

PROLOGIS
Form 10-Q
November 04, 2009

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

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

For the quarterly period ended September 30, 2009

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

For the transition period from _____ to _____

Commission File Number 01-12846

(Exact name of registrant as specified in its charter)

**Maryland
(State or other jurisdiction of
incorporation or organization)**

**74-2604728
(I.R.S. Employer
Identification No.)**

**4545 Airport Way, Denver, Colorado
(Address or principal executive offices)**

**80239
(Zip Code)**

(303) 567-5000

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(do not check if a 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 No

The number of shares outstanding of the Registrant's common shares as of October 30, 2009 was 473,204,100.

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

	September 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Real estate	\$ 15,630,695	\$ 15,725,272
Less accumulated depreciation	1,606,533	1,583,299
	14,024,162	14,141,973
Investments in and advances to unconsolidated investees	2,205,248	2,269,993
Cash and cash equivalents	41,542	174,636
Accounts and notes receivable	147,921	244,778
Other assets	1,027,410	1,126,993
Discontinued operations assets held for sale		1,310,754
Total assets	\$ 17,446,283	\$ 19,269,127
LIABILITIES AND EQUITY		
Liabilities:		
Debt	\$ 7,706,105	\$ 10,711,368
Accounts payable and accrued expenses	611,408	658,868
Other liabilities	556,957	751,238
Discontinued operations assets held for sale		389,884
Total liabilities	8,874,470	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 September 30, 2009 and December 31, 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 September 30, 2009 and December 31, 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 September 30, 2009 and December 31, 2008	125,000	125,000
Common Shares; \$0.01 par value; 473,201 shares issued and outstanding at September 30, 2009 and 267,005 shares issued and outstanding at	4,732	2,670

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December 31, 2008		
Additional paid-in capital	8,524,988	7,070,108
Accumulated other comprehensive income (loss)	125,594	(29,374)
Distributions in excess of net earnings	(455,109)	(655,513)
Total ProLogis shareholders' equity	8,550,205	6,737,891
Noncontrolling interests	21,608	19,878
Total equity	8,571,813	6,757,769
Total liabilities and equity	\$ 17,446,283	\$ 19,269,127

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

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Revenues:				
Rental income	\$ 225,130	\$ 225,501	\$ 674,648	\$ 707,245
Property management and other fees and incentives	45,792	35,125	111,200	97,195
CDFS disposition proceeds:				
Developed and repositioned properties		613,443	180,237	3,013,511
Acquired property portfolios		107,063		270,238
Development management and other income	3,010	7,758	7,594	18,252
Total revenues	273,932	988,890	973,679	4,106,441
Expenses:				
Rental expenses	69,498	68,551	208,195	219,402
Investment management expenses	10,186	13,456	31,581	38,417
Cost of CDFS dispositions:				
Developed and repositioned properties		543,118		2,465,550
Acquired property portfolios		107,063		270,238
General and administrative	38,632	46,651	128,325	140,363
Reduction in workforce	415		11,745	
Impairment of real estate properties and other assets	46,274		130,492	
Depreciation and amortization	80,484	74,515	233,872	220,896
Other expenses	8,405	3,495	19,408	10,658
Total expenses	253,894	856,849	763,618	3,365,524
Operating income	20,038	132,041	210,061	740,917
Other income (expense):				
Earnings from unconsolidated property funds, net	11,639	17,918	31,135	35,904
Earnings (loss) from other unconsolidated investees, net	(693)	5,208	2,850	12,429
Interest expense	(89,838)	(94,290)	(265,819)	(284,752)
Other income (expense), net	(10,021)	868	(5,846)	13,996
Net gains on dispositions of real estate properties	13,627	1,152	22,419	5,816
Foreign currency exchange gains (losses), net	13,386	(10,073)	34,898	(32,977)
Gain on early extinguishment of debt	12,010		173,218	
Total other income (expense)	(49,890)	(79,217)	(7,145)	(249,584)
Earnings (loss) before income taxes	(29,852)	52,824	202,916	491,333
Current income tax expense (benefit)	(4,626)	10,938	30,140	47,717

