July 22, 2010

ProLogis Reports Second Quarter Results

- Total Operating Portfolio Leasing Improves Driven by Development Portfolio -

- Build-to-Suit Development and Land Monetization Ahead of Plan -

- Company Reiterates Full-year Guidance -

DENVER, July 22 /PRNewswire-FirstCall/ -- ProLogis (NYSE: PLD), a leading global provider of distribution facilities, today reported second quarter 2010 funds from operations as defined by ProLogis (FFO), excluding significant non-cash items, of $0.15 per diluted share. Of this amount, approximately $0.02 related to gains on contributions and $0.13 per diluted share was from core operations. FFO, including significant non-cash items of $0.01, was $0.14 per diluted share.

For the six months ended June 30, 2010, FFO, excluding significant non-cash items and first quarter non-recurring charges, was $0.28 per diluted share, relative to the company's full-year 2010 guidance of $0.70 - $0.78 per diluted share. Core FFO for the first half was $0.24 relative to the company's full-year guidance of $0.55 - $0.60 per diluted share.

The company reported a net loss of $0.05 per diluted share for the second quarter of 2010 and a net loss of $0.24 per diluted share for the six months ended June 30, 2010.

Industrial Fundamentals Remain Mixed

"Economic growth forecasts have been tempered in recent weeks, and for the most part, industrial market conditions are tracking with the expectations of a more moderate pace of recovery," said Walter C. Rakowich, chief executive officer. "Despite these indications of slower growth, we are seeing steady activity levels with modest occupancy increases in some markets and believe rental rates have bottomed in the majority of them. For the first time since October 2007, we saw positive net absorption in the top 31 North American industrial markets of approximately 11 million square feet. In addition, customers remain focused on improving supply chain efficiencies, and with limited new supply, those with targeted requirements are increasingly pursuing build-to-suits."

For the quarter, the company's total industrial operating portfolio (including completed development) was 89.7 percent leased, up from 89.2 percent in the first quarter of 2010, principally driven by a 480 basis point increase in completed development leasing. Total leasing activity was 28.3 million square feet in the second quarter of 2010, in line with average leasing over the past year of 29.4 million square feet per quarter.

Customer retention during the quarter remained strong at 78.1 percent in the company's direct owned portfolio and 81.8 percent within its property funds. In addition, more than 76 percent of the company's new development portfolio leases were signed with repeat customers, including Emerson Electric in North America, SONY in Europe and Hitachi Transport System in Asia.

Rental rates on turnovers in the same-store portfolio declined 15.7 percent in the second quarter, with less than three percent of the transactions representing 420 basis points of the decline and the remaining 97 percent of the transactions having a weighted average rental rate decline of 11.5 percent. Occupancy in the same-store portfolio increased by 1.8 percent, while same-store net operating income declined 3.4 percent.

"We are encouraged by our increased occupancy levels and the activity we see in our markets; however, we expect rent growth comparisons to remain negative over the coming quarters, driven by turnover of leases that were put in place at or near peak rental rates," Rakowich added.

Steady Demand for New Development

"We continued to see steady demand for new development during the quarter and made significant progress toward our goals of starting $700 to $800 million of development and monetizing $350 to $400 million of land this year," said Ted R. Antenucci, president and chief investment officer. "During the quarter, we started $196 million of new development, which when combined with two additional build-to-suit agreements signed early in the third quarter, brings the company's year-to-date total development starts to more than $470 million. With the addition of year-to-date third-party land sales, these activities monetize approximately $184 million of land."

Further Improvements in Valuations Support Disposition Goal

"Valuations have continued to improve, driven by significant institutional investor demand and a favorable interest rate environment. These factors support some of the most attractive investment spreads in recent years," Rakowich said. "We are in discussions on transactions that support our goal of $1.3 to $1.5 billion of gross proceeds from contributions and dispositions. We believe this is an excellent time to pursue our objective of selling primarily non-strategic U.S. properties, enabling us to focus on industrial real estate while enhancing the geographic diversification of our direct owned portfolio. We intend to utilize the proceeds principally to de-lever and match our development funding requirements later this year and into 2011."

