuance of 4.8 million common shares (valued for accounting purposes at $71.01 per share for a total of $339.5 million) and the assumption of $191.5 million in debt and other liabilities. The cash portion of the acquisition was funded with borrowings under our credit facilities.

The acquisition included 6.3 million square feet of operating distribution properties, including developments under construction, and 1,139 acres of land, primarily in Central Europe and the United Kingdom. We allocated the purchase price based on estimated fair values and recorded approximately $724.7 million of real estate assets, $156.3 million of investments in joint ventures and other unconsolidated investees, $58.1 million of cash and other tangible assets and $325.8 million of goodwill and other intangible assets, which are included in Other Assets in our Consolidated Balance Sheet. During 2008, we recognized an impairment charge of $175.4 million related to this allocated goodwill (see Note 14). The Parkridge acquisition would not have had a material impact on our consolidated results of operations for the year ended December 31, 2007, and as such, we have not presented any pro forma financial information.

See also Note 4 for information on real estate property acquisitions.

6. Unconsolidated Investees:

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

	December 31, 2009	December 31, 2008
Property funds	$ 1,876,650	$ 1,957,977
Other investees	275,073	312,016
Totals	$ 2,151,723	$ 2,269,993

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Property Funds

We have investments in several property funds that own portfolios of operating industrial properties. Many of these properties were originally developed by ProLogis 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 property funds is as follows (in thousands):

	Years Ended December 31,		
	2009	**2008**	**2007**
Earnings (loss) from unconsolidated property funds:			
North America	$ (12,085)	$ 3,271	$ 17,161
Europe	33,141	(94,429)	60,913
Asia	3,852	22,042	16,379
Total earnings (loss) from unconsolidated property funds	$ 24,908	$ (69,116)	$ 94,453
Property management and other fees and incentives:			
North America	$ 63,413	$ 61,753	$ 47,164
Europe	50,814	51,969	43,752
Asia	2,542	17,289	13,803
Total property management and other fees and incentives	$ 116,769	$ 131,011	$ 104,719

We also earned property management fees from joint ventures and other entities of $26.0 million during the year ended December 31, 2009. This included fees earned from the Japan property funds after February 2009, which is the date we sold our investments in the funds, through July 2009. In connection with the termination of the property management agreement for these properties, we earned a termination fee of $16.3 million that is included within Property Management and Other Fees and Incentives in our Consolidated Statements of Operations for the year ended December 31, 2009.

Included within Other Income (Expense), in our Consolidated Statements of Operations for the year ended December 31, 2009 is $20.3 million of expense due to an increase in accruals related to rent indemnifications we had provided to certain property funds because of changes in leasing and other assumptions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Information about our property funds (the names in parentheses represent the legal names of the entities) is as follows:

	As of December 31,					
Fund Names	**Number of properties owned 2009**	**Square feet (in millions) 2009**	**Ownership Percentage 2009**	**Ownership Percentage 2008**	**Investment in and advances to (In thousands) 2009**	**Investment in and advances to (In thousands) 2008**
ProLogis California (ProLogis California I LLC) (1)	80	14.2	50.0%	50.0%	$ 94,498	$ 102,685
ProLogis North American Properties Fund I (ProLogis North American Properties Fund I LLC) (1)	35	9.0	41.3%	41.3%	21,295	25,018
ProLogis North American Properties Fund VI (Allagash Property Trust) (1)	21	8.4	20.0%	20.0%	34,424	35,659
ProLogis North American Properties Fund VII (Brazos Property Trust) (1)	29	6.2	20.0%	20.0%	32,289	32,679
ProLogis North American Properties Fund VIII (Cimmaron Property Trust) (1)	24	3.1	20.0%	20.0%	12,283	13,281
ProLogis North American Properties Fund IX (Deerfield Property Trust) (1) (2)	19	3.3	20.0%	20.0%		13,375
ProLogis North American Properties Fund X (Elkhorn Property Trust) (1) (2)	29	4.2	20.0%	20.0%		15,567
ProLogis North American Properties Fund XI (KPJV, LLP) (1)	12	3.6	20.0%	20.0%	22,115	28,322
ProLogis North American Industrial Fund (3)	258	49.7	23.0%	23.1%	241,988	191,088
ProLogis North American Industrial Fund II (ProLogis NA2 LP) (1) (4)	148	36.0	37.0%	36.9%	336,511	265,575
ProLogis North American Industrial Fund III (ProLogis NA3 LP) (1)	120	24.7	20.0%	20.0%	140,047	122,148
ProLogis Mexico Industrial Fund (ProLogis MX Fund LP) (5)	72	9.1	24.2%	24.2%	74,754	96,320
PEPR (ProLogis European Properties) (6)	232	53.0	24.8%	24.9%	383,389	321,984
	196	48.0	32.1%	36.9%	461,631	312,600

PEPF II (ProLogis European Properties II) (7)						
ProLogis Korea Fund (ProLogis Korea Properties Trust) (1)	12	1.7	20.0%	20.0%	21,426	21,867
ProLogis Japan properties funds (1) (8)				20.0%		359,809
Totals	1,287	274.2			$ 1,876,650	$ 1,957,977

(1) We have one fund partner in each of these property funds.

(2) During 2009, we recognized an aggregate impairment charge of $28.5 million, representing the carrying value of our investments in ProLogis North American Properties Fund IX and X. We recorded the impairment charge due to recent events, which indicated that we may not be able to recover our investment balances. The impairment charge was included in Impairment of Goodwill and Other Assets in our Consolidated Statements of Operations.

(3) We refer to the combined entities in which we have ownership interests with ten institutional investors as one property fund named ProLogis North American Industrial Fund. Our ownership percentage is based on our levels of ownership interest in these different entities. During 2009, we made capital contributions of $54.1 million, representing our share of the additional capital called by this property fund to repay outstanding borrowings on its credit facilities and secured mortgage debt.

(4) In July 2007, we acquired all of the units in Macquarie ProLogis Trust, an Australian listed property trust (MPR) which had an 88.7% ownership interest in ProLogis North American Properties Fund V. The total consideration was approximately $2.0 billion consisting of cash in the amount of $1.2 billion and assumed liabilities of $0.8 billion. We entered into foreign currency forward contracts to economically hedge the purchase price of MPR. As this type of contract does not qualify for hedge accounting treatment, we

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

recognized gains of $26.6 million in 2007 when the contract settled that are included in Foreign Currency Exchange Gains (Losses), Net in our Consolidated Statements of Operations.

As a result of the MPR acquisition, we owned 100% and consolidated the results of the assets for approximately two months in 2007, at which time the lender converted certain of the bridge debt into equity of a new property fund, ProLogis North American Industrial Fund II, in which we have a 37.0% equity interest at December 31, 2009. Upon conversion by the lender in the third quarter of 2007, we recognized net gains of $68.6 million that are reflected in proceeds from and costs of CDFS Acquired Property Portfolios in our Consolidated Statements of Operations.

On July 1, 2009, we and our fund partner amended a loan agreement and the governing documents of this property fund. The property fund extended the term of a $411.3 million loan payable to an affiliate of our fund partner, which was scheduled to mature in July 2009, until 2014 with an option for an additional extension until 2016. As part of the restructuring, we made an $85.0 million cash capital contribution to the property fund and we may be required to make an additional cash contribution in the future of up to $25.0 million for the repayment of debt or other obligations. In addition, we pledged properties we own directly, valued at approximately $275.0 million, to serve as additional collateral on the loan and related interest rate swap contract. As a result, we are entitled to receive a 10% preferred distribution on all new contributions paid out of operating cash flow prior to other distributions. Upon liquidation of the property fund, we are entitled to receive a 10% preferred return per annum on our initial equity investment and the return of our total investment prior to any other distributions.

(5) We refer to the combined entities in which we have ownership interests as one property fund named ProLogis Mexico Industrial Fund, which was formed with several institutional investors in September 2007. During 2008, we loaned this property fund $153.1 million that was used to repay bridge financing that had matured and for a portion of the costs related to a third party acquisition. Through December 31, 2009 and 2008, the fund had repaid $138.7 million and $137.9 million, respectively, of this loan primarily with proceeds obtained from third party financing. The loan bears interest at LIBOR plus a margin and is payable upon demand.

(6) In December 2008, we purchased units in PEPF II from PEPR that represented a 20% interest for 43 million ($61.1 million) and assumed 348 million of PEPR s future equity commitments related to these units. The units were purchased at a discount to net asset value due to PEPR s near-term liquidity needs. In January 2009, PEPR received offers for their remaining 10.4% interest in PEPF II for 10.5 million. As a result of the sale of units to us and the impairment of their remaining ownership (based on offers received), PEPR recognized a total loss of 310.9 million ($434.3 million) in 2008. Our share of this loss, reflected as Earnings (Loss) from Unconsolidated Property Funds in our Consolidated Statements of Operations, was $108.2 million.

In December 2009, PEPR issued 61 million of preferred units with a 10.5% dividend that were offered to its current investors. We invested 41.6 million ($59.4 million) in 7.0 million preferred units that are included in our investment balance. 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 after seven years or in certain limited circumstances.

(7)

PEPF II was formed with several third party investors in July 2007. From July 2007 through December 2008, we owned approximately 24% of PEPF II, which included an indirect interest through PEPR s 30% interest. Our ownership interest has changed based on PEPR s sale of its 10.4% interest in PEPF II in January 2009 and due to the contributions of properties we made to PEPR II in 2009.

(8) On February 9, 2009, we sold our interests in the Japan property funds (see Note 3).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Equity Commitments Related to Certain Property Funds

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 we may not be required to fulfill them before expiration. Our fund partners fulfill their equity commitment with cash. We are committed to offer to contribute substantially all of the properties that we develop and stabilize in Europe and Mexico to these respective funds. These property funds are committed to acquire such properties, subject to certain exceptions, including that the properties meet certain specified leasing and other criteria, and that the property funds have available capital. We are not obligated to contribute properties at a loss. Depending on market conditions, our liquidity needs and other factors, we may make contributions of properties to these property funds through the remaining commitment period in 2010.

The following table outlines the activity of these commitments in 2009 (in millions):

	NAIF (1)		Mexico (2)		PEPF II (3)		
	ProLogis	Fund Partners	ProLogis	Fund Partners	ProLogis Series A	ProLogis Series B	Fund Partners
Remaining equity commitments at December 31, 2008 (4)	$ 72.5	$ 211.7	$ 44.3	$ 246.7	295.9	272.2	857.4
Capital called for the repayment of debt	(54.1)	(174.2)					
Capital called for the acquisition of properties from us						(108.5)	(341.6)
Remaining equity commitments at December 31, 2009 (local currency)	$ 18.4	$ 37.5	$ 44.3	$ 246.7	295.9	163.7	515.8
Remaining equity commitments at December 31, 2009 (in U.S. dollars)	$ 18.4	$ 37.5	$ 44.3	$ 246.7	$ 424.5	$ 234.9	$ 739.8
Expiration date for remaining commitments	Feb 2010		Aug 2010			Aug 2010	

(1) During 2009, the ProLogis North American Industrial Fund called capital to repay borrowings outstanding under its credit facility and to repay certain secured mortgage debt, which resulted in a gain on early extinguishment of $31.1 million. In February 2010, the property fund called $23.2 million of capital, including $0.8 million in cash from ProLogis, to acquire one property from us. The remaining equity commitments expire at the end of February 2010.

(2) ProLogis Mexico Industrial Fund may use the remaining equity commitments to pay down existing debt or other liabilities, including amounts due to us, or to make acquisitions of properties from us or third parties depending on market conditions and other factors.