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Deferred income tax expense (benefit)	(5,088)	10,706	(20,687)	19,403
Total income taxes	(9,714)	21,644	9,453	67,120
Earnings (loss) from continuing operations	(20,138)	31,180	193,463	424,213
Discontinued operations:				
Income attributable to disposed properties, net	611	6,133	17,810	10,136
Net gain related to disposed assets China operations			3,315	
Net gains on dispositions:				
Non-development properties	14,270	2,492	199,791	8,161
Development properties and land subject to ground leases		108	11,503	2,232
Total discontinued operations	14,881	8,733	232,419	20,529
Consolidated net earnings (loss)	(5,257)	39,913	425,882	444,742
Net earnings attributable to noncontrolling interests	(162)	(1,427)	(966)	(3,665)
Net earnings (loss) attributable to controlling interests	(5,419)	38,486	424,916	441,077
Less preferred share dividends	6,369	6,333	19,107	19,071
Net earnings (loss) attributable to common shares	\$ (11,788)	\$ 32,153	\$ 405,809	\$ 422,006
Weighted average common shares outstanding Basic	452,683	263,139	379,421	261,665
Weighted average common shares outstanding Diluted	452,683	266,133	382,623	270,665
Net earnings (loss) per share attributable to common shares Basic:				
Continuing operations	\$ (0.06)	\$ 0.09	\$ 0.46	\$ 1.53
Discontinued operations	0.03	0.03	0.61	0.08
Net earnings (loss) per share attributable to common shares Basic	\$ (0.03)	\$ 0.12	\$ 1.07	\$ 1.61
Net earnings (loss) per share attributable to common shares Diluted:				
Continuing operations	\$ (0.06)	\$ 0.09	\$ 0.45	\$ 1.49
Discontinued operations	0.03	0.03	0.61	0.08
Net earnings (loss) per share attributable to common shares Diluted	\$ (0.03)	\$ 0.12	\$ 1.06	\$ 1.57
Distributions per common share	\$ 0.15	\$ 0.5175	\$ 0.55	\$ 1.5525

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

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PROLOGIS
CONSOLIDATED STATEMENT OF EQUITY
AND COMPREHENSIVE INCOME (LOSS)
For the Nine Months Ended September 30, 2009
(Unaudited)
(In thousands)

	Preferred Stock	Common Shares		Accumulated Distributions				
		Number of Shares	Amount	Additional Paid-in Capital	Other Comprehensive Income (Loss)	in Excess of Net Earnings	Noncontrolling Interests	Total
Balance as of January 1, 2009	\$ 350,000	267,005	\$ 2,670	\$ 7,070,108	\$ (29,374)	\$ (655,513)	\$ 19,878	\$ 6,757,769
Consolidated net earnings						424,916	966	425,882
Issuances of common shares in Equity Offering		174,800	1,748	1,105,272				1,107,020
Issuances of common shares under common share plans		30,986	310	326,439				326,749
Conversion of non-controlling interest to common shares		410	4	1,101			(1,019)	86
Foreign currency translation gains, net					148,322		2,773	151,095
Unrealized gains/amortization on derivative contracts, net					6,646			6,646
Cost of share-based compensation awards				22,108				22,108
Change in receivable from timing differences on equity transactions				(40)				(40)
Distributions						(224,512)	(990)	(225,502)
Balance as of September 30, 2009	\$ 350,000	473,201	\$ 4,732	\$ 8,524,988	\$ 125,594	\$ (455,109)	\$ 21,608	\$ 8,571,813