No Changes to Guidance

"Our guidance for 2010 remains unchanged, with a continued expectation of improving net operating income from our core development portfolio in addition to greater development management fees and gains to be recognized in the second half of the year. We intend to continue to pursue sales of land and non-strategic operating properties, which may create additional impairments in the second half of the year and into 2011. Consistent with our definitions of core FFO and FFO, excluding significant non-cash items, our guidance does not include the impact from any potential impairments," said William E. Sullivan, chief financial officer.

Additional Information

Copies of ProLogis' second quarter 2010 supplemental information are available from the company's website at http://ir.prologis.com in the "Annual & Supplemental Reports" section. The company will host a webcast/conference call on Thursday, July 22, 2010, at 10:00 a.m. Eastern Time. The live webcast as well as the subsequent replay, including in a podcast format, will be available from the company's website at http://ir.prologis.com.

About ProLogis

ProLogis is a leading global provider of distribution facilities, with more than 475 million square feet of industrial space owned and managed (44 million square meters) in markets across North America, Europe and Asia. The company leases its industrial facilities to more than 4,400 customers, including manufacturers, retailers, transportation companies, third-party logistics providers and other enterprises with large-scale distribution needs. For additional information about the company, go to www.prologis.com.

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The statements above that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are based on current expectations, estimates and projections about the industry and markets in which ProLogis operates, management's beliefs and assumptions made by management, they involve uncertainties that could significantly impact ProLogis' financial results. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," variations of such words and similar expressions are 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 of developed properties, general 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. Some of the factors that may affect outcomes and results include, but are not limited to: (i) national, international, regional and local economic climates, (ii) changes in financial markets, interest rates and foreign currency exchange rates, (iii) increased or unanticipated competition for our properties, (iv) risks associated with acquisitions, (v) maintenance of real estate investment trust ("REIT") status, (vi) availability of financing and capital, (vii) changes in demand for developed properties, and (viii) those additional factors discussed in reports filed with the Securities and Exchange Commission by ProLogis under the heading "Risk Factors." ProLogis undertakes no duty to update any forward-looking statements appearing in this press release.

(in thousands, except per share amounts)

Summary of Results

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues	$ 260,731	$ 258,479	$ 520,697	$ 691,203
Net earnings (loss) (a)	$ (23,150)	$ 238,865	$ (114,279)	$ 417,597
Net earnings (loss) per share - Diluted (a)	$ (0.05)	$ 0.58	$ (0.24)	$ 1.21
FFO, including significant non-cash items (a)	$ 67,844	$ 137,194	$ 74,961	$ 379,459
Add (deduct) significant non-cash items :				
Impairment of real estate properties	367	84,218	367	84,218
Net gain related to disposed assets - China operations	-	-	-	(3,315)
Losses (gains) on early extinguishment of debt	(975)	(143,280)	14,258	(161,208)
Write-off deferred extension fees associated with the Global Line	854	-	854	-
Our share of certain losses recognized by the property funds	3,000	-	3,575	11,283
Total adjustments for significant non-cash items	3,246	(59,062)	19,054	(69,022)
FFO, excluding significant non-cash items (a)	$ 71,090	$ 78,132	$ 94,015	$ 310,437
FFO per share - Diluted, including significant non-cash items (a)	$ 0.14	$ 0.34	$ 0.16	$ 1.10
Add (deduct) - summarized significant non-cash adjustments - per share	0.01	(0.15)	0.04	(0.20)
FFO per share - Diluted, excluding significant non-cash items (a)	$ 0.15	$ 0.19	$ 0.20	$ 0.90

(a) These amounts are attributable to common shares.

