PROLOGIS
Form 10-Q/A
August 15, 2003

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

FORM 10-Q/A#1

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

For the quarterly period ended June 30, 2003

[ ] **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

PROLOGIS

(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.)**
14100 East 35th Place, Aurora, Colorado **(Address or principal executive offices)**	**80011** **(Zip Code)**

(303) 375-9292
(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 [X] No [ ]

Indicate by check mark whether the registrant is accelerated file (as defined in Rule 12b-2 of the Securities Act of 1934).

Yes [X] No [ ]

The number of shares outstanding of the Registrant s common shares as of August 11, 2003 was 179,405,519.

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The purpose for filing this Form 10-Q/A for the quarterly period ended June 30, 2003 is to amend certain disclosures in Item 2 of ProLogis originally filed Form 10-Q. The originally filed Form 10-Q stated in Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Overview that the capital commitment of a real estate investment subsidiary of the Government of Singapore Investment Corporation to ProLogis Japan Properties Fund had been reduced to $23.7 million after the acquisition of a 497,000 square foot operating property in July 2003. The disclosure should have indicated that the commitment was reduced by $23.7 million after the acquisition.

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ITEM 2. Managements Discussion and analysis of Financial Condition and Liquidity

The following discussion should be read in conjunction with ProLogis Consolidated Condensed Financial Statements and the related notes included in Item 1 of this report and ProLogis 2002 Annual Report on Form 10-K.

Some statements contained in this discussion are not historical facts but are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Because 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. Forward-looking statements include discussions of strategy, plans or intentions of management. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Forward-looking statements include, but are not limited to, the discussions concerning ProLogis expectations with respect to economic conditions and geopolitical concerns and uncertainties in the geographic markets in which it operates, its ability to raise private capital and generate income in the CDFS business segment (including the discussions with respect to ProLogis expectations as to the availability of capital in ProLogis European Properties Fund and ProLogis North American Properties Fund V such that these property funds will be able to acquire ProLogis stabilized developed properties that are expected to be available for contribution during 2003) and its plans for its investments in the temperature-controlled distribution operations segment. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Factors that may affect outcomes and results include: (i) changes in general economic conditions in ProLogis markets that could adversely affect demand for ProLogis properties and the creditworthiness of ProLogis customers; (ii) changes in financial markets, interest rates and foreign currency exchange rates that could adversely affect ProLogis cost of capital, its ability to meet its financial needs and obligations and its results of operations; (iii) increased or unanticipated competition for distribution properties in ProLogis markets; (iv) the availability of private capital to ProLogis to acquire its CDFS assets; (v) geopolitical concerns and uncertainties; and (vi) those additional factors discussed in ProLogis 2002 Annual Report on Form 10-K.

Results of Operations

Six Months Ended June 30, 2003 and 2002

ProLogis net earnings attributable to Common Shares were $86.2 million and $111.8 million for the six months ended June 30, 2003 and 2002, respectively. Diluted net earnings attributable to Common Shares were $0.47 per share and $0.62 per share for the six months ended June 30, 2003 and 2002, respectively.

ProLogis has two reportable business segments. The property operations segment generated earnings from operations of $240.2 million for the six months in 2003 and $237.6 million for the six months in 2002, an increase of $2.6 million in 2003 from the same six-month period in 2002. The CDFS business segment generated earnings from operations of $59.8 million for the six months in 2003 and $79.4 million for the six months in 2002, a decrease of $19.6 million in 2003 from the same six-month period in 2002. In addition, income recognized from investments in other unconsolidated investees, primarily companies operating temperature controlled distribution and storage networks, was $6.7 million for the six months in 2003 and $10.0 million for the six months in 2002, a decrease of $3.3 million in 2003 from the same six-month period in 2002. See Property Operations , CDFS Business and Income from Unconsolidated Investees .

Property Operations

In addition to its directly owned operating properties, ProLogis property operations segment includes its investments in property funds that are presented under the equity method. See Note 3 to ProLogis Consolidated Condensed Financial Statements in Item 1. ProLogis owned or had ownership interests through its investments in the property funds in the following operating properties as of the dates indicated (square feet in thousands):

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	June 30, 2003		December 31, 2002		June 30, 2002	
	Number	Square Feet	Number	Square Feet	Number	Square Feet
Direct ownership(1)	1,234	129,588	1,230	127,956	1,186	120,304
Property Funds:						
ProLogis California(2)	79	13,017	79	13,017	79	13,018
ProLogis North American Properties Fund I(3)	36	9,406	36	9,406	36	9,406
ProLogis North American Properties Fund II(4)	27	4,477	27	4,477	27	4,477
ProLogis North American Properties Fund III(4)	34	4,380	34	4,380	34	4,380
ProLogis North American Properties Fund IV(4)	17	3,475	17	3,475	17	3,475
ProLogis North American Properties Fund V(5)	81	18,248	57	11,979	41	8,197
ProLogis European Properties Fund(6)	205	41,103	193	35,700	164	29,107
ProLogis Japan Properties Fund(7)	2	517	1	199		
Subtotal property funds	481	94,623	444	82,633	398	72,060
Totals	1,715	224,211	1,674	210,589	1,584	192,364

(1) Includes operating properties directly owned by ProLogis as of the dates indicated. Includes the operating properties that ProLogis intends to hold for long-term investment, as well as the operating properties that ProLogis developed in the CDFS business segment that it intends to contribute to a property fund or sell to a third party but that have not yet been contributed or sold and properties that ProLogis acquired in the CDFS business segment that it intends to contribute to a property fund, including properties that are being or have been rehabilitated and/or repositioned, but that have not yet been contributed. Consequently, the size of this portfolio will fluctuate from period to period. Also, ProLogis may, as necessary, contribute operating properties originally intended for long-term investment to a property fund in order to meet the leasing, geographic and volume requirements of a property fund s third party investors. The increase in the number and square feet of properties directly owned at June 30, 2003 from December 31, 2002 and from June 30, 2002 is primarily due to weak economic conditions, primarily in the United States but also in certain western European countries, and to geopolitical concerns and related uncertainties, primarily in Europe. Due to these factors, leasing activity began to slow in 2002 in both the United States and Europe. The slowing in customers leasing decisions has delayed certain of ProLogis contributions to property funds since the properties that are contributed to property funds generally must meet certain leasing criteria.