(3) PEPF II s equity commitments are denominated in euro. The ProLogis commitments include a commitment on the Series B units we acquired from PEPR in December 2008 that we are required to fund with cash. During 2009, we contributed 43 properties to PEPF II for gross proceeds of $643.7 million that were financed by PEPF II with all equity, including our co-investment of $152.7 million in cash under this commitment. We did not make any contributions in 2009 under the Series A commitment. We are not required to fund the remaining Series A commitment in cash and we anticipate it will expire unused.

(4) Excludes commitments related to the ProLogis Korea Fund as the agreements were amended and there are no longer any remaining commitments.

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Generally, the properties are contributed based on third-party appraised value, other than PEPF II in 2009. For contributions we made in 2009 to PEPF II, the capitalization rate was determined based on a third party appraisal then a margin of 0.25 to 0.75 percentage points was added to the capitalization rate, depending on the quarter the properties were contributed. We may receive additional proceeds for the 2009 contributions if values at the end of 2010 are higher than those used to determine contribution values.

In addition to the capital contributions we made under these commitments, we also made additional discretionary investments in the property funds of $173.5 million in 2009. These investments included the purchase of preferred convertible units in PEPR ($59.4 million), a preferred investment in ProLogis North American Industrial Fund II ($85.0 million), contributions to ProLogis North American Properties Fund XI and ProLogis North American Properties Fund I to repay debt ($3.7 million) and advances to ProLogis North American Industrial Fund III ($25.4 million).

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

	2009			
	North America	Europe (1)	Asia (2)	Total
Revenues	$ 855.5	$ 736.3	$ 40.9	$ 1,632.7
Net earnings (loss) (3)(4)	$ (104.4)	$ 75.5	$ 16.4	$ (12.5)
Total assets	$ 9,700.0	$ 8,807.5	$ 150.6	$ 18,658.1
Amounts due to us (5)	$ 50.0	$ 31.2	$	$ 81.2
Third party debt (6)	$ 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 at end of period (7)	27.6%	28.5%	20.0%	27.9%
Our investment balance (8)	$ 1,010.2	$ 845.1	$ 21.4	$ 1,876.7
Deferred gains, net of amortization (9)	$ 243.1	$ 297.4	$	$ 540.5

	2008			
	North America	Europe	Asia	Total
Revenues	$ 835.8	$ 665.6	$ 299.6	$ 1,801.0
Net earnings (loss) (3)(4)	$ (24.2)	$ (404.6)	$ 82.8	$ (346.0)

Total assets	$	9,979.2	$	8,982.9	$	5,821.6	$	24,783.7
Amounts due to us (5)	$	30.2	$	22.4	$	147.4	$	200.0
Third party debt (6)	$	5,726.0	$	4,829.9	$	2,906.5	$	13,462.4
Total liabilities	$	5,985.4	$	5,581.1	$	3,855.1	$	15,421.6
Noncontrolling interests	$	10.7	$	19.8	$		$	30.5
Fund partners equity	$	3,983.1	$	3,382.0	$	1,966.5	$	9,331.6
Our weighted average ownership at end of period (7)		27.5%		30.2%		20.0%		26.9%
Our investment balance (8)	$	941.7	$	634.6	$	381.7	$	1,958.0
Deferred gains, net of amortization (9)	$	246.7	$	299.0	$	163.3	$	709.0

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following transactions impacted the results and financial position of the property funds during 2009 and 2008:

(1) The variances in the revenues, total assets, third party debt and total liabilities of the European property funds between 2008 and 2009 are mainly as a result of changes in the size of the property portfolios due to contributions of properties to PEPF II and fluctuations in foreign currency exchange rates, which we use to translate the assets and liabilities to U.S. dollars.

(2) The reduction in revenues, net earnings, total assets, third party debt and total liabilities relating to the Asian property funds between 2008 and 2009 was due to the sale of our interests in the Japan property funds in February 2009 (see Note 3).

(3) In 2007, two of the North America property funds entered into interest rate forward swap contracts and designated them as cash flow hedges. Certain of these derivative contracts no longer met the requirements for hedge accounting and, therefore, the change in fair value of these contracts was recognized within earnings, along with the gain or loss upon settlement. As a result, included in net earnings (loss) from North America for 2009 and 2008 are net losses of $17.1 million and $77.0 million, respectively.

During 2009, the North American Funds that own properties in Mexico recognized $79.5 million of deferred tax expense. In 2009, two North American property funds recorded impairment charges aggregating $11.1 million related to properties they planned to sell. In 2009, ProLogis North American Industrial Fund repaid debt scheduled to mature in 2011 and 2012 at a discount that resulted in the recognition of a $31.1 million gain on early extinguishment of debt.

(4) During 2009, PEPR sold 14 properties to unrelated third parties resulting in a loss of $15.3 million. The Europe results include properties that we contributed to PEPF II during 2009. Included in the net loss for Europe in 2008 was the loss on sale and impairment of PEPR s investment in PEPF II, as discussed above, of $434.3 million.

(5) During 2009, we and our fund partner each loaned $25.4 million to ProLogis North American Industrial Fund III that was used to repay maturing debt of the property fund. These notes will be paid with operating cash flow, mature at dissolution of the property fund and bear interest at LIBOR plus 8%. As of December 31, 2009, the outstanding balance was $22.6 million. In addition, as of December 31, 2009 and 2008, ProLogis Mexico Industrial Fund had a note payable to us for $14.3 million and $15.3 million, respectively. The remaining amounts represent current balances from services provided by us.

(6) As of December 31, 2009 and 2008, we had not guaranteed any of the third party debt of the property funds. On July 1, 2009, in connection with the restructuring and amendment of the partnership and loan agreements discussed earlier, we pledged direct owned properties, valued at approximately $275 million, to serve as additional collateral for the loan of ProLogis North American Industrial Fund II that is payable to an affiliate of our fund partner and for the related interest rate swap contract.

(7)

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

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

(9) 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 office properties. The amounts we have recognized as our proportionate share of the earnings (loss) from our investments in these entities are summarized as follows (in thousands):

	Years Ended December 31,		
	2009	**2008**	**2007**
North America	$ 2,814	$ 11,527	$ 7,428
Europe	337	1,815	(2,855)
Total earnings from other unconsolidated investees	$ 3,151	$ 13,342	$ 4,573

Our investments in and advances to these entities were as follows as of December 31 (in thousands):

	2009	**2008**
North America	$ 148,137	$ 150,963
Europe	96,191	161,053
Asia	30,745	
Total	$ 275,073	$ 312,016

The investment in Europe includes our 25% ownership interest in and advances to an entity that develops retail and mixed use properties. As a result of the decline in global market conditions during the fourth quarter of 2008, we evaluated the recoverability of our investment in and advances to this entity, and recognized an impairment charge of $113.7 million. We also began evaluating our options associated with this investment. During the second quarter of 2009, the entity s shareholders and lenders approved a restructuring plan that included using the proceeds received from the orderly disposition of assets to repay debt. During the fourth quarter of 2009, we reviewed the entity s progress with executing this plan, the cash generated from asset sales and estimated future cash flows. As a result of this review, we evaluated the recoverability of our investment in and advances to the entity and recognized a further impairment charge of $115.1 million during the fourth quarter of 2009. Included in the 2009 impairment charge is $25.1 million that represents the cumulative translation losses we had recognized on this investment that were previously included as a component of equity. At December 31, 2009, we have a remaining balance of $45.0 million of advances that we expect to recover based on estimated future cash flows from the entity s disposition of assets.

The investment in Asia relates to a new joint venture in Japan to which we contributed land. The joint venture is with one partner and is accounted for under the equity method, as we do not have majority voting rights and all substantive decisions require unanimous consent of both us and our partner. Our partner is responsible for funding 51% of the costs of construction and we are responsible for 49%. The joint venture intends to obtain secured financing and use the proceeds to reimburse our costs of construction. After the financing is in place, our total investment in this joint venture is expected to equal our land investment balance and represent 60% of the joint venture equity.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Other Assets and Other Liabilities:

Our other assets consisted of the following, net of amortization and depreciation, if applicable, as of December 31 (in thousands):

	2009	2008
Goodwill	$ 399,037	$ 395,626
Value added taxes receivable	125,768	250,707
Leasing commissions	119,496	115,194
Rent leveling assets and above market leases	106,009	81,558
Fixed assets	39,637	80,323
Loan fees	76,994	37,138
Non-qualified savings plan assets	699	24,901
Other	150,140	141,546
Totals	$ 1,017,780	$ 1,126,993

Our other liabilities consisted of the following, net of amortization, if applicable, as of December 31 (in thousands):

	2009	2008
Income tax liabilities	$ 171,602	$ 367,626
Tenant security deposits	56,529	120,590
Accrued disposition costs	41,526	91,476
Unearned rents	43,388	60,331
Non-qualified savings plan liabilities	886	27,206
Value added taxes payable	24,690	10,571
Below market leases	6,908	7,332
Other	98,903	66,106
Totals	$ 444,432	$ 751,238

The expected future amortization of leasing commissions assets is summarized in the table below. We also expect our above and below market leases and rent leveling assets, which total $99.1 million at December 31, 2009, to be amortized into rental income as follows (in thousands):

	Amortization Expense	Net Charge (Increase) to Rental Income
2010	$ 33,060	$ (2,408)
2011	27,865	16,909
2012	21,293	17,380
2013	14,328	14,191
2014	8,726	11,793
Thereafter	14,224	41,236
Total	$ 119,496	$ 99,101

As of December 31, 2009 and 2008, total accumulated impairment of goodwill was $175.4 million, all of which was recorded in 2008.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During 2009 and 2008, we recorded impairment charges on certain other assets of $20.0 million and $13.6 million, respectively. See Note 14 for additional information.

8. Assets Held for Sale and Discontinued Operations:

Held for Sale

As discussed in Note 3 above, all of the assets and liabilities associated with our China operations were classified as Assets and Liabilities Held for Sale in our accompanying Consolidated Balance Sheet as of December 31, 2008, as well as one property in Japan that we sold in April 2009. We had no properties classified as held for sale at December 31, 2009.

A summary of the amounts included in Assets Held for Sale, at December 31, 2008 was as follows (in thousands):

Assets discontinued operations assets held for sale:		
Investments in real estate assets:		
Industrial properties	$	471,221
Properties under development		225,971
Land held for development		245,965
Other investments		147,356
		1,090,513
Accumulated depreciation		(15,463)
Net investments in real estate assets		1,075,050
Investments in and advances to unconsolidated investees:		
Property funds		32,952
Other investees		247,507
Total investments in and advances to unconsolidated investees		280,459
Cash and cash equivalents		111,136
Other assets		42,345
Total assets before impairment		1,508,990
Impairment of assets		(198,236)
Total assets discontinued operations assets held for sale	$	1,310,754
Liabilities discontinued operations assets held for sale:		
Debt	$	218,463
Other liabilities		104,547

Noncontrolling interests		66,874
Total liabilities discontinued operations assets held for sale	$	389,884

Discontinued Operations

The operations of the properties held for sale or disposed of to third parties, including our China operations, 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

pre-sale agreement. Interest expense is included in discontinued operations only if it is directly attributable to these operations or properties.

During 2009, other than our China operations, we disposed of land subject to ground leases and 140 properties to third parties aggregating 14.8 million square feet, 3 of which were development properties. This includes a portfolio of 90 properties aggregating 9.6 million square feet that we continue to manage that were sold to a single venture during the second quarter. During 2008, we disposed of land subject to ground leases and 15 properties to third parties, 6 of which were development properties.