Footnotes follow Financial Statements

Consolidated Balance Sheets

(in thousands, except per share data)

	June 30, 2010	December 31, 2009
Assets:		
Investments in real estate assets:		
Industrial properties:		
Core	$ 7,486,076	$ 7,436,539
Core - completed development	4,002,407	4,108,962
Properties under development	199,434	191,127
Land held for development	2,282,223	2,569,343
Retail and mixed use properties	303,428	302,838
Land subject to ground leases and other	430,349	373,422
Other investments	249,643	233,665
	14,953,560	15,215,896
Less accumulated depreciation	1,801,602	1,671,100
Net investments in real estate assets	13,151,958	13,544,796
Investments in and advances to unconsolidated investees:		
Property funds	1,776,646	1,876,650
Other unconsolidated investees	280,166	275,073
Total investments in and advances to unconsolidated investees	2,056,812	2,151,723
Cash and cash equivalents	25,102	34,362
Accounts and notes receivable	153,193	136,754

Other assets	1,011,414	1,017,780
Total assets	$ 16,398,479	$ 16,885,415
Liabilities and Equity:		
Liabilities:		
Debt (1)	$ 8,176,178	$ 7,977,778
Accounts payable and accrued expenses	397,685	455,919
Other liabilities	465,250	444,432
Total liabilities	9,039,113	8,878,129
Equity:		
ProLogis shareholders' equity:		
Series C preferred shares at stated liquidation preference of $50 per share	100,000	100,000
Series F preferred shares at stated liquidation preference of $25 per share	125,000	125,000
Series G preferred shares at stated liquidation preference of $25 per share	125,000	125,000
Common shares at $.01 par value per share	4,767	4,742
Additional paid-in capital	8,566,388	8,524,867
Accumulated other comprehensive income (loss) (2)	(386,546)	42,298
Distributions in excess of net earnings	(1,192,677)	(934,583)
Total ProLogis shareholders' equity	7,341,932	7,987,324
Noncontrolling interests	17,434	19,962
Total equity	7,359,366	8,007,286
Total liabilities and equity	$ 16,398,479	$ 16,885,415

Footnotes follow Financial Statements

Consolidated Statements of Operations

(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues:				
Rental income (3)	$ 229,790	$ 224,882	$ 460,018	$ 440,974
Property management and other fees and incentives	28,307	31,774	56,969	65,408
CDFS disposition proceeds (4)	-	-	-	180,237
Development management and other income	2,634	1,823	3,710	4,584
Total revenues	260,731	258,479	520,697	691,203
Expenses:				
Rental expenses	65,274	68,884	132,851	135,600
Investment management expenses	9,931	10,819	20,250	21,395
General and administrative (5)	38,921	41,450	80,927	89,693
Reduction in workforce (5)	-	6,868	-	11,330
Impairment of real estate properties	367	84,218	367	84,218
Depreciation and amortization	87,476	76,941	173,675	151,391
Other expenses	4,649	4,584	8,916	11,003
Total expenses	206,618	293,764	416,986	504,630
Operating income	54,113	(35,285)	103,711	186,573
Other income (expense):				
Earnings (loss) from unconsolidated property funds, net	(44)	17,398	5,850	19,496
Earnings from other unconsolidated investees, net	3,348	1,342	5,427	3,543
Interest expense (6)	(118,920)	(83,049)	(228,899)	(175,981)