(2) ProLogis had a 50% ownership interest in the property fund as of each date.

(3) ProLogis had a 41.3% ownership interest in the property fund as of each date.

(4) ProLogis had a 20% ownership interest in the property fund as of each date.

(5) ProLogis had a 14.1% ownership interest in ProLogis North American Properties Fund V at June 30, 2003. ProLogis ownership interest in this property fund has been between 14.1% and 16.9% since it began operations on March 28, 2002. The 40 operating properties acquired by this property fund since June 30, 2002 were all contributed by ProLogis.

(6) ProLogis ownership interest in ProLogis European Properties Fund was 30.3%, 29.6% and 31.7% at June 30, 2003, December 31, 2002 and June 30, 2002, respectively. From June 30, 2002 to June 30, 2003, ProLogis European Properties Fund acquired 15 properties from third parties, in addition to the properties that were contributed by ProLogis. Also, ProLogis European Properties Fund disposed of one property during that twelve-month period.

(7) ProLogis has had a 20% ownership interest in ProLogis Japan Properties Fund since it began operations on September 24, 2002. Both properties owned by this property fund were contributed by ProLogis.

The earnings from operations of ProLogis property operations segment consists of: (i) rental income and net rental expenses from the operating properties that are directly owned by ProLogis; (ii) income recognized by ProLogis under the equity method from its investments in the property funds; (iii) fees and other income earned by ProLogis for services performed on behalf of the property funds, primarily property management and asset management services; and (iv) interest earned on advances to the property funds, if any. See Note 8 to ProLogis Consolidated Condensed Financial Statements in Item 1.

The amounts recognized under the equity method represent ProLogis share of the net earnings of each property fund based on its ownership interest in the property fund and include the following income and expense items, in addition to rental income and net rental expenses: (i) interest income and interest expense; (ii) depreciation and amortization expenses; (iii) general and administrative expenses; (iv) income taxes; and (v) net foreign currency exchange gains or losses, with respect to ProLogis European Properties Fund. ProLogis earnings from operations from the property operations segment for the periods indicated are presented below (in

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thousands of U.S. dollars). See Note 8 to ProLogis Consolidated Condensed Financial Statements in Item 1.

	Six Months Ended June 30,	
	2003	**2002**
Properties directly owned by ProLogis:		
Rental income(1)	$227,347	$224,054
Rental expenses, net of recoveries(2)	19,890	16,517
Net operating income	207,457	207,537
Property funds:		
Income from ProLogis California	7,285	7,361
Income from ProLogis North American Properties Fund I	2,937	2,852
Income from ProLogis North American Properties Fund II	1,243	1,714
Income from ProLogis North American Properties Fund III	1,461	1,547
Income from ProLogis North American Properties Fund IV	837	1,023
Income from ProLogis North American Properties Fund V(3)	6,410	3,711
Income from ProLogis European Properties Fund(4)	12,051	11,899
Income from ProLogis Japan Properties Fund(5)	519	
Subtotal property funds	32,743	30,107
Total property operations segment	$240,200	$237,644

(1) The number and composition of operating properties in the directly owned portfolio throughout the periods presented impact rental income for each period. Rental income for the six months in 2003 includes $4.2 million of net termination and renegotiation fees as compared to $5.6 million of such fees recognized for the same period in 2002. ProLogis cannot predict the levels of such fees that will be earned in the future or whether ProLogis will be successful in re-leasing the vacant space associated with the lease terminations in a timely manner. Rental income, excluding net termination and renegotiation fees, increased by $4.7 million in the first six months of 2003 as compared to the same period in 2002.

(2) The number and composition of operating properties in the directly owned portfolio throughout the periods presented impact rental expenses for each period. However, the increase in net rental expenses for the six months in 2003 is primarily due to the lower occupancy levels experienced during the period in 2003 as compared to the same period in 2002. Lower occupancy levels result in certain fixed costs being incurred directly by ProLogis, as there may not be customers occupying the properties to which the expenses relate. Additionally, ProLogis will absorb a higher percentage of common area costs when occupancy levels are lower, because there are fewer customers available from whom these costs can be recovered. Accordingly, rental expenses, before recoveries, were 31.6% of rental income for the six months in 2003 as compared to 28.2% of rental income for the same period in 2002. Total rental expense recoveries were 72.3% and 73.9% of total rental expenses for the six months in 2003 and 2002, respectively.

(3) ProLogis North American Properties Fund V began operations on March 28, 2002.