Income attributable to discontinued operations for the years ended December 31 is summarized as follows (in thousands):

	2009	2008	2007
Revenues:			
Rental income	$ 50,492	$ 121,685	$ 109,942
CDFS dispositions proceeds acquired property portfolios		83,648	
Other income	93	1,514	348
Total revenues	50,585	206,847	110,290
Expenses:			
Rental expenses	14,434	42,058	31,209
Cost of CDFS dispositions acquired property portfolios		83,648	
General and administrative	1,305	21,721	11,354
Reduction in workforce		3,300	
Depreciation and amortization	11,319	33,661	25,588
Other expenses	7	5,088	
Total expenses	27,065	189,476	68,151
Operating income	23,520	17,371	42,139
Total other income (expense)	787	(16,390)	6,717
Net (earnings) loss attributable to noncontrolling interest	(144)	10,068	(1,189)
Income attributable to assets held for sale and disposed properties	24,163	11,049	47,667
Net gain (impairment) related to disposed assets China operations	3,315	(198,236)	
Net gains recognized on property dispositions	261,464	19,501	81,497
Total discontinued operations	$ 288,942	$ (167,686)	$ 129,164

The following information relates to properties disposed of and recorded as discontinued operations, excluding the China operations and including minor adjustments to previous dispositions, during each of the years ended December 31 (dollars in thousands):

	2009	2008	2007
Number of properties	140	15	80
Net proceeds from dispositions	$ 845,186	$ 127,428	$ 426,838
Net gains from dispositions	$ 261,464	$ 19,501	$ 81,497

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Debt:

Our debt consisted of the following as of December 31 (dollars in thousands):

	2009		2008	
	Weighted Average Interest Rate	Amount Outstanding	Weighted Average Interest Rate	Amount Outstanding
Global Line	2.27%	$ 736,591	2.38%	$ 2,617,764
Credit Facility (1)			2.81%	600,519
Senior and other notes	6.31%	4,047,905	5.60%	3,995,410
Convertible senior notes (2)	5.55%	2,078,441	5.56%	2,590,133
Secured mortgage debt	6.40%	1,090,126	6.79%	877,916
Assessment bonds	6.49%	24,715	6.55%	29,626
Totals	5.75%	$ 7,977,778	4.75%	$ 10,711,368

(1) In 2009, we repaid the balance outstanding and terminated our existing multi-currency credit facility (the Credit Facility), which was scheduled to mature on October 6, 2009, with borrowings under our global line of credit (the Global Line).

(2) The weighted average interest rate reflects the effective rate after the adoption of the new accounting standard for convertible debt (see Note 2 for more information on the adoption). The weighted coupon interest rate was 2.2% for both periods.

Beginning in the fourth quarter of 2008 and throughout 2009, in connection with our announced initiatives to reduce debt, we purchased portions of several series of notes outstanding, the majority of which were at a discount, and extinguished some secured mortgage debt prior to maturity, as follows (in thousands):

	For the Year Ended December 31, 2009	For the Year Ended December 31, 2008
Convertible Notes		
Original principal amount	$ 653,993	$
Cash purchase price	$ 454,023	$
Senior Notes (1)		

Original principal amount	$	587,698	$	309,722
Cash purchase price	$	545,618	$	216,805
Secured Mortgage Debt				
Original principal amount (2)	$	227,017	$	
Cash extinguishment price	$	227,017	$	
Total				
Original principal amount	$	1,468,708	$	309,722
Cash purchase / extinguishment price	$	1,226,658	$	216,805
Net gain on early extinguishment of debt (3)	$	172,258	$	90,719

(1) Included in the year ended December 31, 2009 is the repurchase of 248.7 million ($356.4 million) original principal amount of our other notes for 235.1 million ($338.7 million).

(2) In addition, there was an unamortized premium of $11.4 million (recorded at acquisition) that was included in the calculation of the gain on early extinguishment.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Although we reduced our debt obligations by $242.1 million and $92.9 million in 2009 and 2008, respectively, the gain is calculated based on the recorded debt balance, which may include unamortized related debt issuance costs, premiums, and discounts.

Credit Facilities

Information related to our combined credit facilities are summarized below (dollars in millions):

	2009	2008	2007
For the years ended December 31:			
Weighted average daily interest rate	1.62%	3.26%	3.72%
Weighted average daily borrowings	$ 1,641.9	$ 3,248.4	$ 3,075.9
Maximum borrowings outstanding at any month-end	$ 3,285.3	$ 3,663.6	$ 3,538.2
As of December 31:			
Aggregate borrowing capacity (1)	$ 2,164.8	$ 4,432.1	$ 4,354.9
Borrowings outstanding	$ 736.6	$ 3,218.3	$ 2,564.4
Outstanding letters of credit (1)	$ 114.9	$ 142.4	$ 148.2
Aggregate remaining capacity available	$ 1,080.4	$ 1,071.5	$ 1,642.4

(1) At December 31, 2009, included in this borrowing capacity and letters of credit is a credit facility with outstanding commitments equal to the outstanding letters of credit of 9.7 million British pound sterling ($15.6 million).

Information related to our Global Line as of December 31, 2009 (dollars in millions):

Borrowing base	$ 3,907.7
Borrowing capacity (1)	$ 2,149.2
Less:	
Borrowings outstanding	736.6
Outstanding letters of credit	99.3
Debt due within one year	232.9
Current availability	$ 1,080.4

(1) Borrowing capacity represents 55% of the borrowing base related to the Global Line.

In August 2009, we amended our Global Line to, among other things, extend the maturity to August 21, 2012 and reduce the size of the aggregate commitments to $2.25 billion, after October 2010, from the current level of $3.7 billion (in each case subject to currency fluctuations). The Global Line includes covenants that may limit the amount of indebtedness that we and our subsidiaries can incur to an amount that may be less than the aggregate lender commitments under the Global Line, depending on the timing and use of proceeds of the borrowings. The borrowing base covenant in the Global Line limits the aggregate amount of indebtedness (including obligations under the Global Line and other recourse indebtedness maturing within one year) to no more than 55% of the value (determined by a formula as of the end of each fiscal quarter) of our unencumbered property pool, as defined in the Global Line.

Our current availability to borrow under the Global Line is calculated as the lesser of (i) the aggregate lender commitments and (ii) the borrowing capacity, in each case reduced by the outstanding borrowings, letters of credit and recourse debt due within one year; resulting in current availability of $1.1 billion at December 31, 2009. Therefore, the amount of funds that we may borrow under the Global Line will vary from time to time

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

based upon the outstanding amount of such specified indebtedness and the quarterly formulaic valuation of our unencumbered property pool. Our current availability to borrow would remain $1.1 billion at December 31, 2009, even if the aggregate lender commitments were reduced to $2.25 billion.

We may draw funds from a syndicate of banks in U.S. dollars, euros, Japanese yen, British pound sterling and Canadian dollars, and until October 2010, South Korean won. Lenders who did not participate in the amended and extended facility will be subject to the pre-amendment pricing structure through October 2010, while the new pricing structure is effective immediately to extending lenders. 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 and we pay utilization fees that are calculated on the outstanding balance. The interest and utilization fees result in a weighted average borrowing rate of 2.27% per annum at December 31, 2009 using local currency rates.

Senior and Other Notes

On August 14, 2009, we issued $350.0 million of 7.625% senior notes maturing in 2014, at 99.489% of par value for an all-in-rate of 7.75%. On October 30, 2009 we issued $600.0 million of 7.375% senior notes maturing October 2019, at 99.728% of par value for an all-in-rate of 7.414%. We used the proceeds from both issuances to repay borrowings under our Global Line and other debt.

During 2009, we repaid maturing notes of $303.1 million primarily with borrowings under our Global Line.

Our senior and other notes outstanding at December 31, 2009 are summarized as follows (dollars in thousands):

Maturity Date	**Principal Balance**	**Coupon Rate**
Senior notes:		
November 15, 2010 (1)	190,278	5.25%
April 1, 2012 (1)	280,788	5.50%
March 1, 2013 (1)	262,066	5.50%
August 15, 2014 (1) (2)	350,000	7.63%
February 1, 2015 (3)	100,000	7.81%
March 1, 2015 (4)	30,000	9.34%
November 15, 2015 (1)	400,000	5.63%
April 1, 2016 (1)	400,000	5.75%
May 15, 2016 (5)	50,000	8.65%
November 15, 2016 (1)	550,000	5.63%
July 1, 2017 (1)	100,000	7.63%
May 15, 2018 (1)	600,000	6.63%
October 30, 2019 (1) (6)	600,000	7.38%

Total senior notes			3,913,132	
Other notes	April 13, 2011 (1) (7)		145,294	4.38%
Total par value			4,058,426	
Discount, net			(10,521)	
Total senior and other notes, net		$	4,047,905	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Principal due at maturity.

(2) We issued these notes in August 2009.

(3) Beginning on February 1, 2010, and through February 1, 2015, requires annual principal payments ranging from $10.0 million to $20.0 million.

(4) Beginning on March 1, 2010, and through March 1, 2015, requires annual principal payments ranging from $3.0 million to $7.5 million.

(5) Beginning on May 15, 2010, and through May 15, 2016, requires annual principal payments ranging from $5.0 million to $12.5 million.

(6) We issued these notes in October 2009.

(7) Represents notes with principal outstanding of 101.3 million.

Our obligations under the senior notes are effectively subordinated in certain respects to any of our debt that is secured by a lien on real property, to the extent of the value of such real property. The senior notes require interest payments be made quarterly, semi-annually or annually.

We have designated the senior and other notes and our credit facilities as Designated Senior Debt under and as defined in the Amended and Restated Security Agency Agreement dated as of October 6, 2005 (the Security Agency Agreement) among various creditors (or their representatives) and Bank of America, N.A., as Collateral Agent. The Security Agency Agreement provides that all Designated Senior Debt holders will, subject to certain exceptions and limitations, have the benefit of certain pledged intercompany receivables and share payments and other recoveries received post default/post acceleration so that all Designated Senior Debt holders receive payment of substantially the same percentage of their respective credit obligations. In connection with the amendments to our Global Line described above, we amended the terms of the Security Agency Agreement to permit us to pledge collateral (Specified Collateral) to the holders of certain Designated Senior Debt (Specified DS Debt) without subjecting that collateral to the sharing arrangements with other holders of Designated Senior Debt. The Specified Collateral may include any property owned by us or any of our consolidated subsidiaries, except that no property that constitutes pledged collateral for all Designated Senior Debt may become Specified Collateral. No proceeds from Specified Collateral received by holders of Specified DS Debt will be deducted or otherwise taken into consideration when allocating proceeds among the credit parties pursuant to the Security Agency Agreement unless the holder of such Designated Senior Debt has been paid in full.

All of the senior and other notes are redeemable at any time at our option, subject to certain prepayment penalties. Such redemption and other terms are governed by the provisions of indenture agreements, various note purchase agreements and a trust deed.

Convertible Notes

We have issued three series of convertible senior notes ($550 million issued May 2008, $1.25 billion issued March 2007 and $1.12 billion issued November 2007). We refer to the three convertible senior note issuances as Convertible Notes . During 2009, we repurchased portions of the Convertible Notes with an aggregate principal amount of $654.0 million, as discussed above.

The Convertible Notes are senior obligations of ProLogis and are convertible, under certain circumstances, for cash, our common shares or a combination of cash and our common shares, at our option, at a conversion rate per $1,000 of principal amount of the notes of 13.1614 shares for the March 2007 issuance, 12.2926 shares for

PROLOGIS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the November 2007 issuance and 13.1203 shares for the May 2008 issuance. The initial conversion price ($76.58 for the March 2007 issuance, $82.00 for the November 2007 issuance and $76.22 for the May 2008 issuance) represented a premium of approximately 20% over the closing price of our common shares at the date of first sale and is subject to adjustment under certain circumstances. The Convertible Notes, issued in 2007 and 2008, are redeemable at our option beginning in 2012 and 2013, respectively, for the principal amount plus accrued and unpaid interest and at any time prior to maturity to the extent necessary to preserve our status as a REIT. Holders of the Convertible Notes have the right to require us to repurchase their Convertible Notes for cash on specific dates approximately every five years beginning in 2012 and 2013 and at any time prior to their maturity upon certain limited circumstances. Therefore, we have reflected these amounts in 2012 and 2013 in the schedule of debt maturities below based on the first put date and we will amortize the discount through these dates.