Other income (expense), net	(1,370)	859	(1,542)	4,175
Net gains on dispositions of real estate properties (7)	10,959	7,904	22,766	8,792
Foreign currency exchange gains (losses), net (8)	(7,206)	(9,025)	(3,518)	21,512
Gain (loss) on early extinguishment of debt, net (1)	975	143,280	(46,658)	161,208
Total other income (expense)	(112,258)	78,709	(246,574)	42,745
Earnings (loss) before income taxes	(58,145)	43,424	(142,863)	229,318
Current income tax expense (4)	598	12,577	10,351	34,766
Deferred income tax benefit	(40,847)	(8,771)	(42,398)	(15,599)
Total income taxes	(40,249)	3,806	(32,047)	19,167
Earnings (loss) from continuing operations	(17,896)	39,618	(110,816)	210,151
Discontinued operations (9):				
Income attributable to disposed properties	327	8,897	592	20,649
Net gain related to disposed assets - China operations (4)	-	-	-	3,315
Net gains on dispositions:				
Non-development properties	979	185,521	9,062	185,521
Development properties and land subject to ground leases	-	11,692	65	11,503
Total discontinued operations	1,306	206,110	9,719	220,988
Consolidated net earnings (loss)	(16,590)	245,728	(101,097)	431,139
Net earnings attributable to noncontrolling interests	(191)	(494)	(444)	(804)
Net earnings (loss) attributable to controlling interests	(16,781)	245,234	(101,541)	430,335
Less preferred share dividends	6,369	6,369	12,738	12,738
Net earnings (loss) attributable to common shares	$ (23,150)	$ 238,865	$ (114,279)	$ 417,597

Weighted average common shares outstanding - Basic	476,791	406,539	475,898	342,183
Weighted average common shares outstanding - Diluted	476,791	409,504	475,898	345,106
Net earnings (loss) per share attributable to common shares - Basic:				
Continuing operations	$ (0.05)	$ 0.08	$ (0.26)	$ 0.57
Discontinued operations	-	0.51	0.02	0.65
Net earnings (loss) per share attributable to common shares - Basic	$ (0.05)	$ 0.59	$ (0.24)	$ 1.22
Net earnings (loss) per share attributable to common shares - Diluted:				
Continuing operations	$ (0.05)	$ 0.08	$ (0.26)	$ 0.57
Discontinued operations	-	0.50	0.02	0.64
Net earnings (loss) per share attributable to common shares - Diluted	$ (0.05)	$ 0.58	$ (0.24)	$ 1.21

Footnotes follow Financial Statements

Consolidated Statements of Funds From Operations (FFO)

(in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Revenues:				
Rental income	$ 230,249	$ 242,920	$ 461,167	$ 486,455

Property management and other fees and incentives	28,307	31,774	56,969	65,501
CDFS disposition proceeds (4)	-	-	-	180,237
Development management and other income	2,634	1,823	3,710	4,584
Total revenues	261,190	276,517	521,846	736,777
Expenses:				
Rental expense	65,395	73,985	133,281	149,354
Investment management expenses	9,931	10,819	20,250	21,395
General and administrative (5)	38,921	41,450	80,927	90,998
Reduction in workforce (5)	-	6,868	-	11,330
Impairment of real estate properties	367	84,218	367	84,218
Depreciation of corporate assets	3,106	3,969	6,501	8,087
Other expenses	4,649	4,584	8,916	11,009
Total expenses	122,369	225,893	250,242	376,391
Operating FFO	138,821	50,624	271,604	360,386
Other income (expense):				
FFO from unconsolidated property funds	39,665	34,874	73,701	71,617
FFO from other unconsolidated investees	4,843	2,966	8,475	7,979
Interest expense	(118,920)	(83,049)	(228,899)	(175,811)
Other income (expense), net	(1,370)	859	(1,542)	4,247
Net gains on dispositions of real estate properties (7) (10)	10,756	15,986	20,251	17,557
Foreign currency exchange gains (losses), net	232	(8,906)	711	(22,386)
Gain (loss) on early extinguishment of debt, net (1)	975	143,280	(46,658)	161,208