(4) Amounts presented include net foreign currency exchange losses of $7.8 million and $2.7 million for the six months ended June 30, 2003 and 2002, respectively. Excluding these net foreign currency exchange losses, ProLogis proportionate share of the earnings of ProLogis European Properties Fund is $19.9 million and $14.6 million for the six months in 2003 and 2002, respectively. The increase in the income recognized by ProLogis from its ownership in this property fund, excluding foreign currency exchange losses for the six months in 2003, is primarily the result of the additional properties owned by the property fund during this period as compared to the six months in 2002. Additionally, the foreign currency exchange average rate at which ProLogis translates the net earnings of the ProLogis European Properties Fund to U.S. dollars was greater during the six months in 2003 than during the same six-month period in 2002, resulting in a higher translated net earnings on which ProLogis recognizes its proportionate share as income under the equity method.

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(5) ProLogis Japan Properties Fund began operations on September 24, 2002.

The stabilized operating properties owned by ProLogis and the property funds were 91.4% leased and 90.5% occupied at June 30, 2003. ProLogis stabilized occupancy levels at June 30, 2003 have not changed significantly from the June 30, 2002 levels (91.0% leased and 90.3% occupied). However, the average stabilized physical occupancy level of the properties that were owned by ProLogis and the property funds as of June 30, 2003 for the six-month period ended June 30, 2003 was 88.9%, a 110 basis point decrease from the average stabilized occupancy level of 90.0% for the properties that were owned by ProLogis and the property funds as of June 30, 2002 for the six-month period ended June 30, 2002. ProLogis defines its stabilized properties as those properties where the capital improvements, repositioning efforts, new management and new marketing programs for acquisitions, or development and marketing programs in the case of newly developed properties, have been in effect for a sufficient period of time, generally 12 months, to achieve stabilized occupancy, typically 93%.

ProLogis believes that the stabilized occupancy levels it is experiencing in the United States in 2003 are primarily the result of weak economic conditions that have resulted in a slowing of customer leasing decisions and a slowing in the absorption of new distribution properties in many of ProLogis United States markets. ProLogis does not expect market conditions affected by the United States economy to change significantly during the remainder of 2003. While there have been some positive trends in occupancy levels in certain markets since late 2002, ProLogis believes that occupancies will not increase significantly during the remainder of 2003 and that further declines in occupancies in the United States, if any, will not be significant.

ProLogis continues to believe that shifts in distribution patterns of its customers in Europe and their needs to reduce their distribution costs have been, and will continue to be, the key drivers of leasing decisions in its European markets. However, ProLogis also believes that current geopolitical concerns and related uncertainties, along with weaknesses in the economies of certain western European countries, have led to a slowing in its customers decision-making processes concerning changes in their distribution networks in Europe. ProLogis cannot predict the effect that these situations will have on its ability to lease currently vacant space or re-lease space that is subject to expiring leases in the remainder of 2003. Should ProLogis European Properties Fund experience significant occupancy declines, ProLogis would recognize less income from its investment in ProLogis European Properties Fund.

ProLogis two operating properties in Japan, both owned by ProLogis Japan Properties Fund, are fully leased.

The average decrease in rental rates for both new and renewed leases on previously leased space (20.0 million square feet) for all properties including those owned by the property funds during the first six months of 2003 was 2.7% as compared to an average increase in rental rates of 5.0% for the same six-month period in 2002. ProLogis believes that the lower rental rate growth experienced in 2003 as compared to 2002 is due to slower leasing activity, as noted above, which has resulted in decreases in market rental rates.

The same store portfolio of operating properties, properties owned by ProLogis and the property funds that were in operation throughout both six-month periods in 2003 and 2002, aggregated 180.6 million square feet, including properties owned directly by ProLogis and properties owned by the property funds. ProLogis views the operating results of the same store portfolio as a key component in evaluating the performance of its properties, its management personnel and its individual markets because this population is consistent from period to period, thereby eliminating the effects of changes in the composition of the portfolio on performance measures. Rental income, excluding termination and renegotiation fees, less net rental expenses generated by the same store portfolio increased by 0.93% for the six months in 2003 from the same period in 2002. The percentage change presented is the weighted average of the measure computed separately for ProLogis and each of the property funds with the weighting based on each entity s proportionate share of the combined component on which the change is computed. In order to derive an appropriate measure of period-to-period operating performance, the percentage change computation removes the effects of foreign currency exchange rate movements by computing each property s components in that property s functional currency.

Rental income computed under GAAP applicable to the properties included in the same store portfolio is adjusted to remove the net termination fees recognized for each period. Net termination fees excluded from rental income were $1.4 million for direct owned properties and $0.9 million for properties owned by the property funds for the six months ended June 30, 2003 and $3.7 million for direct owned properties and $3.7 million for properties owned by the property funds for the six months ended June 30, 2002. Net termination fees represent the gross fee negotiated at the time a customer is allowed to terminate its lease agreement offset by that customer s rent leveling asset or liability that has been previously recognized under GAAP, if any. Removing the net termination fees for the same store calculation allows ProLogis management 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. Customer terminations are negotiated under specific circumstances and are not subject to specific provisions or rights allowed under the lease agreements.

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Net rental expenses as presented under GAAP represents property operating expenses offset by the amount of such expenses that have been recovered from customers under provisions of their lease agreements. In computing the percentage change in net rental expenses, the net rental expenses applicable to the properties in the same store portfolio includes property management expenses for ProLogis direct owned properties based on the property management fee that has been computed as provided in the individual agreements under which ProLogis wholly owned management company provides property management services to each property (generally the fee is based on a percentage of revenues). On consolidation, the net profit or loss of the management company is recognized as part of ProLogis net rental expenses reported under GAAP.