While we have the legal right to settle the conversion in either cash or shares, we intend to settle the principal balance of the Convertible Notes in cash and, therefore, we have not included the effect of the conversion of these notes in our computation of diluted earnings per share. Based on the current conversion rates, 29.2 million shares would be required to settle the principal amount in shares. Such potentially dilutive shares, and the corresponding adjustment to interest expense, are not included in our computation of diluted earnings per share. The amount in excess of the principal balance of the notes (the Conversion Spread) will be settled in cash or, at our option, ProLogis common shares. If the Conversion Spread becomes dilutive to our earnings per share, (i.e., if our share price exceeds $75.98 for the March 2007 issuance, $81.35 for the November 2007 issuance or $76.22 for the May 2008 issuance) we will include the shares required to satisfy the conversion spread in our computation of diluted earnings per share.

After the adoption of the new accounting standard on January 1, 2009 related to convertible debt with terms similar to our Convertible Notes, as discussed in Note 2, below is information related to the Convertible Notes (in thousands):

	December 31, 2009	December 31, 2008	December 31, 2007
Principal amount	$ 2,266,507	$ 2,920,500	$ 2,370,500
Discount	(188,066)	(330,367)	(326,492)
Net carrying balance required to satisfy the conversion spread	$ 2,078,441	$ 2,590,133	$ 2,044,008
Additional paid-in capital conversion option	$ 381,493	$ 381,493	$ 310,575

Interest expense related to the Convertible Notes for the years ended December 31 included the following components (in thousands):

	2009	2008	2007

Coupon rate	$ 55,951	$ 58,420	$ 24,505
Amortization of discount	71,662	73,374	27,638
Amortization of deferred loan costs	3,801	3,470	1,373
Interest expense	$ 131,414	$ 135,264	$ 53,516
Effective interest rate	5.55%	5.70%	5.38%

Secured Mortgage Debt

During 2009, we issued a total of ¥14.3 billion in TMK bonds, including ¥10 billion ($108.2 million at December 31, 2009) at 2.74% due December 2012, and ¥4.3 billion ($45.6 million at December 31, 2009) at

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4.09% due June 2012. TMK bonds are a financing vehicle in Japan for special purpose companies known as TMKs. We also issued $347.3 million of secured mortgage debt including $101.8 million at 6.5% due July 2014 and $245.5 million at 7.55% due July 2019. These 2009 financings are secured by 66 real estate properties with an aggregate undepreciated cost of $1.4 billion at December 31, 2009.

Our secured mortgage debt outstanding includes any premium or discount recorded at acquisition and consisted of the following at December 31, 2009 (dollars in thousands):

Maturity Date	Interest Rate (1)	Periodic Payment Date	Carrying Value	Balloon Payment Due at Maturity
June 23, 2012	4.09%(2)	(4)	$ 45,628	$ 45,628
December 16, 2012	2.74%(2)	(4)	108,190	$ 108,190
July 1, 2014	6.50%	(3)	101,750	$ 101,750
August 1, 2015	5.47%	(4)	128,528	$ 111,690
April 12, 2016	7.25%	(4)	196,265	$ 149,917
July 10, 2019	7.55%	(3)	245,500	$ 245,500
April 1, 2024	7.58%	(4)	190,230	$ 127,187
Various	(5)	(5)	74,035	(5)
Total secured mortgage debt(6)			$ 1,090,126	

(1) The weighted average annual interest rate for our total secured mortgage debt was 6.4% at December 31, 2009.

(2) Represents the effective fixed interest rates including interest rate swap contracts.

(3) Principal due at maturity.

(4) Monthly amortization with a balloon payment due at maturity.

(5) Includes six mortgage notes with interest rates ranging from 4.7% to 7.23%, maturing from 2011 to 2025, primarily requiring monthly amortization with a balloon payment at maturity. The combined balloon payment for all of the notes is $71.2 million.

(6) The debt is secured by 216 real estate properties with an aggregate undepreciated cost of $2.6 billion at December 31, 2009.

Assessment Bonds

The assessment bonds are issued by municipalities and guaranteed by us as a means of financing infrastructure and are secured by assessments (similar to property taxes) on various underlying real estate properties with an aggregate undepreciated cost of $953.0 million at December 31, 2009. Interest rates range from 5.78% per annum to 8.75% per annum. Maturity dates range from 2011 to 2033.

Debt Covenants

We have approximately $6.0 billion of senior notes outstanding as of December 31, 2009, that have been issued under the 1995 indenture (Original Indenture) or supplemental indentures. We refer to the Original Indenture, as amended by supplemental indentures, collectively as the Indenture . These senior notes are subject to certain financial covenants. The Convertible Notes, although issued under the Indenture, are not subject to financial covenants.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On October 1, 2009, at the completion of a consent solicitation with regard to the senior notes, other than the Convertible Notes, we and the trustee under the Indenture entered into a Ninth Supplemental Indenture (the Ninth Supplemental Indenture) giving effect to the Indenture amendments described in the solicitation statement dated September 21, 2009. The Ninth Supplemental Indenture became operative upon payment of a consent fee. The Indenture amendments are binding on all holders of the senior notes, other than the Convertible Notes, including non-consenting holders. The amended covenants, defined terms and thresholds for certain events of default, as included in the Ninth Supplemental Indenture, are consistent with the Eighth Supplemental Indenture, which was entered into with the trustee in August 2009 in connection with the issuance of $350.0 million of senior notes. Therefore, as of October 1, 2009, all senior notes, other than the Convertible Notes, issued under the Indenture are now subject to one consistent set of financial covenants, defined terms and thresholds for certain events of default.

In consideration for the consents from the record holders of the solicited notes to the proposed amendments, in October 2009, we paid to each record holder $2.50 for each $1,000 in principal amount of solicited notes as to which we had received a valid (and unrevoked) consent on or prior to the consent solicitation expiration date from such record holder. These costs were deferred and will be amortized into interest expense over the remaining life of the notes. In addition, we recognized $14.5 million in fees and expenses related to the consent solicitation that are included in General and Administrative Expenses in our Consolidated Statements of Operations.

As of December 31, 2009, we were in compliance with all of our debt covenants.

Long-Term Debt Maturities

Principal payments due on our debt, excluding the Global Line, during each of the years in the five-year period ending December 31, 2014 and thereafter are as follows (in thousands):

2010 (1)	$ 232,854
2011 (1)	188,441
2012 (2)	1,569,352
2013 (2) (3)	1,497,740
2014	513,653
Thereafter	3,417,667
Total principal due	7,419,707
Discount, net	(178,520)
Total carrying value	$ 7,241,187

(1) We expect to repay the amounts maturing in 2010 and 2011 with borrowings under our Global Line or with proceeds from the issuance of debt or equity securities, depending on market conditions.

(2) The maturities in 2012 and 2013 include the aggregate principal amounts of the convertible notes of $1,103.7 million and $1,162.8 million, respectively, based on the year in which the holders first have the right to require us to repurchase their notes.

(3) The convertible notes issued in November 2007 are included as 2013 maturities since the holders have the right to require us to repurchase their notes for cash in January 2013. The holders of these notes also have the option to convert their notes in November 2012, which we may settle in cash or common shares, at our option.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Interest Expense

Interest expense included the following components (in thousands):

	Years Ended December 31, 2009	2008	2007
Gross interest expense	$ 382,899	$ 477,933	$ 487,410
Amortization of discount, net	67,542	63,676	15,952
Amortization of deferred loan costs	17,069	12,238	10,362
	467,510	553,847	513,724
Capitalized amounts	(94,205)	(168,782)	(123,880)
Net interest expense	$ 373,305	$ 385,065	$ 389,844

The amount of interest paid in cash, net of amounts capitalized, for the years ended December 31, 2009, 2008 and 2007 was $290.2 million, $339.5 million and $356.8 million, respectively.

10. Noncontrolling Interests:

We have reported noncontrolling interests related to two real estate partnerships in North America and other entities we consolidate but do not wholly own. The real estate partnerships have limited partnership units, held by noncontrolling interest holders, that are convertible into our common shares generally at a rate of one common share to one unit. Information at December 31 is as follows (dollars in thousands):

	2009		2008	
Type of Entity	Balance	Noncontrolling Interests	Balance	Noncontrolling Interests
North America limited partnerships (1)(2)(3)(4)	$ 12,608	3-7%	$ 14,396	4-7%
North America joint ventures	611	1-25%	676	1-25%
Europe joint venture	6,743	50%	4,806	50%
	$ 19,962		$ 19,878	

(1) At December 31, 2009 and 2008, an aggregate of 810,163 and 1,233,566 limited partnership units, respectively, held by noncontrolling interest holders are convertible into an equal number of common shares. The majority of the outstanding limited partnership units are entitled to receive cumulative preferential quarterly cash distributions equal to the quarterly distributions paid on our common shares.

(2) Certain properties owned by one of these partnerships cannot be sold, other than in tax-deferred exchanges, prior to the occurrence of certain events and without the consent of the limited partners. The partnership agreement provides that a minimum level of debt must be maintained within the partnership, which can include intercompany debt to us.

(3) In 2009 and 2008, outstanding limited partnership units of 413,500 and 3,911,923, respectively, were converted into an equal number of common shares.

(4) In 2009, outstanding limited partnership units of 9,903 were converted to cash in exchange for the sale of the property that was in the partnership.

PROLOGIS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. ProLogis Shareholders Equity:

Shares Authorized

On February 27, 2009, the Board of Trustees (the Board) approved Articles of Amendment (the Amendment) to our Amended and Restated Declaration of Trust. The Amendment increased the total number of shares of beneficial interest that we have the authority to issue from 375 million to 750 million shares, including an increase in the number of common shares from 363 million to 738 million shares. The Board may, without shareholder approval, increase the number of authorized shares and may classify or reclassify any unissued shares of our stock from time to time by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications and terms or conditions of redemption of such shares.

Common Shares

On April 14, 2009, we completed a public offering of 174.8 million common shares at a price of $6.60 per share (Equity Offering). We received net proceeds of $1.1 billion that were used to repay borrowings under our credit facilities.

In February 2007, we issued 4.8 million common shares in connection with the Parkridge acquisition (see Note 5).

We sell and/or issue common shares under various common share plans, including share-based compensation plans as follows:

> *1999 Dividend Reinvestment and Share Purchase Plan, as amended (the 1999 Dividend Reinvestment Plan):* Allows holders of common shares to automatically reinvest distributions and certain holders and persons who are not holders of common shares to purchase a limited number of additional common shares by making optional cash payments, without payment of any brokerage commission or service charge. Common shares that are acquired under the 1999 Dividend Reinvestment Plan through reinvestment of distributions are acquired at a price we determine ranging from 98% to 100% of the market price of such common shares.
>
> *Controlled Offering Program:* Currently allows us to sell up to 40 million common shares through one designated agent who earns a fee up to 2% of the gross proceeds, as agreed on a transaction-by-transaction basis. In 2009, we issued 29.8 million shares, resulting in 10.2 million shares available for future issuance.
>
> *The Incentive Plan and Outside Trustees Plan:* Certain of our employees and outside trustees participate in share-based compensation plans that provide compensation, generally in the form of common shares. See Note 12 for additional information on these plans.
>
> *ProLogis Trust Employee Share Purchase Plan (the Employee Share Plan):* Certain of our employees may purchase common shares, through payroll deductions only, at a discounted price of 85% of the market price of the common shares. The aggregate fair value of common shares that an individual employee can acquire in a

calendar year under the Employee Share Plan is $25,000. Subject to certain provisions, the aggregate number of common shares that may be issued under the Employee Share Plan may not exceed 5.0 million common shares. As of December 31, 2009, we have 4.5 million shares available under this plan.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Under the plans discussed above, we issued shares and received gross proceeds as follows (in thousands):

	2009		2008		2007	
	Shares	Proceeds	Shares	Proceeds	Shares	Proceeds
1999 Dividend Reinvestment Plan	224	$ 1,901	335	$ 4,376	66	$ 4,145
Controlled Offering Program	29,757	331,942	3,367	196,381		
Incentive Plan and Outside Trustees Plan	1,767	2,192	1,603	19,455	1,781	40,570
Employee Share Plan	195	1,362	76	1,950	44	2,140
Total	31,943	$ 337,397	5,381	$ 222,162	1,891	$ 46,855

Limited partnership units were redeemed into 0.4 million common shares in 2009, 3.9 million common shares in 2008, and 128,000 common shares in 2007 (see Note 10).