Current income tax expense (4)(10)	(598)	(12,577)	(9,500)	(34,967)
Net gain related to disposed assets - China operations (4)	-	-	-	3,315
Total other income (expense)	(64,417)	93,433	(183,461)	32,759
FFO	74,404	144,057	88,143	393,145
Less preferred share dividends	6,369	6,369	12,738	12,738
Less net earnings attributable to noncontrolling interests	191	494	444	948
FFO attributable to common shares, including significant non-cash items	$ 67,844	$ 137,194	$ 74,961	$ 379,459
Adjustments for significant non-cash items	3,246	(59,062)	19,054	(69,022)
FFO attributable to common shares, excluding significant non-cash items	$ 71,090	$ 78,132	$ 94,015	$ 310,437
Weighted average common shares outstanding - Basic	476,791	406,539	475,898	342,183
FFO per share attributable to common shares, including significant non-cash items:				
Basic	$ 0.14	$ 0.34	$ 0.16	$ 1.11
Diluted	$ 0.14	$ 0.34	$ 0.16	$ 1.10
FFO per share attributable to common shares, excluding significant non-cash items:				
Basic	$ 0.15	$ 0.19	$ 0.20	$ 0.91
Diluted	$ 0.15	$ 0.19	$ 0.20	$ 0.90

Footnotes follow Financial Statements

Reconciliations of Net Earnings (Loss) to FFO and EBITDA

(in thousands)

Reconciliation of net earnings (loss) to FFO, including significant non-cash items

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net earnings (loss) (a)	$ (23,150)	$ 238,865	$ (114,279)	$ 417,597
Add (deduct) NAREIT defined adjustments:				
Real estate related depreciation and amortization	84,370	72,972	167,174	143,304
Adjustments to gains on dispositions for depreciation	(203)	(452)	(1,832)	(1,203)
Adjustments to (gains on) dispositions of non-development properties	-	(3,158)	103	(1,535)
Reconciling items attributable to discontinued operations: (9)				
Gains on dispositions of non-development properties	(979)	(185,521)	(9,062)	(185,521)
Real estate related depreciation and amortization	11	4,040	127	10,502
Total discontinued operations	(968)	(181,481)	(8,935)	(175,019)
Our share of reconciling items from unconsolidated investees:				
Real estate related depreciation and amortization	39,191	37,664	76,832	75,981
Adjustment to gains/losses on dispositions for depreciation	-	(6,578)	-	(6,578)
Other amortizations items	(3,515)	(2,571)	(6,989)	(6,161)
Total unconsolidated investees	35,676	28,515	69,843	63,242

Total NAREIT defined adjustments	118,875	(83,604)	226,353	28,789
Subtotal-NAREIT defined FFO	95,725	155,261	112,074	446,386
Add (deduct) our defined adjustments:				
Foreign currency exchange losses (gains), net (8)	7,438	119	4,229	(43,829)
Deferred income tax benefit	(40,847)	(8,771)	(42,398)	(15,611)
Our share of reconciling items from unconsolidated investees:				
Foreign currency exchange losses (gains), net (8)	2,731	(1,885)	1,944	(234)
Unrealized losses (gains) on derivative contracts, net	2,485	(4,105)	(1,575)	(5,959)
Deferred income tax expense (benefit)	312	(3,425)	687	(1,294)
Total unconsolidated investees	5,528	(9,415)	1,056	(7,487)
Total our defined adjustments	(27,881)	(18,067)	(37,113)	(66,927)
FFO, including significant non-cash items (a)	$ 67,844	$ 137,194	$ 74,961	$ 379,459

Reconciliation of FFO, including significant non-cash items to FFO, excluding significant non-cash items

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
FFO, including significant non-cash items (a)	$ 67,844	$ 137,194	$ 74,961	$ 379,459
Add (deduct) significant non-cash items:				
Impairment of real estate				

properties	367	84,218	367	84,218
Net gain related to disposed assets - China operations (4)	-	-	-	(3,315)
Losses (gains) on early extinguishment of debt (1)	(975)	(143,280)	14,258	(161,208)
Write-off deferred extension fees associated with Global Line	854	-	854	-
Our share of certain losses recognized by the property funds	3,000	-	3,575	11,283
Total adjustments for significant non-cash items	3,246	(59,062)	19,054	(69,022)
FFO, excluding significant non-cash items (a)	$ 71,090	$ 78,132	$ 94,015	$ 310,437