CDFS Business

Earnings from operations from ProLogis CDFS business segment consists primarily of: (i) the gains and losses from the contribution and sale of developed properties and from the contribution of properties that were acquired with the intent to contribute the properties to a property fund, including properties that have been rehabilitated and/or repositioned; (ii) gains and losses from the disposition of land parcels; (iii) development management fees earned by ProLogis for services provided to third parties; and (iv) income recognized under the equity method from ProLogis investments in Kingspark S.A. and Kingspark LLC for the six months in 2002. Under the equity method, ProLogis recognized over 99% of the net earnings of Kingspark S.A. during the period from January 5, 2001 to June 30, 2002. The income recognized under the equity method includes (in addition to rental income and net rental expenses): (i) interest income and interest expense (net of capitalized amounts); (ii) general and administrative expenses (net of capitalized amounts); (iii) income taxes; and (iv) net foreign currency exchange gains or losses. See Notes 1 and 3 to ProLogis Consolidated Condensed Financial Statements in Item 1.

Income from the CDFS business segment is dependent on ProLogis ability to develop and lease distribution properties that can be contributed to property funds or sold to third parties, generating profits to ProLogis, and ProLogis success in raising private capital through the formation of property funds or other sources. There can be no assurance that ProLogis will be able to maintain the current level of profits in this operating segment in future periods. ProLogis believes that the slowing in its customers decision-making processes that have been observed in recent periods is the result of weak economic conditions, primarily in the United States and certain western European countries, as well as the current geopolitical concerns and related uncertainties, primarily in Europe. ProLogis cannot predict the effect that these situations will continue to have on its ability to lease its completed development properties, or the length of time that such situations will continue to affect its leasing activities. If ProLogis is unable to timely lease its completed developments, it will be unable to contribute these properties to property funds or otherwise dispose of the properties and would be unable to recognize development profits in the anticipated accounting period.

The CDFS business segment s earnings from operations include the components presented below for the periods indicated (in thousands of U.S. dollars). See Note 8 to ProLogis Consolidated Condensed Financial Statements in Item 1.

	Six Months Ended June 30,		Pro Forma Six Months Ended June 30, 2002(1)
	2003	2002	
Net gains from dispositions of land parcels and contributions and sales of properties(2)	$60,326	$50,342	$ 65,182
Development management fees	443	1,362	6,879
Income from Kingspark S.A. and Kingspark LLC		29,531	
Income from CDFS Joint Ventures(3)	602		367
Miscellaneous income	151	18	34
Other expenses (4)	(1,699)	(1,845)	(1,929)
Other (5)			8,875
Total CDFS business segment	$59,823	$79,408	$ 79,408

(1) ProLogis recognized its proportionate share of the net earnings of Kingspark S.A. and Kingspark LLC under the equity method for the six months ended June 30, 2002. ProLogis acquired the voting ownership interests in these entities on July 1, 2002 and began reporting these investments on a consolidated basis as of that date. Prior to July 1, 2002, ProLogis ownership interests in these entities were all non-voting. The amounts presented on a pro forma basis reflect the individual components of the CDFS business segment s earnings from operations as if ProLogis had presented its investments in Kingspark S.A. and Kingspark LLC on a consolidated basis for the six months ended June 30, 2002. This pro forma presentation is provided to allow for comparability between periods. See Notes 1 and 3 to ProLogis Consolidated Condensed Financial Statements in Item 1.

(2) Represents the net gains from the dispositions of land parcels and contributions and sales of properties as follows:

2003: 142 acres; 9.6 million square feet; $539.0 million of proceeds;

2002: 12 acres; 8.3 million square feet; $390.1 million of proceeds; and

2002 (on a pro forma basis): 35 acres, 9.5 million square feet; $536.5 million of proceeds.

(3) ProLogis, through Kingspark S.A., has investments in four CDFS Joint Ventures that develop properties in the United Kingdom. ProLogis ownership interest in each of the CDFS Joint Ventures was 50% at June 30, 2003. At June 30, 2003, one of the CDFS Joint Ventures owned 11 operating properties that the joint venture had previously developed. This joint venture s total investment in these properties was $91.2 million at June 30, 2003. Collectively, the CDFS Joint Ventures also owned 141 acres of land with the capacity for developing approximately 1.5 million square feet of distribution properties at June 30, 2003. Also, at June 30, 2003, the CDFS Joint Ventures collectively controlled 555 acres of land, through contracts, options or letters of intent, with the capacity for developing approximately 8.1 million square feet of distribution properties. While ProLogis investment in Kingspark S.A. was presented under the equity method, the CDFS Joint Ventures were not separately presented in ProLogis Consolidated Condensed Balance Sheet. See Note 3 to ProLogis Consolidated Condensed Financial Statements in Item 1.

(4) Includes land holding costs of $1.3 million for both six month periods presented and on a pro forma basis in 2002 and the write-off of previously capitalized pursuit costs related to potential CDFS business segment projects of $0.4 million for the six months in 2003 and $0.5 million ($0.6 million on a proforma basis) for the six months in 2002.

(5) The income recognized by ProLogis under the equity method from its investments in Kingspark S.A. and Kingspark LLC for the six months ended June 30, 2002 includes items that, when presented on a consolidated basis, would not be included in the CDFS business segment s earnings from operations. Such items include:

Net rental income of $1.7 million;

General and administrative expenses of $1.6 million;

Deferred and current income tax expense of $2.6 million;

Gross interest expense of $0.9 million and additional capitalized interest of $7.9 million;

Net foreign currency exchange gains of $4.5 million; and

Net other miscellaneous expenses of $0.1 million.