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

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

	Nine Months Ended	
	September 30,	
	2009	2008
Operating activities:		
Net earnings attributable to controlling interests	\$ 424,916	\$ 441,077
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Noncontrolling interest share in earnings	1,110	(4,510)
Straight-lined rents	(27,342)	(24,806)
Cost of share-based compensation awards	17,516	27,732
Depreciation and amortization	242,486	244,529
Equity in earnings from unconsolidated investees	(34,787)	(34,871)
Changes in operating receivables and distributions from unconsolidated investees	34,541	14,152
Amortization of deferred loan costs	11,190	8,765
Amortization of debt discount, net	51,049	45,225
Impairment of real estate properties and other assets	130,492	
Gains on dispositions of assets included in discontinued operations	(214,609)	(10,393)
Gains recognized on disposition of investments in Japan property funds	(180,237)	
Gains recognized on property dispositions, net	(22,419)	(5,816)
Gain on early extinguishment of debt	(173,218)	
Unrealized foreign currency exchange (gains) losses, net	(56,897)	27,218
Deferred income tax (benefit) expense	(20,699)	19,478
Decrease (increase) in accounts and notes receivable and other assets	108,549	(40,720)
Decrease in accounts payable and accrued expenses and other liabilities	(61,351)	(11,471)
Net cash provided by operating activities	230,290	695,589
Investing activities:		
Real estate investments	(1,024,625)	(4,338,201)
Tenant improvements and lease commissions on previously leased space	(37,498)	(44,333)
Non-development capital expenditures	(16,006)	(27,208)
Investments in and net advances to unconsolidated investees	(242,973)	(149,347)
Proceeds from disposition of investments in Japan property funds	500,000	
Return of investment from unconsolidated investees	44,783	98,046
Proceeds from dispositions of real estate assets - China operations	845,468	
Proceeds from dispositions of real estate assets	1,187,230	3,209,094
Proceeds from repayment of notes receivable	8,222	1,497
Net cash provided by (used in) investing activities	1,264,601	(1,250,452)
Financing activities:		
Proceeds from sales and issuances of common shares	1,487,937	217,107
Distributions paid on common shares	(200,830)	(414,236)

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Dividends paid on preferred shares	(19,062)	(19,071)
Noncontrolling interest (distributions) contributions, net	(929)	24,833
Debt and equity issuance costs paid	(95,971)	(11,448)
Net (payments on) proceeds from credit facilities	(2,317,654)	537,694
Repurchase of senior notes and extinguishment of secured mortgage debt	(900,137)	
Proceeds from issuance of senior notes and secured mortgage debt	739,164	1,144,112
Payments on senior notes, secured mortgage debt and assessment bonds	(319,334)	(963,363)
Net cash (used in) provided by financing activities	(1,626,816)	515,628
Effect of foreign currency exchange rate changes on cash	(1,169)	(19,588)
Net decrease in cash and cash equivalents	(133,094)	(58,823)
Cash and cash equivalents, beginning of period	174,636	399,910
Cash and cash equivalents, end of period	\$ 41,542	\$ 341,087

See Note 11 for information on non-cash investing and financing activities and other information.

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

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PROLOGIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General:

Business. ProLogis, collectively with our consolidated subsidiaries (we , our , us , the Company or ProLogis), is a publicly held real estate investment trust (REIT) that owns, operates and develops (directly and through our unconsolidated investees) primarily industrial properties in North America, Europe and Asia. 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 certain 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 to our business strategy and, therefore, as of December 31, 2008, our business strategy no longer includes the CDFS business segment. See Note 10 for further discussion of our business segments.

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

The accompanying unaudited interim financial information has been prepared according to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted in accordance with such rules and regulations. Our management believes that the disclosures presented in these financial statements are adequate to make the information presented not misleading. In our opinion, all adjustments and eliminations, consisting only of normal recurring adjustments, necessary to present fairly our financial position as of September 30, 2009, our results of operations for the three and nine months ended September 30, 2009 and 2008, and our cash flows for the nine months ended September 30, 2009 and 2008 have been included. We have evaluated all subsequent events for adjustment to or disclosure in these financial statements through the issuance of these financial statements on November 4, 2009. The results of operations for such interim periods are not necessarily indicative of the results for the full year. The accompanying unaudited interim financial information should be read in conjunction with our December 31, 2008 Consolidated Financial Statements, as filed with the SEC in our Annual Report on Form 10-K. Certain amounts included in the accompanying consolidated financial statements for 2008 have been restated 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 direct 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