Reconciliation of FFO, excluding significant non-cash items, to EBITDA

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
FFO, excluding significant non-cash items (a)	$ 71,090	$ 78,132	$ 94,015	$ 310,437
Interest expense	118,066	83,049	228,045	175,811
Depreciation of corporate assets	3,106	3,969	6,501	8,087
Current income tax expense included in FFO	598	12,577	10,351	34,967
Adjustments to gains on dispositions for interest capitalized	677	4,181	1,270	6,939
Preferred share dividends	6,369	6,369	12,738	12,738
Our share of reconciling items from unconsolidated investees	44,075	34,576	95,542	86,464
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	$ 244,981	$ 222,853	$ 448,462	$ 635,443

(a) Attributable to common shares.

See Consolidated Statements of Operations and Consolidated Statements of FFO
Footnotes follow Financial Statements

Calculation of Per Share Amounts

(in thousands, except per share amounts)

Net Earnings (Loss) Per Share

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010 (a)	2009	2010 (a)	2009
Net earnings (loss) - Basic (b)	$ (23,150)	$ 238,865	$ (114,279)	$ 417,597
Noncontrolling interest attributable to convertible limited partnership units (c)	-	494	-	804
Adjusted net earnings (loss) - Diluted (b)	$ (23,150)	$ 239,359	$ (114,279)	$ 418,401
Weighted average common shares outstanding - Basic	476,791	406,539	475,898	342,183
Incremental weighted average effect of conversion of limited partnership units (c)	-	1,235	-	1,235
Incremental weighted average effect of stock awards (d)	-	1,730	-	1,688
Weighted average common shares outstanding - Diluted (e)	476,791	409,504	475,898	345,106
Net earnings (loss) per share - Diluted (b)	$ (0.05)	$ 0.58	$ (0.24)	$ 1.21

FFO Per Share, including significant non-cash items

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
FFO - Basic, including significant non-cash items (b)	$ 67,844	$ 137,194	$ 74,961	$ 379,459
Noncontrolling interest attributable to convertible limited partnership units (c)	-	-	-	804
FFO - Diluted, including significant non-cash items (b)	$ 67,844	$ 137,194	$ 74,961	$ 380,263
Weighted average common shares outstanding - Basic	476,791	406,539	475,898	342,183
Incremental weighted average effect of conversion of limited partnership units (c)	-	-	-	1,235
Incremental weighted average effect of stock awards (d)	2,876	1,730	3,045	1,688
Weighted average common shares outstanding - Diluted (e)	479,667	408,269	478,943	345,106
FFO per share - Diluted, including significant non-cash items (b)	$ 0.14	$ 0.34	$ 0.16	$ 1.10

FFO Per Share, excluding significant non-cash items

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
FFO - Basic, including significant non-cash items (b)	$ 67,844	$ 137,194	$ 74,961	$ 379,459
Adjustments for significant non-cash items	3,246	(59,062)	19,054	(69,022)

Noncontrolling interest attributable to convertible limited partnership units (c)	-	-	-	804
FFO - Diluted, excluding significant non-cash items (b)	$ 71,090	$ 78,132	$ 94,015	$ 311,241
Weighted average common shares outstanding - Basic	476,791	406,539	475,898	342,183
Incremental weighted average effect of conversion of limited partnership units (c)	-	-	-	1,235
Incremental weighted average effect of stock awards (d)	2,876	1,730	3,045	1,688
Weighted average common shares outstanding - Diluted (e)	479,667	408,269	478,943	345,106
FFO per share - Diluted, excluding significant non-cash items (b)	$ 0.15	$ 0.19	$ 0.20	$ 0.90

(a) 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.

(b) Attributable to common shares.

(c) If the impact of the conversion of limited partnership units is anti-dilutive, the income and shares of the limited partnerships are not included in the diluted per share calculation.