During the six months ended June 30, 2003, the properties contributed and sold from the CDFS business segment aggregated approximately the same square feet and generated approximately the same amount of proceeds as the properties contributed and sold from the CDFS business segment during the six months ended June 30, 2002 (including properties contributed and sold by Kingspark S.A. in both periods). However, these transactions generated $4.9 million less in net gains in 2003 than in 2002. ProLogis believes that the lower margins realized on transactions in 2003 are primarily due to weak economic conditions in the United States and in certain western European countries. For the six months ended June 30, 2003, ProLogis earned $6.4 million less in development fees than for the same period in 2002 (including fees earned by Kingspark S.A. in both periods). The decrease in development fees earned for the six months in 2003 as compared to the same period in 2002, on a proforma basis, is the result of weak economic conditions as well as ProLogis business decisions in 2003 concerning its use of personnel and other resources.

ProLogis will continue to monitor leasing activity and general economic conditions in the United States as it pertains to its CDFS business segment operations with the expectation that an economic recovery in the United States could provide increased CDFS business opportunities to ProLogis.

ProLogis believes that the demand for state-of-the-art distribution properties in Europe could continue to provide opportunities for ProLogis in the CDFS business segment; however, ProLogis will continue to monitor the impact of economic conditions and geopolitical concerns and related uncertainties that have been observed and that ProLogis believes could continue to negatively impact its ability to complete leases in Europe in a timely manner during the remainder of 2003. ProLogis believes its development activities will not be significantly affected by land entitlement constraints that currently exist in Europe because it has over 2,000 acres of land owned or controlled in Europe at June 30, 2003.

ProLogis believes that demand for state-of-the-art distribution properties in Japan will provide opportunities for ProLogis in the CDFS business segment similar to the situations ProLogis has experienced in Europe. ProLogis has not observed similar economic trends or the geopolitical concerns and related uncertainties in Japan that are being experienced in Europe. ProLogis has completed two development projects in Japan since its first development activities began in Japan in 2001. Each of its completed projects were fully leased and were contributed to ProLogis Japan Properties Fund upon their completion in September 2002 and May 2003. ProLogis had four projects under development in Japan as of June 30, 2003. One of these development projects is fully leased and the remaining three projects, aggregating 2.5 million square feet, range from 17.8% to 69.2% leased. These four projects have expected completion dates ranging from September 2003 to September 2004. In Japan, the CDFS business opportunities available to ProLogis could be limited if ProLogis is unable to acquire adequate land parcels for development of projects.

Other Income and Expense Items

General and Administrative Expense

General and administrative expense was $30.2 million for the six months in 2003 and $26.4 million for the six months in 2002. Had ProLogis presented its investments in Kingspark S.A. and Kingspark LLC on a consolidated basis for the six months ended June 30, 2002, ProLogis would have recognized general and administrative expense of $28.0 million. General and administrative expense is generally a function of the various business initiatives being undertaken by ProLogis in a given period and can vary from period to period based on ProLogis business activities. Also, the average foreign currency exchange rate used to translate the general and administrative expenses recognized by ProLogis European subsidiaries to U.S. dollars prior to consolidation was higher for the first six months of 2003 as compared to the same period in 2002. For a discussion of the presentation of ProLogis investments in Kingspark S.A. and Kingspark LLC, see Notes 1 and 3 to ProLogis Consolidated Condensed Financial Statements in Item 1.

Depreciation and Amortization

Depreciation and amortization expense was $82.2 million for the six months in 2003 and $72.2 million for the six months in 2002. The fluctuations in this expense between periods is primarily attributable to the number of distribution properties directly owned by ProLogis in each period. See - Property Operations . On January 1, 2002, ProLogis adopted SFAS No. 142 Goodwill and Intangible Assets and ceased recognizing amortization expense related to goodwill.

Interest Expense

Interest expense is a function of the level of borrowings outstanding, the interest rates charged on borrowings and the amount of interest that can be capitalized. Generally, the amount of capitalized interest recognized is a function of the volume of ProLogis development activities during a period. Interest expense was $76.8 million for the six months in 2003 and $81.0 million for the six months in 2002. Had ProLogis reported its investments in Kingspark S.A. and Kingspark LLC on a consolidated basis for the six months ended June 30, 2002, ProLogis would have recognized interest expense of $74.0 million. The increase in interest expense in 2003 as compared to the same period in 2002 on a proforma basis is due to higher average outstanding borrowings offset by higher levels of capitalized interest. Also, the average foreign currency exchange rate used to translate net interest expense of ProLogis European subsidiaries to U.S. dollars prior to consolidation was higher for the first six months of 2003 as compared to the same period in 2002.

Gross interest expense incurred on borrowings outstanding during the period is offset by the amount of interest that can be capitalized based on ProLogis qualifying development expenditures. Capitalized interest was $19.6 million for the six months in 2003 and $10.4 million for the six months in 2002. Had ProLogis reported its investments in Kingspark S.A. and Kingspark LLC on a consolidated basis for the six months ended June 30, 2002, ProLogis capitalized interest would have been $18.3 million. Capitalized interest levels are reflective of ProLogis cost of funds and the volume of development activities in each period. Also, the average foreign currency exchange rate used to translate the capitalized interest recognized by ProLogis European subsidiaries to U.S. dollars prior to consolidation was higher for the six months in 2003 as compared to the same period in 2002.