We have approximately $84.1 million remaining on our Board authorization to repurchase common shares that began in 2001. We have not repurchased our common shares since 2003.

Preferred Shares

At December 31, 2009, we had three series of preferred shares outstanding (Series C Preferred Shares , Series F Preferred Shares , and Series G Preferred Shares). Holders of each series of preferred shares have, subject to certain conditions, limited voting rights and all holders are entitled to receive cumulative preferential dividends based upon each series respective liquidation preference. Such dividends are payable quarterly in arrears on the last day of March, June, September and December. Dividends on preferred shares are payable when, and if, they have been declared by the Board, out of funds legally available for the payment of dividends. After the respective redemption dates, each series of preferred shares can be redeemed at our option. The cash redemption price (other than the portion consisting of accrued and unpaid dividends) with respect to Series C Preferred Shares is payable solely out of the cumulative sales proceeds of our other capital shares, which may include shares of other series of preferred shares. With respect to the payment of dividends, each series of preferred shares ranks on parity with the other series of preferred shares.

Our preferred shares outstanding at December 31, 2009 are summarized as follows:

	Dividend Rate	Dividend Equivalent Based on Liquidation Preference	Optional Redemption Date

Series C Preferred Shares	8.54%	$ 4.27 per share	11/13/26
Series F Preferred Shares	6.75%	$ 1.69 per share	(a)
Series G Preferred Shares	6.75%	$ 1.69 per share	(a)

(a) These shares are currently redeemable at our option.

Ownership Restrictions

For us to qualify as a REIT under the Code, five or fewer individuals may not own more than 50% of the value of our outstanding shares of beneficial interest at any time during the last half of our taxable year. Therefore, our Declaration of Trust restricts beneficial ownership (or ownership generally attributed to a person under the REIT tax rules) of our outstanding shares of beneficial interest by a single person, or persons acting as a group, to 9.8% of our outstanding shares. This provision assists us in protecting and preserving our

PROLOGIS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

REIT status and protects the interests of shareholders in takeover transactions by preventing the acquisition of a substantial block of outstanding shares.

Shares of beneficial interest owned by a person or group of persons in excess of these limits are subject to redemption by us. The provision does not apply where a majority of the Board, in its sole and absolute discretion, waives such limit after determining that the status of us as a REIT for federal income tax purposes will not be jeopardized or the disqualification of us as a REIT is advantageous to our shareholders.

Distributions and Dividends

The following summarizes the taxability of our common share distributions and preferred share dividends (taxability for 2009 is estimated):

	Years Ended December 31, 2009	2008	2007
Per common share:			
Ordinary income	$ 0.58	$ 1.01	$ 0.89
Qualified dividend	0.09	0.01	
Capital gains	0.03	1.05	0.64
Return of capital			0.31
Total distribution	$ 0.70	$ 2.07	$ 1.84
Per preferred share Series C:			
Ordinary income	$ 3.56	$ 2.07	$ 2.47
Qualified dividend	0.54	0.03	
Capital gains	0.17	2.17	1.80
Total dividend	$ 4.27	$ 4.27	$ 4.27
Per preferred share Series F:			
Ordinary income	$ 1.41	$ 0.82	$ 0.98
Qualified dividend	0.21	0.01	
Capital gains	0.07	0.86	0.71
Total dividend	$ 1.69	$ 1.69	$ 1.69
Per preferred share Series G:			
Ordinary income	$ 1.41	$ 0.82	$ 0.98
Qualified dividend	0.21	0.01	

Capital gains		0.07		0.86		0.71
Total dividend	$	1.69	$	1.69	$	1.69

In order to comply with the REIT requirements of the Code, we are generally required to make common share distributions (other than capital gain distributions) to our shareholders at least equal to (i) the sum of (a) 90% of our REIT taxable income computed without regard to the dividends paid deduction and net capital gains and (b) 90% of the net income (after tax), if any, from foreclosure property, minus (ii) certain excess non-cash income. Our common share distribution policy is to distribute a percentage of our cash flow to ensure we will meet the distribution requirements of the Code, while allowing us to maximize the cash retained to meet other cash needs, such as capital improvements and other investment activities.

PROLOGIS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Common share distributions are characterized for federal income tax purposes as ordinary income, qualified dividend, capital gains, non-taxable return of capital or a combination of the four. Common share distributions that exceed our current and accumulated earnings and profits (calculated for tax purposes) constitute a return of capital rather than a dividend and generally reduce the shareholder s basis in the common shares. To the extent that a distribution exceeds both current and accumulated earnings and profits and the shareholder s basis in the common shares, it will generally be treated as a gain from the sale or exchange of that shareholder s common shares. At the beginning of each year, we notify our shareholders of the taxability of the common share distributions paid during the preceding year.

Our 2009 dividend was $0.25 for the first quarter and $0.15 for each of the second, third and fourth quarters. The payment of common share distributions is dependent upon our financial condition, operating results and REIT distribution requirements and may be adjusted at the discretion of the Board during the year. A cash distribution of $0.15 per common share for the first quarter of 2010 was declared on February 1, 2010. This distribution will be paid on February 26, 2010 to holders of common shares on February 12, 2010.

Pursuant to the terms of our preferred shares, we are restricted from declaring or paying any distribution with respect to our common shares unless and until all cumulative dividends with respect to the preferred shares have been paid and sufficient funds have been set aside for dividends that have been declared for the then-current dividend period with respect to the preferred shares.

Our tax return for the year ended December 31, 2009 has not been filed. The taxability information presented for our distributions and dividends paid in 2009 is based upon management s estimate. Our tax returns for previous tax years have not been examined by the Internal Revenue Service (IRS) other than those discussed in Note 15. Consequently, the taxability of distributions and dividends is subject to change.

12. Long-Term Compensation:

The 2006 long-term incentive plan together with our 1997 long-term incentive plan and outside trustees plan (the Incentive Plan) have been approved by our shareholders and provides for grants of share options, stock appreciation rights (SARs), full value awards and cash incentive awards to employees and other persons providing services to us and our subsidiaries, including outside trustees. No more than 28,560,000 common shares in the aggregate may be awarded under the Incentive Plan. In any one calendar-year period, no participant shall be granted: (i) more than 500,000 share options and SARs; (ii) more than 200,000 full value performance based awards; or (iii) more than $10,000,000 in cash incentive awards. Common shares may be awarded under the Incentive Plan until it is terminated by the Board. At December 31, 2009, 3.7 million common shares were available for future issuance under the Incentive Plan.

Share Options

We have granted various share options to our employees and trustees, subject to certain conditions. Each share option is exercisable into one common share. The holders of share options granted before 2001 earn dividend equivalent units (DEUs) on December 31st of each year until the earlier of the date the underlying share option is exercised or the expiration date of the underlying share option. At December 31, 2009, there were 491,169 share options with a weighted average exercise price and remaining life of $24.12 and 0.7 years, respectively, that will earn DEUs in the future. Share options granted to employees generally have graded vesting over a four-year period and have an exercise price equal to the market price on the date of grant. Share options granted to outside trustees generally vest immediately. There were no share options granted in 2009.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Share options outstanding at December 31, 2009 were as follows:

	Number of Options	Exercise Price	Expiration Date	Weighted Average Remaining Life (in years)
Outside trustees	85,000	$ 20.75 - $43.80	2010-2015	3.2
Incentive Plan:				
2000 grants	476,169	$ 21.75 - $24.25	2010	0.7
2001 grants	276,142	$ 20.67 - $22.02	2011	1.7
2002 grants	523,841	$ 22.98 - $24.76	2012	2.7
2003 grants	666,842	$ 30.00 - $31.26	2013	3.6
2004 grants	1,143,805	$ 29.41 - $41.50	2014	4.3
2005 grants	663,155	$ 40.86 - $45.46	2015	5.8
2006 grants	491,105	$ 54.51 - $59.92	2016	6.8
2007 grants	573,748	$ 60.60 - $64.82	2017	7.8
2008 grants	1,138,893	$ 6.87 - $61.75	2018	8.9
Total	6,038,700			5.2

The activity for the year ended December 31, 2009, with respect to our share options, is presented below:

	Options Outstanding		Options Exercisable		
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Weighted Average Life (in years)
Balance at January 1, 2009	7,779,747	$ 31.76			
Exercised	(237,500)	6.87			
Forfeited	(1,503,547)	33.73			
Balance at December 31, 2009	6,038,700	$ 32.25	4,740,748	$ 34.77	4.3

We recognize the value of the share options granted as compensation expense over the applicable vesting period using the grant-date fair value. The weighted-average grant-date fair value of options granted during 2008 and 2007 was $2.38 and $11.42, respectively. Total remaining compensation cost related to unvested share options as of

December 31, 2009 was $5.5 million, prior to adjustments for forfeited awards and capitalized amounts due to our development and leasing activities.

The activity for the year ended December 31, 2009, with respect to our non-vested share options, is presented below:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Balance at January 1, 2009	2,253,029	$ 5.04
Vested	(757,329)	3.67
Forfeited	(197,748)	10.51
Balance at December 31, 2009	1,297,952	$ 5.01

PROLOGIS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Full Value Awards

Restricted Share Units

Restricted share units (RSUs) are granted to certain employees at a rate of one common share per RSU. The RSUs are valued on the grant date based upon the market price of a common share on that date. We recognize the value of the RSUs granted as compensation expense over the applicable vesting period, which is generally four or five years. The RSUs do not carry voting rights during the vesting period, but do generally earn DEUs that vest according to the underlying RSU. The weighted-average fair value of RSUs granted during the years 2009, 2008 and 2007 was $6.52, $10.51 and $63.25, respectively. In addition, annually we issue fully vested deferred share units to our outside trustees, which are expensed at the time of grant and earn DEUs.

Contingent Performance Shares

Certain employees are granted contingent performance shares (CPSs). There were grants of CPSs each year beginning in 2005 through 2008. No CPSs were granted in 2009. The CPSs are earned based on our ranking in a defined subset of companies in the National Association of Real Estate Investment Trust s (NAREIT s) published index. These CPSs generally vest over a three-year period. The amount of CPSs to be issued will be based on our ranking at the end of the three-year period, and may range from zero to twice the targeted award, or a maximum of 394,000 shares at December 31, 2009. For purposes of calculating compensation expense, we consider the CPSs to have a market condition and, therefore, we have estimated the grant date fair value of the CPSs using a pricing valuation model. We recognize the value of the CPSs granted as compensation expense utilizing the grant date fair value and the target shares over the vesting period. The amount of compensation expense is not adjusted based on the CPSs paid out at the end of the vesting period, but is adjusted for forfeited awards. The CPSs issued in 2008 were all to our former Chief Executive Officer, had different terms in connection with his employment agreement and were forfeited when he resigned in November 2008.