(d) Total weighted average potentially dilutive awards outstanding were 11,382 and 12,147 for the three months ended June 30, 2010 and 2009, respectively, and 11,213 and 12,101 for the six months ended June 30, 2010 and 2009, respectively. Of the potentially dilutive instruments, 5,645 and 8,252 were anti-dilutive for the three months ended June 30, 2010 and 2009, respectively, and 5,143 and 8,699 were anti-dilutive for the six months ended June 30, 2010 and 2009, respectively. During a loss period, the effect of stock awards is not included as the impact is anti-dilutive.

(e) The shares underlying the convertible debt have not been included because the impact would be anti-dilutive.

Please refer to our annual and quarterly financial statements filed with the Securities and Exchange Commission on Forms 10-K and 10-Q for further information about us and our business.
Our direct owned segment represents the direct, long-term ownership of industrial properties. Our investment strategy in this segment focuses primarily on the ownership and leasing of industrial properties in key distribution markets. We consider these properties to be our Core Portfolio. Also included in this segment are operating properties we developed that we refer to as Completed Development Properties. Our intent is to hold and use the Core and Development properties, however, depending on market and other conditions, we may contribute either Core or Development properties to the property funds, to the extent there is fund capacity, or sell them to third parties. When we contribute or sell Development properties, we recognize FFO to the extent the proceeds received exceed our original investment (i.e. prior to depreciation) and present the results as Net Gains on Dispositions. In addition, we have industrial properties that are currently under development and land available for development that are part of this segment as well. The investment management segment represents the investment management of unconsolidated property funds and joint ventures and the properties they own.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Convertible Senior Notes (a):				
Original principal amount	$ 249,603	$ 473,057	$ 739,642	$ 521,257
Cash purchase price	$ 229,328	$ 313,256	$ 694,422	$ 338,077
Senior Notes:				
Original principal amount	$ -	$ 343,192	$ 422,476	$ 343,192
Cash purchase price	$ -	$ 302,090	$ 449,382	$ 302,090
Secured Mortgage Debt:				
Original principal amount	$ -	$ -	$ 45,140	$ -
Cash repayment price	$ -	$ -	$ 46,659	$ -
Total:				

Original principal amount	$ 249,603	$ 816,249	$ 1,207,258	$ 864,449
Cash purchase / repayment price	$ 229,328	$ 615,346	$ 1,190,463	$ 640,167
Gain (loss) on early extinguishment of debt, net (b)	$ 975	$ 143,280	$ (46,658)	$ 161,208

(a) Although the cash purchase price is less than the principal amount outstanding, the repurchase of these notes resulted in a non-cash loss in the first quarter of 2010 due to the non-cash discount. Therefore, we adjusted for this non-cash loss of $15.2 million to arrive at FFO, excluding significant non-cash items.

(b) Represents the difference between the recorded debt (including unamortized related debt issuance costs, premiums and discounts) and the consideration we paid to retire the debt.

(2) The net losses recognized in Accumulated Other Comprehensive Income (Loss) for the six months ended June 30, 2010 in our Consolidated Balance Sheet are principally the result of the strengthening of the U.S. dollar against the euro and pound sterling, offset slightly by the weakening of the U.S. dollar against the yen. The strengthening of the U.S. dollar against these currencies results in less reported net assets upon translation of our international operations into U.S. dollars.

(3) In our Consolidated Statements of Operations, rental income includes the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Rental income	$ 167,970	$ 162,900	$ 336,189	$ 322,222
Rental expense recoveries	51,613	52,218	102,335	100,298
Straight-lined rents	10,207	9,764	21,494	18,454
	$ 229,790	$ 224,882	$ 460,018	$ 440,974

(4) On February 9, 2009, we sold our operations in China and our property fund interests in Japan to affiliates of GIC Real Estate, the real estate investment company of the Government of Singapore Investment Corporation, for total cash consideration of $1.3 billion ($845 million related to China and $500 million related to the Japan investments).