For a discussion of the presentation of ProLogis investment in Kingspark S.A. and Kingspark LLC, see Notes 1 and 3 to ProLogis Consolidated Condensed Financial Statements in Item 1.

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Gains on Dispositions of Real Estate, Net

The net gains recognized from the contributions and sales of operating properties that were acquired or developed for long-term investment in the property operations segment are presented after Earnings from operations in ProLogis Consolidated Condensed Statement of Earnings and Comprehensive Income. From time to time, ProLogis will contribute or sell properties that have been held for long-term investment in the property operations segment because they are necessary to meet leasing, geographic or volume requirements of a property fund s third party investors or such properties are determined to have become non-strategic properties. Non-strategic properties are assets located in markets or submarkets that are no longer considered target markets as well as assets that were acquired as part of previous portfolio acquisitions that are not consistent with ProLogis core portfolio based on the asset s size or configuration.

Contributions and sales of long-term investment properties from the property operations segment during the six months ended June 30, 2003 and 2002 were as follows:

2003: 0.5 million square feet; $45.1 million of proceeds; net gain of $2.5 million (a gain of $3.2 million was recognized for the three months ended June 30, 2003 and a loss of $0.7 million was recognized for the three months ended March 31, 2003); and

2002: 1.7 million square feet; $53.5 million of proceeds; net gain of $4.6 million (a gain of $4.8 million was recognized for the three months ended June 30, 2003 and a loss of $0.2 million was recognized for the three months ended March 31, 2002).

Included in the gains recognized during the three months ended June 30, 2003 is $1.1 million related to previous sales transactions. Adjustments to previously recognized gains or losses generally occur upon the settlement of contractual issues or due to changes in the original estimates of costs related to the previous transaction.

Income from Unconsolidated Investees

ProLogis recognized income under the equity method of $6.7 million and $10.0 million for the six months ended June 30, 2003 and 2002, respectively, from its investments in unconsolidated investees that are not directly associated with one of its two reportable business segments.

For the six months in 2003, the income from other unconsolidated investees recognized consisted of: (i) a loss of $5,000 from ProLogis investment in Insight (recognized in the first quarter); (ii) income of $57,000 from ProLogis investment in ProLogis Equipment Services LLC (recognized in the first quarter); and (iii) income of $6.7 million (income of $4.4 million recognized for the three months ended June 30, 2003) from ProLogis investments in Frigoscandia S.A., its temperature-controlled distribution investee operating in Europe, and CSI/Frigo LLC, a related company.

For the six months in 2002, the income from other unconsolidated investees consisted of: (i) a loss of $2.1 million from ProLogis investment in GoProLogis (recognized in the first quarter); (ii) income of $4,000 from ProLogis investment in Insight (recognized in the first quarter); (iii) income of $3.6 million (a loss of $3.4 million recognized for the three months ended June 30, 2002) from ProLogis investments in Frigoscandia S.A. and CSI/Frigo LLC, a related company; and (iv) income of $8.5 million (income of $4.8 million recognized for the three months ended June 30, 2002) from ProLogis investments in ProLogis Logistics, its temperature-controlled distribution investee that operated in the United States, and CSI/Frigo LLC, a related company. The loss recognized by GoProLogis represented ProLogis share of GoProLogis impairment adjustment that reduced GoProLogis remaining investment in Vizional Technologies to zero.

After March 31, 2002, significant portions of the operating assets of both Frigoscandia S.A. and ProLogis Logistics were sold which is the primary reason that ProLogis income from these investments decreased during the six months in 2003 from the amounts recognized for the same period in 2002. See Notes 1 and 3 to ProLogis Consolidated Condensed Financial Statements in Item 1.

Foreign Currency Exchange Losses, Net

ProLogis recognized net foreign currency exchange losses of $8.8 million and $6.9 million for the six months ended June 30, 2003 and 2002, respectively. Had ProLogis reported its investments in Kingspark S.A. and Kingspark LLC on a consolidated basis for the six months ended June 30, 2002, ProLogis would have recognized a net foreign currency exchange loss of $2.4 million for the period. For a discussion of the presentation of ProLogis investment in Kingspark S.A. and Kingspark LLC, see Notes 1 and 3 to ProLogis Consolidated Condensed Financial Statements in Item 1.

ProLogis and certain of its foreign consolidated subsidiaries have intercompany or third party debt that is not denominated in that

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entity s functional currency. When the debt is remeasured against the functional currency of the entity, a gain or loss can result. ProLogis attempts to mitigate its foreign currency exchange exposure by borrowing from third parties in the functional currency of the borrowing entity. Certain of ProLogis intercompany borrowings are remeasured with the resulting adjustment recognized as a cumulative translation adjustment in accumulated other comprehensive income in shareholders equity. This treatment is given to intercompany debt that is deemed to be a permanent source of capital to the subsidiary or investee that has been structured as debt rather than equity due to tax considerations in the foreign country in which the subsidiary or investee operates. Additionally, ProLogis utilizes derivative financial instruments to manage certain of its foreign currency exchange risks, primarily put option contracts with notional amounts corresponding to ProLogis projected net earnings from its European and Japanese operations, and recognizes the expense associated with these contracts in results of operations, generally the premium price associated with the contract upon settlement and interim period mark-to-market adjustments.