Performance Share Awards

Certain employees were granted Performance Share Awards (PSAs) that are earned based on individual and company performance criteria. The PSAs are valued based upon the market price of a common share on grant date. We recognize the value of the PSAs granted as compensation expense over the vesting period.

PSAs were granted through 2005 that had a two year vesting period. In 2009, we granted 829,571 PSAs to certain employees that vest over three years. The ultimate number of shares to be issued varied from 50% 150% of the original award based on the attainment of certain individual and company goals for 2009. At the end of 2009, 190,313 shares were earned.

These awards carry no voting rights during the vesting period, but do earn DEUs that are vested at the end of the vesting period of the underlying award. The weighted-average fair value of PSAs and CPSs granted during the years 2009, 2008 and 2007 was $6.93, $22.72, and $71.48, respectively.

Dividend Equivalent Units

RSUs, CPSs, PSAs and certain share options granted through 2000 earn DEUs in the form of common shares at a rate of one common share per DEU. Beginning in 2010, RSUs will earn quarterly cash dividends, rather than DEUs. We treat the DEUs as dividends, which are charged to retained earnings and factored into the computation of the fair value of the underlying share award at grant date.

Summary of Activity of RSUs, CPSs and PSAs

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Activity with respect to our RSUs, CPSs and PSAs is as follows:

	Shares Outstanding			
	Number of Shares		Weighted Average Original Value	Number of Vested Shares
Balance at January 1, 2009	3,381,009	$	34.13	844,602
Granted	2,020,083		6.73	
Distributed	(1,619,530)		25.22	
Forfeited	(379,778)		48.72	
Balance at December 31, 2009	3,401,784	$	20.47	143,268

Total remaining compensation cost related to unvested RSUs, CPSs and PSAs as of December 31, 2009 was $30.8 million, prior to adjustments for forfeited awards and capitalized amounts due to our development and leasing activities. The remaining expense will be recognized through 2013, which equates to a weighted average period of 1.6 years.

The activity for the year ended December 31, 2009, with respect to our non-vested RSUs, CPSs and PSAs is presented below:

	Number of Shares		Weighted-Average Grant-Date Fair Value
Balance at January 1, 2009	2,536,407	$	32.96
Granted	2,020,083		6.73
Vested	(918,196)		13.79
Forfeited	(379,778)		48.72
Balance at December 31, 2009	3,258,516	$	20.26

Compensation Expense

During the years ended December 31, 2009, 2008 and 2007, we recognized $17.2 million, $28.3 million and $23.9 million, respectively, of compensation expense including awards granted to our outside trustees and net of forfeited awards. These amounts include expense reported as General and Administrative Expenses, RIF charges and Discontinued Operations and are net of $5.8 million, $12.1 million and $10.8 million, respectively, that was capitalized due to our development and leasing activities.

We calculated the fair value of the share options granted in each of the following years (no share options were granted in 2009) using a Black-Scholes pricing model and the following weighted average assumptions:

	Years Ended December 31,	
	2008	**2007**
Risk-free interest rate	2.56%	3.78%
Dividend yield	1.92%	3.44%
Volatility	40.35%	23.43%
Weighted average option life	5.8 years	5.8 years

We use historical data to estimate dividend yield, share option exercises, expected term and employee departure behavior used in the Black-Scholes pricing model. The risk-free interest rate for periods within the expected term of the share option is based on the U.S. Treasury yield curve in effect at the time of grant. To

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

calculate expected volatility, we use historical volatility of our common stock and implied volatility of traded options on our common stock.

Other Plans

We have a 401(k) Savings Plan and Trust (401(k) Plan), that provides for matching employer contributions in common shares of 50 cents for every dollar contributed by an employee, up to 6% of the employee s annual compensation (within the statutory compensation limit). A total of 190,000 common shares have been authorized for issuance under the 401(k) Plan. The vesting of contributed common shares is based on the employee s years of service, with 20% vesting each year of service, over a five-year period. Through December 31, 2009, no common shares have been issued under the 401(k) Plan. All of our matching contributions have been made with common shares purchased by us in the open market.

We have a nonqualified savings plan to provide benefits for certain employees. The purpose of this plan is to allow highly compensated employees the opportunity to defer the receipt and income taxation of a certain portion of their compensation in excess of the amount permitted under the 401(k) Plan. We match the lesser of (a) 50% of the sum of deferrals under both the 401(k) Plan and this plan, and (b) 3% of total compensation up to certain levels. The matching contributions vest in the same manner as the 401(k) Plan. On a combined basis for both plans, our contributions under the matching provisions were $1.1 million, $1.4 million and $1.1 million for 2009, 2008 and 2007, respectively.

13. Reduction in Workforce:

During the fourth quarter of 2008, in response to the difficult economic climate, we initiated General and Administrative expense reductions with a near-term target of a 20% to 25% reduction in gross expense. These initiatives included a reduction in workforce (RIF) plan that had a total cost of $11.7 million and $26.4 million in the years ended December 31, 2009 and 2008, respectively, including $3.3 million for China that is presented as discontinued operations in our Consolidated Statements of Operations.

14. Impairment Charges:

Impairment of Real Estate Properties

During 2009, 2008 and 2007 we recognized impairment charges related to certain of our real estate properties as outlined below (in thousands):

	Years Ended December 31,		
	2009	2008	2007
Land	$ 136,996	$ 194,137	$
Industrial properties core			12,600

Industrial properties properties under development		19,814	
Industrial properties completed properties	126,205	15,026	
Retail and mixed use properties	46,137		
Ground leases and other	17,630		
Other real estate investments	4,624	45,728	
Total	$ 331,592	$ 274,705	$ 12,600

The impairment charges related to real estate properties that we recognized during 2009 and 2008 were based primarily on valuations of real estate, which had declined due to market conditions, that we no longer expected

PROLOGIS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

to hold for long term investment. Included in the 2009 impairment charges is $9.2 million that should have been recorded in 2008. This amount, along with an additional $3.0 million of deferred tax expense, was recorded in 2009 and relates to a revision of our estimated deferred income tax liabilities associated with our international operations. In order to generate liquidity, we have contributed, or intend to contribute, certain industrial properties to property funds (primarily in Europe) and sold or intend to sell certain land parcels or completed properties to third parties. In 2007, the impairment charge related to a portfolio of buildings we had decided to sell.

These impairment charges represent the difference between the estimated proceeds from disposition and our cost basis at the time of contribution/sale and were due to our intent to contribute or sell these properties at the time of the impairment charge. We estimated the proceeds from contribution of these properties based on the future net rental income of the property and the expected market capitalization rates or on third party appraisals. In the case of properties to be contributed to PEPF II, we further adjusted the capitalization rates based on our contribution agreement with PEPF II.

The estimate of proceeds from disposition is based on assumptions that are consistent with our estimates of future expectations and the strategic plan we use to manage our underlying business and represents primarily Level 3 input, as discussed in our summary of significant accounting policies. However, assumptions and estimates about future rental income, market capitalization rates and the timing of the contribution/sale are complex and subjective. Changes in economic and operating conditions and the ultimate investment intent that may occur in the future could impact these assumptions and result in additional impairment charges of these or other real estate properties.

Impairment of Goodwill and Other Assets

During the years ended December 31, 2009 and 2008, we recognized impairment charges related to goodwill, investments in and advances to unconsolidated investees and other assets as outlined below (in thousands):

	2009	2008
Goodwill	$	$ 175,419
Investment in and advances to unconsolidated investees	143,640	113,724
Notes Receivable		17,893
Other Assets	20,004	13,600
Total	$ 163,644	$ 320,636

We performed our annual impairment review of the goodwill allocated to the direct owned segments in North America and Europe, and the investment management segment in Europe during the fourth quarter of 2009 and no impairment was indicated.

During the fourth quarter of 2008, we changed our business strategy in response to the deterioration in the global economy to no longer focus on CDFS business activities. As a result, the investment and development activities previously included in the CDFS business segment were transferred, along with the related assets, to the direct owned and investment management segments (Europe reporting unit). The related goodwill was transferred to the respective segments based on the relative fair value of the assets transferred. Due to the economic conditions, including the significant decrease in our common stock price and the decline in fair value of certain of our real estate properties, specifically investments in land in the United Kingdom, we performed an additional review of goodwill as of December 31, 2008. In connection with this review, we recognized an impairment charge of $175.4 million relating to the goodwill allocated to the direct owned segment in the Europe reporting unit. This goodwill related to an acquisition made in 2007.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In 2009 and 2008, we recorded impairment charges on certain of our investments in and advances to unconsolidated investees, notes receivable and other assets as we did not believe these amounts to be recoverable based on the prevent value of the estimated future cash flows associated with these assets. See Note 6 for discussion relating to the impairment of our investment in and advances to two property funds and an entity that develops retail and mixed use properties in Europe.

15. Income Taxes:

Components of Earnings (Loss) before Income Taxes

Components of earnings (loss) before income taxes for the years ended December 31, are as follows (in thousands):

	2009	2008	2007
Domestic	$ (224,032)	$ (39,724)	$ 214,845
International	(35,006)	(174,545)	780,718
Total	$ (259,038)	$ (214,269)	$ 995,563

Summary of Current and Deferred Income Taxes

Components of the provision for income taxes for the years ended December 31, are as follows (in thousands):

	2009	2008	2007
Current income tax expense			
Federal	$ 13,586	$ 30,020	$ 28,264
Non-U.S.	14,610	32,283	35,423
State and local	1,066	1,138	2,652
Total Current	29,262	63,441	66,339
Deferred income tax expense(benefit)			
Federal	(22,529)	9,637	(16,197)
Non-U.S.	(758)	(5,067)	16,713
Total Deferred	(23,287)	4,570	516
Total income tax expense	$ 5,975	$ 68,011	$ 66,855

Current Income Taxes

Current income tax expense is generally a function of the level of income recognized by our TRSs, state income taxes, taxes incurred in foreign jurisdictions and interest and penalties associated with our income tax liabilities. For the year ended December 31, 2009, we recognized a $3.7 million benefit due to the release of accruals for interest and penalties associated with our uncertain tax positions. For the years ended December 31, 2008 and 2007, we recognized expenses of $37.7 million and $22.0 million related to interest and penalties on our uncertain tax positions. During the years ended December 31, 2009, 2008 and 2007, cash paid for income taxes was $234.6 million, $67.3 million and $35.9 million, respectively.

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Deferred Income Taxes

Deferred income tax expense is generally a function of the period s temporary differences, the utilization of tax net operating losses generated in prior years that had been previously recognized as deferred income tax assets and deferred income tax liabilities related to indemnification agreements for contributions to certain property funds.

For federal income tax purposes, certain acquisitions have been treated as tax-free transactions resulting in a carry-over basis for tax purposes. For financial reporting purposes and in accordance with purchase accounting, we record all of the acquired assets and liabilities at the estimated fair values at the date of acquisition. For our taxable subsidiaries, we recognize the deferred income tax liabilities that represent the tax effect of the difference between the tax basis carried over and the fair value of the tangible assets at the date of acquisition. If taxable income is generated in these subsidiaries, we recognize a deferred income tax benefit in earnings as a result of the reversal of the deferred income tax liability previously recorded at the acquisition date and we record current income tax expense representing the entire current income tax liability. Any increases or decreases to the deferred income tax liability recorded in connection with these acquisitions, related to tax uncertainties acquired, was reflected as an adjustment to goodwill through December 31, 2008. During the year ended December 31, 2008, we decreased deferred tax liabilities and goodwill by $8.8 million. Due to the issuance of a new accounting standard, beginning in 2009, any increases or decreases related to tax uncertainties will be reflected in earnings.