In connection with the sale of our investments in the Japan property

funds, we recognized a gain of $180.2 million. The gain is reflected as
CDFS Proceeds in our Consolidated Statements of Operations and FFO, as it represents previously deferred gains on the contribution of development properties to the 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 the Japan portion of the transaction. We continued to manage the Japan properties until July 2009.

(5) In the fourth quarter of 2008, in response to the difficult economic climate, we initiated general and administrative expense ("G&A") reductions.
These initiatives included a Reduction in Workforce ("RIF") program and reductions to other expenses through various cost savings measures.
Lower gross G&A and less development activity has resulted in lower capitalized G&A. Our G&A included in our Statements of Operations consisted of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Gross G&A expense	$ 63,577	$ 69,320	$ 130,733	$ 147,160
Reported as rental expense	(4,831)	(4,852)	(9,833)	(9,787)
Reported as investment management expenses	(9,931)	(10,819)	(20,250)	(21,395)
Capitalized amounts	(9,894)	(12,199)	(19,723)	(26,285)
Net G&A	$ 38,921	$ 41,450	$ 80,927	$ 89,693

(6) The following table presents the components of interest expense as reflected in our Consolidated Statements of Operations (in thousands):

	Three Months Ended	Six Months Ended
	June 30,	June 30,

	2010	2009	2010	2009
Gross interest expense	$ 113,225	$ 88,377	$ 218,234	$ 190,237
Amortization of discount, net	12,198	16,630	27,532	35,343
Amortization of deferred loan costs	7,435	2,873	13,917	6,249
Interest expense before capitalization	132,858	107,880	259,683	231,829
Capitalized amounts	(13,938)	(24,831)	(30,784)	(55,848)
Net interest expense	$ 118,920	$ 83,049	$ 228,899	$ 175,981

Gross interest expense increased in 2010 from 2009 due to increased borrowing rates. The decrease in capitalized amounts in 2010 from 2009 is due to less development activity.

(7) Included in Net Gains on Dispositions of Real Estate Properties for the six months ended June 30, 2010 is a gain of $1.1 million from the sale of land during the first quarter of 2010 that was previously impaired.

(8) Included in Foreign Currency Exchange Gains (Losses), Net, for the six months ended June 30, 2010 and 2009, are net foreign currency exchange gains or losses from the remeasurement of inter-company loans between the U.S. and our consolidated subsidiaries in Japan and Europe due to the fluctuations in the exchange rates of U.S. dollars to the yen, the euro and pound sterling between January 1st and June 30th of the applicable years. We do not include the gains and losses related to inter-company loans in our calculation of FFO.

(9) The operations of the properties held for sale and properties that are disposed of to third parties during a period, including the aggregate net gains recognized upon their disposition, are presented as discontinued operations in our Consolidated Statements of Operations for all periods presented, unless the property was developed under a pre-sale agreement.

During the six months ended June 30, 2010, we disposed of 9 properties to third parties aggregating 0.7 million square feet, none of which were development properties. During all of 2009, other than our China operations, we disposed of land subject to ground leases and 140 properties aggregating 14.8 million square feet to third parties, 3 of which were development properties.

The income attributable to these properties and our China operations was as follows (in thousands):

	Three Months Ended	Six Months Ended

	June 30,		June 30,	
	2010	2009	2010	2009
Rental income	$ 459	$ 18,038	$ 1,149	$ 45,481
Rental expenses	(121)	(5,101)	(430)	(13,754)
Depreciation and amortization	(11)	(4,040)	(127)	(10,502)
Other expenses, net	-	-	-	(576)
Income attributable to disposed properties	$ 327	$ 8,897	$ 592	$ 20,649

For purposes of our Consolidated Statements of FFO, we do not segregate discontinued operations. In addition, we include the gains from disposition of land parcels and Completed Development Properties in the calculation of FFO, including those classified as discontinued operations.

(10) The net gains on dispositions of real properties presented in our Consolidated Statements of FFO are net of related taxes of $0.9 million from the sale of a building during the first quarter of 2010.

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