Generally, the amount of foreign currency gains and losses that are recognized in results from operations are a function of movements in exchange rates, the levels of intercompany and third party debt outstanding, the nature of the intercompany debt outstanding and the currency in which such debt is denominated as compared to the functional currency of the entities that are parties to the debt agreements. The net foreign currency exchange gains and losses recognized in ProLogis results of operations are presented in the following table for the periods indicated (in thousands of U.S. dollars):

	Six Months Ended June 30,	
	2003	**2002**
Losses from remeasurement of third party and certain intercompany debt, net(1)	$ (6,384)	$ (4,256)
Gain (losses) from settlement of third party and certain intercompany debt, net(1)	(1,126)	82
Transaction gains, net	29	102
Derivative financial instruments put option contacts(2):		
Contracts expiring during the period	(1,398)	(881)
Mark-to-market gains (losses) on outstanding contracts, net	108	(2,078)
Gains realized at expiration of the contract, net		159
Totals	$ (8,771)	$ (6,872)

(1) At the time certain debt balances are settled, remeasurement gains or losses that have been recognized in results of operations as unrealized are reversed and the cumulative foreign currency exchange gain or loss realized with respect to the settled balance is recognized in results of operations as a realized gain or loss.

(2) ProLogis enters into foreign currency put option contracts related to its operations in Europe and Japan. These put option contracts do not qualify for hedge accounting treatment. Accordingly, the cost of the contract is capitalized at the contract s inception and the contract is marked-to-market by ProLogis as of the end of each subsequent accounting period. Upon expiration of the contract, the mark-to-market adjustment is reversed, the total cost of the contract is expensed and the proceeds received at expiration, if any, are recognized as a gain.

Income Taxes

ProLogis is taxed as a REIT for federal income tax purposes and is not generally required to pay federal income taxes if minimum distribution and income, asset and shareholder tests are met. However, several of ProLogis consolidated subsidiaries are taxable REIT subsidiaries and are subject to federal income taxes. ProLogis is also taxed in certain states and in the foreign countries in which it operates. Accordingly, ProLogis has recognized federal, state and foreign country income taxes in accordance with GAAP, as applicable.

Current income tax expense recognized was $2.6 million and $3.5 million for the six months ended June 30, 2003 and 2002, respectively. Had ProLogis reported its investments in Kingspark S.A. and Kingspark LLC on a consolidated basis for the six months ended June 30, 2002, current income tax expense would have been $6.1 million. ProLogis recognized deferred income tax expense of $5.5 million and $12.3 million for the six months ended June 30, 2003 and 2002, respectively. Deferred income tax expense would not

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have changed had ProLogis reported its investments in Kingspark S.A. and Kingspark LLC on a consolidated basis for the six months ended June 30, 2002. For a discussion of the presentation of ProLogis investment in Kingspark S.A. and Kingspark LLC, see Notes 1 and 3 to ProLogis Consolidated Condensed Financial Statements in Item 1.

Current income tax expense is generally a function of the level of income recognized by ProLogis taxable subsidiaries operating in the CDFS business segment and taxes incurred in foreign jurisdictions and in various states in which it operates (see CDFS Business). The deferred income tax component of total income taxes is a function of the period s temporary differences (items that are treated differently for tax purposes than for book purposes) and the utilization of tax net operating losses generated in prior years that had been previously recognized as deferred tax assets. The deferred income tax expense recognized in 2002 is primarily the result of the reversal of previously recognized deferred income tax benefits due to the utilization of net operating losses generated in previous years.

Three Months Ended June 30, 2003 and 2002

The changes in net earnings attributable to Common Shares and its components for the three months ended June 30, 2003 compared to the three months ended June 30, 2002 are similar to the changes for the six-month periods ended on the same dates and the three-month period changes are attributable to the same reasons discussed except as specifically discussed under Gains on Disposition of Real Estate, Net and Income from Unconsolidated Investees .

Environmental Matters

ProLogis has not experienced any environmental condition associated with its properties which materially adversely affected its results of operations or financial position, nor is ProLogis aware of any environmental liability that it believes would have a material adverse effect on its business, financial condition or results of operations.

Liquidity and Capital Resources

Overview

ProLogis considers its liquidity and ability to generate cash from its operating activities, the contribution or sale of properties and other financing sources to be adequate and expects it to continue to be adequate to meet its anticipated future development, acquisition, operating and debt service needs, as well as its shareholder distribution requirements.

ProLogis future investing activities are expected to consist primarily of: (i) the acquisition of land for future development; (ii) the development and acquisition of properties acquired for future contribution to property funds; and (iii) the acquisition of operating properties in key distribution markets for long-term investment in the property operations segment. On July 1, 2003, ProLogis redeemed its Series E Preferred Shares at a total cost of $50.7 million, including accrued dividends. Additionally, ProLogis has a Common Share repurchase program under which it may repurchase additional Common Shares. At August 11, 2003, ProLogis could repurchase an additional $84.1 million of Common Shares under this program. ProLogis expects to fund its future cash needs with:

- cash generated by property operations;
- the proceeds from the contribution of properties to property funds;
- the proceeds from the sales of properties to third parties;
- the proceeds from the disposition of the temperature-controlled distribution operating assets that have been classified as held for sale by Frigoscandia S.A.;
- the proceeds from public debt or preferred equity offerings, depending on market conditions; and
- the proceeds from the sale of Common Shares, including sales of Common Shares under ProLogis various Common Share plans.