Deferred income tax assets and liabilities as of December 31, were as follows (in thousands):

	2009	2008
Deferred income tax assets:		
Net operating loss carryforwards(1)	$ 107,236	$ 57,387
Basis difference real estate properties	67,090	6,378
Basis difference equity investees	9,994	5,838
Alternative minimum tax credit carryforward	1,050	921
Other temporary differences	11,790	8,916
Total deferred income tax assets	197,160	79,440
Valuation allowance	(141,068)	(39,612)
Net deferred income tax assets	56,092	39,828
Deferred income tax liabilities:		
Basis difference real estate properties	49,860	5,009
Built-in gains real estate properties	22,666	23,279
Basis difference equity investees	5,606	11,210
Built-in gains equity investees	24,741	24,741
Indemnification liabilities	37,903	38,412

Other temporary differences	21,748	20,105
Total deferred income tax liabilities	162,524	122,756
Net deferred income tax liabilities	$ 106,432	$ 82,928

(1) At December 31, 2009, we had net operating loss (NOL) carryforwards as follows:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	U.S.		Europe		Mexico	
Gross NOL carryforward	$	53.4	$	220.9	$	152.8
Tax-effected NOL		19.5	$	44.1		43.6
Valuation allowance				(44.1)		(43.6)
Net deferred tax asset-NOL carryforward	$	19.5	$		$	
Expiration periods	2022	2029	2014	indefinite	2010	2018

The deferred tax asset valuation allowance is adequate to reduce the total deferred tax asset to an amount that will more-likely-than-not be realized.

Liability for Unrecognized Tax Benefits

For 2009, 2008 and 2007, we believe we and our consolidated REIT subsidiary have complied with the REIT requirements of the Code. The statute of limitations for our tax returns is generally three years, with our major tax jurisdictions being the United States, Japan, Mexico, Poland, Luxembourg and the United Kingdom. As such, our tax returns that remain subject to examination would be primarily from 2006 and thereafter, except for Catellus, a subsidiary we acquired in 2005.

Certain 1999 through 2005 federal and state income tax returns of Catellus have been under audit by the IRS and various state taxing authorities. In November 2008, we agreed to enter into a closing agreement with the IRS for the settlement of the 1999 through 2002 audits. As a result, in 2008, we increased our unrecognized tax liability by $85.4 million, including interest and penalties. As this liability was an income tax uncertainty related to an acquired company, we increased goodwill by $66.6 million related to the liability that existed at the acquisition date. The remaining amount was included in current income tax expense in 2008. We made cash payments of $226.6 million in 2009 in connection with this closing agreement and settlement of certain state tax audits. Certain federal income tax returns for Catellus for 2003 through 2005 are still under audit by the IRS.

The liability for unrecognized tax benefits principally consists of estimated federal and state income tax liabilities associated with acquired companies and includes accrued interest and penalties of $34.4 million and $114.4 million at December 31, 2009 and 2008, respectively. A reconciliation of the liability for unrecognized tax benefits is as follows (in thousands):

	2009	2008
Balance at January 1,	$ 284,698	$ 192,438
Additions based on tax positions related to the current year	7,207	4,785
Additions for tax positions of prior years	15,746	143,045

Reductions for tax positions of prior years	(6,886)	(49,168)
Settlements on tax positions of prior years	(226,601)	
Reductions due to lapse of applicable statute of limitations	(8,994)	(6,402)
Balance at December 31,	$ 65,170	$ 284,698

Indemnification Agreements

We have indemnification agreements related to most property funds operating outside of the United States for the contribution of certain properties. We enter into agreements whereby we indemnify the funds, or our fund partners, for taxes that may be assessed with respect to certain properties we contribute to these funds. Our

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

contributions to these funds are generally structured as contributions of shares of companies that own the real estate assets. Accordingly, the capital gains associated with the step up in the value of the underlying real estate assets, for tax purposes, are deferred and transferred to the funds at contribution. We have generally indemnified these funds to the extent that the funds: (i) incur capital gains or withholding tax as a result of a direct sale of the real estate asset, as opposed to a transaction in which the shares of the company owning the real estate asset are transferred or sold or (ii) are required to grant a discount to the buyer of shares under a share transfer transaction as a result of the funds transferring the embedded capital gain tax liability to the buyer of the shares in the transaction. The agreements generally limit the amount that is subject to our indemnification with respect to each property to 100% of the actual tax liabilities related to the capital gains that are deferred and transferred by us to the funds at the time of the initial contribution less any deferred tax assets transferred with the property.

In 2007, we recognized a deferred tax benefit of $6.3 million for the reversal of the obligation related to ProLogis North American Properties Fund V.

The ultimate outcome under these agreements is uncertain as it is dependent on the method and timing of dissolution of the related property fund or disposition of any properties by the property fund. Two of our previous agreements were terminated without any amounts being due or payable by us. We consider the probability, timing and amounts in estimating our potential liability under the agreements, which we have estimated as $37.9 million and $38.4 million at December 31, 2009 and 2008, respectively. We continue to monitor these agreements and the likelihood of the sale of assets that would result in recognition and will adjust the potential liability in the future as facts and circumstances dictate.

16. Earnings Per Common Share:

We determine basic earnings per share based on the weighted average number of common shares outstanding during the period. We compute diluted earnings per share based on the weighted average number of common shares outstanding combined with the incremental weighted average effect from all outstanding potentially dilutive instruments.

The following table sets forth the computation of our basic and diluted earnings (loss) per share (in thousands, except per share amounts):

	Years Ended December 31,		
	2009 (1)	2008 (1)	2007
Net earnings (loss) attributable to common shares	$ (2,650)	$ (479,226)	$ 1,027,635
Noncontrolling interests attributable to convertible limited partnership units (2)			4,814
Adjusted net earnings (loss) attributable to common shares	$ (2,650)	$ (479,226)	$ 1,032,449

Weighted average common shares outstanding Basic			403,149		262,729		256,873
Incremental weighted average effect of conversion of limited partnership units							5,078
Incremental weighted average effect of share awards (3)							5,275
Weighted average common shares outstanding Diluted			403,149		262,729		267,226
Net earnings (loss) per share attributable to common shares	Basic	$	(0.01)	$	(1.82)	$	4.00
Net earnings (loss) per share attributable to common shares	Diluted	$	(0.01)	$	(1.82)	$	3.86

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) In periods with a net loss, the inclusion of any incremental shares is anti-dilutive, and therefore, both basic and diluted shares are the same.

(2) Includes the noncontrolling interest related to the convertible limited partnership units, which are included in incremental shares. If the impact of the conversion of limited partnership units is anti-dilutive, the income and shares are not included in the per share calculation.

(3) Total weighted average potentially dilutive share awards outstanding for 2007 (in thousands) were 10,098 and the majority were dilutive.

17. Related Party Transactions:

In September 2009, Irving F. Lyons, III, trustee and former Chief Investment Officer and Trustee converted limited partnership units, in the limited partnerships in which we own a majority interest and consolidate, into 410,000 of our common shares. As of December 31, 2009, Mr. Lyons owns 226,613 of the outstanding partnership units. On June 8, 2007, Jeffrey H. Schwartz, our former Chief Executive Officer, also converted similar limited partnership units into 128,000 of our common shares. See Note 10 for more information regarding these limited partnerships in North America.

Also see Note 6 for a discussion of transactions between us and the property funds.

18. Financial Instruments and Fair Value Measurements:

Derivative Financial Instruments

In the normal course of business, our operations are exposed to global market risks, including the effect of changes in foreign currency exchange rates and interest rates. To manage these risks, we may enter into various derivatives contracts. Foreign currency contracts, including forwards and options, may be used to manage foreign currency exposure. We may use interest rate swaps to manage the effect of interest rate fluctuations. We do not use derivative financial instruments for trading purposes. The majority of our derivative financial instruments are customized derivative transactions and are not exchange-traded. Management reviews our hedging program, derivative positions, and overall risk management strategy on a regular basis. We only enter into transactions that we believe will be highly effective at offsetting the underlying risk.

Our use of derivatives does generate the risk that counterparties may default on a derivative contract. We establish exposure limits for each counterparty to minimize this risk and provide counterparty diversification. Substantially all of our derivative exposures are with counterparties that have long-term credit ratings of single-A or better. We enter into master agreements with counterparties that generally allow for netting of certain exposures; therefore, the actual loss we would recognize if all counterparties failed to perform as contracted would be significantly lower. To mitigate pre-settlement risk, minimum credit standards become more stringent as the duration of the derivative financial instrument increases. To minimize the concentration of credit risk, we enter into derivative transactions with a portfolio of financial institutions. Based on these factors, we consider the risk of counterparty default to be minimal.

All derivatives are recognized at fair value in the Consolidated Balance Sheets within the line items Other Assets or Accounts Payable and Accrued Expenses, as applicable. We do not net our derivative position by counterparty for purposes of balance sheet presentation and disclosure. The accounting for gains and losses

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

that result from changes in the fair values of derivative instruments depends on whether the derivatives are designated as and qualify as hedging instruments. Derivatives can be designated as fair value hedges, cash flow hedges or hedges of net investments in foreign operations. We do not typically designate derivatives as fair value hedges or hedges of net investments.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recorded in Accumulated Other Comprehensive Income (Loss). We reclassify changes in the fair value of derivatives into the applicable line item in our Consolidated Statements of Operations in which the hedged items are recorded in the same period that the underlying hedged items affect earnings. Due to the high degree of effectiveness between the hedging instruments and the underlying exposures hedged, fluctuations in the value of the derivative instruments will generally be offset by changes in the fair values or cash flows of the underlying exposures being hedged. The changes in fair values of derivatives that were not designated and/or did not qualify as hedging instruments are immediately recognized into earnings.

For derivatives that will be accounted for as hedging instruments in accordance with the accounting standards, we formally designate and document, at inception, the financial instrument as a hedge of a specific underlying exposure, the risk management objective and the strategy for undertaking the hedge transaction. In addition, we formally assess both at inception and at least quarterly thereafter, whether the derivatives used in hedging transactions are effective at offsetting changes in either the fair values or cash flows of the related underlying exposures. Any ineffective portion of a derivative financial instrument s change in fair value is immediately recognized into earnings. Derivatives not designated as hedges are not speculative and are used to manage our exposure to foreign currency fluctuations but do not meet the strict hedge accounting requirements.

Our interest rate risk management strategy is to limit the impact of future interest rate changes on earnings and cash flows. To achieve this objective, we primarily borrow on a fixed rate basis for longer-term debt issuances. The maximum length of time that we hedge our exposure to future cash flows is typically less than 10 years. We use cash flow hedges to minimize the variability in cash flows of assets or liabilities or forecasted transactions caused by fluctuations in interest rates. We typically designate our interest rate swap agreements as cash flow hedges as these derivative instruments may be used to manage the interest rate risk on potential future debt issuances or to fix the interest rate on a variable rate debt issuance. The effective portion of the gain or loss on the derivative is reported as a component of Accumulated Other Comprehensive Income (Loss) in our Consolidated Balance Sheets, and reclassified into the line item, Interest Expense in the Consolidated Statements of Operations over the corresponding period of the hedged item. Losses on the derivative representing hedge ineffectiveness are recognized in Interest Expense at the time the ineffectiveness occurred.

There was no ineffectiveness recorded during the years ended December 31, 2009 and 2008. The amount reclassified to interest expense for the years ended December 31, 2009 and 2008 is not considered material.

We generally do not designate the following derivative contracts as hedges:

Foreign currency forwards we may use foreign currency forward contracts to manage the foreign currency fluctuations of intercompany loans not deemed to be a long-term investment and certain transactions denominated in a currency other than the entity s functional currency. These contracts are marked-to-market through earnings, as they are not designated as hedges. The gains or losses resulting from these derivative instruments are included in Foreign Currency Exchange Gains (Losses), Net in our Consolidated Statements of Operations. For contracts associated with intercompany loans, the impact on

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

earnings is generally offset by the remeasurement gains and losses recognized on the related intercompany loans. We had no outstanding foreign currency forwards at December 31, 2009.

Foreign currency put options we may use foreign currency put option contracts to manage foreign currency exchange rate risk associated with the projected net operating income of our foreign consolidated subsidiaries and unconsolidated investees. These contracts are marked-to-market through earnings in Foreign Currency Exchange Gains (Losses), Net, as they do not qualify for hedge accounting treatment. We had no outstanding foreign currency put options at December 31, 2009.

The following table summarizes the activity in our derivative contracts for the years ended December 31, 2009, 2008 and 2007 (in millions):

	Foreign Currency Put Options (1)	Foreign Currency Forwards (2)	Interest Rate Swaps (3)
Notional amounts at January 1, 2007	$ 54.7	$ 661.0	$
New contracts		2,637.2	959.2
Matured or expired contracts	(54.7)	(2,937.5)	(959.2)
Notional amounts at December 31, 2007		360.7	
New contracts			250.0
Matured or expired contracts		(360.7)	(250.0)
Notional amounts at December 31, 2008			
New contracts		351.7	157.7
Matured or expired contracts		(351.7)	
Notional amounts at December 31, 2009	$	$	$ 157.7

(1) The foreign currency put option contracts are paid in full at execution and are related to our operations in Europe and Japan. The put option contracts provide us with the option to exchange euros, pounds sterling and yen for U.S. dollars at a fixed exchange rate such that, if the euro, British pound sterling or yen were to depreciate against the U.S. dollar to predetermined levels as set by the contracts, we could exercise our options and mitigate our foreign currency exchange losses. We did not recognize any expense in 2009, 2008 or 2007.

(2) Certain of the foreign currency forward contracts outstanding in 2008 and 2007 were designed to manage the foreign currency fluctuations of intercompany loans and allowed us to sell British pounds sterling and euros at a fixed exchange rate to the U.S. dollar. We had no forward contracts related to intercompany loans outstanding at December 31, 2009. We recognized net losses of $5.7 million, $3.1 million and $95.9 million for the years ended December 31, 2009, 2008 and 2007, respectively, related to these contracts.

During 2009, we entered into and settled forward contracts to buy yen to manage the foreign currency fluctuations related to the sale of our investments in the Japan property funds and recognized losses of $5.7 million in Foreign Currency Exchange Gains (Losses), Net in our Consolidated Statements of Operations.

During the second quarter of 2007, we purchased several foreign currency forward contracts to manage the foreign currency fluctuations of the purchase price of MPR (see Note 6). These contracts allowed us to buy Australian dollars at a fixed exchange rate to the U.S. dollar. Derivative instruments used to manage the foreign currency fluctuations of an anticipated business combination do not qualify for hedge accounting treatment and are included in earnings. The contracts settled in July 2007 in connection with

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the completed acquisition and resulted in the recognition of a net gain of $26.6 million in Foreign Currency Exchange Gains (Losses), Net for the year ended December 31, 2007.

(3) During 2009, 2008 and 2007, we entered into several contracts with total notional amounts of $157.7 million, $250.0 million, and $959.2 million, respectively, associated with anticipated debt issuances.

In 2009, we entered into two interest rate swap contracts to fix the interest rate on our variable rate TMK bonds (¥4.3 billion and ¥10.0 billion, respectively) that mature in June 2012 and December 2012, respectively. We designated the contracts as cash flow hedges and they qualify for hedge accounting treatment. We have recorded a liability of $0.9 million in Accounts Payable and Accrued Expenses in our Consolidated Balance Sheets at December 31, 2009.

During 2008, in connection with the issuance of senior notes and convertible senior notes, we entered into contracts that qualified as cash flow hedges and recognized a decrease in value of $3.3 million, associated with the unwinding of these contracts, in Accumulated Other Comprehensive Income (Loss) and began amortizing as an increase to interest expense as interest payments are made on the related notes.

In 2007, we entered into contracts with notional amounts of $188.0 million and $271.2 million and which represented our share of future debt issuances by ProLogis North American Industrial Fund III, ProLogis North American Industrial Fund II respectively. These contracts were transferred into the funds at formation, at which time the contracts qualified for hedge accounting treatment by the funds. We also entered into contracts with an aggregate notional amount of $500.0 million associated with a future debt issuance. All of these contracts qualified for hedge accounting treatment and allowed us to fix a portion of the interest rate associated with the anticipated issuance of senior notes. In connection with the issuance of the convertible notes, we unwound these contracts, recognized a decrease in value of $1.4 million in Accumulated Other Comprehensive Income (Loss) and began amortizing as an increase to interest expense as interest payments are made on the senior notes.

Fair Value Measurements

Fair Value Measurements on a Recurring Basis

At December 31, 2009 and 2008, we do not have any significant financial assets or financial liabilities that are measured at fair value on a recurring basis in our consolidated financial statements.

Fair Value Measurements on a Non-Recurring Basis

Non-financial assets measured at fair value on a non-recurring basis in our consolidated financial statements consist of real estate assets and investments in and advances to unconsolidated investees that were subject to impairment charges to write them down to their estimated fair values during 2009 due to changes in market conditions and/or our intent with regard to these assets. See Notes 6 and 14 for additional information related to inputs and valuation techniques used to measure these impairments. The table below aggregates the fair values of these assets at December 31, 2009 by the levels in the fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3	Total
Real estate assets	$	$	$ 409,944	$ 409,944
Investments in and advances to other unconsolidated investees	$	$	$ 45,000	$ 45,000

Financial Assets and Liabilities not Measured at Fair Value

At December 31, 2009 and 2008, the carrying amounts of certain of our financial instruments, including cash and cash equivalents, accounts and notes receivable, and accounts payable and accrued expenses were

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

representative of their fair values due to the short-term nature of these instruments or, the recent acquisition of these items.

At December 31, 2009 and 2008, we estimated the fair value of our senior and other notes and convertible notes, based upon quoted market prices for the same (Level 1) or similar (Level 2) issues when current quoted market prices are available. We estimated the fair value of our credit facilities by discounting the future cash flows using rates and borrowing spreads currently available to us (Level 3). We estimated the fair value of our secured mortgage debt and assessment bonds that does not have current quoted market prices available by discounting the future cash flows using rates currently available to us for debt with similar terms and maturities (Level 3). The differences in the fair value of our debt from the carrying value are the result of differences in interest rates and/or borrowing spreads that were available to us at December 31, 2009 and 2008, as compared with those in effect when the debt was issued or acquired. In addition, based on debt market conditions as of December 31, 2008, many of our public debt issuances were trading at a significant discount to par value. The senior notes and many of the issues of secured mortgage debt contain pre-payment penalties or yield maintenance provisions that could make the cost of refinancing the debt at the lower rates exceed the benefit that would be derived from doing so.

The following table reflects the carrying amounts and estimated fair values of our debt (in thousands):

	December 31,			
	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Debt:				
Global Line and Credit Facility	$ 736,591	$ 716,993	$ 3,218,283	$ 3,175,128
Senior and other notes	4,047,905	3,981,971	3,995,410	2,284,892
Convertible senior notes	2,078,441	2,058,507	2,590,133	1,289,163
Secured mortgage debt	1,090,126	1,094,526	877,916	837,727
Assessment bonds	24,715	24,197	29,626	32,903
Total debt	$ 7,977,778	$ 7,876,194	$ 10,711,368	$ 7,619,813

19. Commitments and Contingencies:

Environmental Matters

A majority of the properties we acquire, including land, are subjected to environmental reviews either by us or the previous owners. In addition, we may incur environmental remediation costs associated with certain land parcels we acquire in connection with the development of the land. We have acquired certain properties in urban and industrial areas that may have been leased to or previously owned by commercial and industrial companies that discharged hazardous materials. We establish a liability at the time of acquisition to cover such costs. We adjust the liabilities as appropriate when additional information becomes available. We purchase various environmental insurance policies to mitigate our exposure to environmental liabilities. We are not aware of any environmental liability that we believe would have a material adverse effect on our business, financial condition or results of operations.

Off-Balance Sheet Liabilities

We have issued performance and surety bonds and standby letters of credit in connection with certain development projects, to guarantee certain tax obligations and the construction of certain real property improvements and infrastructure, such as grading, sewers and streets. Performance and surety bonds are commonly required by public agencies from real estate developers. Performance and surety bonds are renewable and expire upon the payment of the taxes due or the completion of the improvements and

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infrastructure. As of December 31, 2009, we had approximately $71.6 million outstanding under such arrangements.

At December 31, 2009, we had made debt guarantees to certain of our unconsolidated investees that, based on the investee s outstanding balance, totaled $1.3 million. None of these guarantees were provided to the unconsolidated property funds. See Note 6 for further discussion related to the property funds.

We may be required to make additional capital contributions to certain of our unconsolidated investees, representing our proportionate ownership interest, should additional capital contributions be necessary to fund development or acquisition costs, repayment of debt or operation shortfalls. See Note 6.

From time to time we enter into Special Limited Contribution Agreements (SLCA) in connection with certain contributions of properties to certain of our property funds. Under the SLCAs, we are obligated to make an additional capital contribution to the respective property fund under certain circumstances, the occurrence of which we believe to be remote. Specifically, we would be required to make an additional capital contribution to the property fund if the property fund is in default on third-party debt, the default remains uncured, and the third-party lender does not receive a specified minimum level of repayment after pursuing all contractual and legal remedies against the property fund. To the extent that a third-party lender receives repayment of principal and to the extent that the property fund liquidates its assets to satisfy any remaining repayment deficit, our obligations under the SLCA are reduced on a dollar-for-dollar basis. Our potential obligations under the respective SLCAs, as a percentage of the fair value of the real estate assets in the property funds, range from 5% to 37%. Given the respective year-end capital structures of the various funds impacted by SLCAs and structural provisions within the SLCAs, we estimate that the minimum level of fund devaluation required to trigger an SLCA liability ranges between 79% and 27% of fund value. We believe that the likelihood of declines in the values of the assets that support the third-party loans of the magnitude necessary to require an additional capital contribution is generally remote, especially in light of the geographically diversified portfolios of properties owned by the property funds. The potential obligations under the SLCAs aggregated $348.9 million and $352.6 million at December 31, 2009 and December 31, 2008, respectively. The combined value of the assets in the property funds that are subject to the provisions of the SLCAs was approximately $4.0 billion at December 31, 2009. Based on our assessment of the probability and range of loss, we have estimated the fair value and recognized a liability of $1.3 million related to our potential obligations at December 31, 2009.

As of December 31, 2009, $9.1 million of Community Facility District bonds were outstanding that were originally issued to finance public infrastructure improvements at one of our development projects. We are required to satisfy any shortfall in annual debt service obligation for these bonds if tax revenues generated by the project are insufficient. As of December 31, 2009, we have not been required to, nor do we expect to be required to, satisfy any shortfall in annual debt service obligation for these bonds other than through our payment of normal project and special district taxes.

Settlement Costs

Included within Other Income (Expense) in our Consolidated Statements of Operations for the year ended December 31, 2009 are settlement costs of $13.0 million related to an obligation we assumed in the 2005 acquisition of Catellus.

20. Business Segments:

As discussed in Note 1, we modified our business strategy during the fourth quarter of 2008 to no longer focus on the CDFS business segment. We made contributions and dispositions of CDFS properties through December 2008 and have reported the results of operations of this activity within this business segment. As of December 31, 2008, we transferred all of the assets from the CDFS business segment into our two remaining

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