For its short-term borrowing needs, ProLogis revolving lines of credit and short-term borrowing facilities are expected to provide adequate liquidity and financial flexibility to allow ProLogis to efficiently respond to market opportunities. Regular repayments of these short-term borrowings, primarily with the proceeds from property contributions and sales, and the proceeds from public debt or equity offerings that are expected to occur periodically during periods of favorable market conditions, allow ProLogis to maintain adequate liquidity. At August 11, 2003, ProLogis had $1.4 billion of total commitments under its revolving lines of credit and short-term borrowing facilities. ProLogis total outstanding borrowings were $490.6 million at August 11, 2003 resulting in additional short-term borrowing capacity available to ProLogis of approximately $932.5 million (after reducing the total commitments available by $22.7 million of letters of credit outstanding with the lending banks). See Borrowing Capacity and Debt Maturities.

As of August 11, 2003, ProLogis had $1.0 billion of shelf-registered securities in the United States that can be issued in the form of debt securities, preferred shares, Common Shares, rights to purchase Common Shares and preferred share purchase rights on an as-needed basis, subject to ProLogis ability to effect an offering on satisfactory terms. ProLogis continues to evaluate the public debt and equity markets with the objective of reducing its short-term borrowings in favor of longer-term fixed-rate debt or preferred equity, when it is deemed appropriate.

ProLogis is committed to offer to contribute all of the properties that it develops and stabilizes in certain European markets to ProLogis European Properties Fund through September 2019, subject to the property meeting certain criteria, including leasing criteria. In September 2002, ProLogis European Properties Fund drew down the remaining third party equity capital commitments on subscription agreements that expired on September 15, 2002. At June 30, 2003, ProLogis European Properties Fund had a 500.0 million euro revolving, multi-currency credit agreement. With its current borrowing capacity under its credit agreement, ProLogis European Properties Fund expects that it will be able to acquire the stabilized European development properties that ProLogis expects to be available for contribution in the third quarter of 2003. ProLogis European Properties Fund does expect that it will have capital available after September 2003 to continue to acquire properties from ProLogis; however, there can be no assurance that it will be able to obtain such additional capital.

ProLogis is committed to offer to contribute all of the properties that it develops and stabilizes during 2003 in North America (excluding properties in the Los Angeles/Orange County market that are subject to a right of first offer to ProLogis California) to ProLogis North American Properties Fund V through December 2003. The acquisition of these properties by ProLogis North American Properties Fund V is subject to the property meeting certain criteria, including leasing criteria, and the ability of ProLogis North American Properties Fund V to raise equity capital and to obtain debt financing. Under certain circumstances this right of first offer can be extended through December 2004. The majority owner in ProLogis North American Properties Fund V is a listed property trust in Australia. Currently, ProLogis North American Properties Fund V does not have sufficient capital available to acquire the stabilized properties that ProLogis expects to have available for contribution to ProLogis North American Properties Fund V in September 2003; however, it expects that it will have sufficient additional capital available to it prior to September 30, 2003 and will be able to acquire all of the properties that ProLogis expects to have available for contribution through that date. Further, ProLogis North American Properties Fund V also expects that it will have sufficient capital available to it to acquire the additional properties that ProLogis expects to have available for contribution in the fourth quarter of 2003. However, there can be no assurance that this property fund will be successful in its capital raising efforts.

ProLogis is committed to offer to contribute all of the properties that it develops and stabilizes in Japan to ProLogis Japan Properties Fund through June 2006. The acquisition of these properties by ProLogis Japan Properties Fund is subject to the property meeting certain criteria, including leasing criteria. ProLogis Japan Properties Fund has access to $276.8 million of third party equity capital (reduced by approximately $23.7 million after the acquisition of a 497,000 square foot operating property in July 2003) that has been committed by a real estate subsidiary of GIC through June 2006. This capital can also be used for the acquisition of properties from third parties in Japan. The development of properties in Japan by ProLogis is subject to ProLogis ability to acquire adequate land parcels for development and obtain leasing commitments. ProLogis had four projects under development at a total expected cost at completion of $349.5 million in the Tokyo and Osaka markets at June 30, 2003.

There can be no assurance that the property funds will have sufficient capital available (either debt or equity capital) such that they will be able to acquire the properties that ProLogis expects to have available for contribution in the future. Should the property funds not have sufficient capital to acquire these properties, ProLogis is allowed to pursue opportunities with third parties. However, there can be no assurance that ProLogis can readily dispose of its development pipeline to third parties and ProLogis could experience

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delays in making sales to third parties. A delay in the contribution or sale of a property will result in a delay in the recognition of the expected development profits.

Cash Generated by Operating Activities

Net cash provided by operating activities was $167.2 million for the six months ended June 30, 2003 and $157.0 million for the six months ended June 30, 2002. This decrease is primarily the result of operational items discussed in Results of Operations. Cash provided by operating activities exceeded the cash distributions paid on Common Shares for both six-month periods in 2003 and 2002.

Cash Investing and Cash Financing Activities

For the six months ended June 30, 2003, ProLogis investing activities used net cash of $123.6 million. For the six months ended June 30, 2002, ProLogis investing activities provided net cash of $33.4 million. The primary difference in investing activities between periods was the level of real estate investments in 2003, which increased from $317.6 million for the six months in 2002 to $663.5 million for the six months in 2003. This increase was primarily due to a higher level of acquisition activities related to existing operating properties. These acquisitions have generally been made with the expectation that the properties will eventually be contributed to a property fund after being rehabilitated and/or repositioned. The funds available for these acquisitions during the six months in 2003 were generated from the contributions and sales of properties, primarily from the CDFS business segment, and the dispositions of temperature-controlled operating assets in late 2002. Net cash generated from contributions and sales of properties and land parcels was $551.7 million and $409.2 million for the six months ended June 30, 2003 and 2002, respectively. ProLogis unconsolidated investees generated net cash of $17.6 million for the six months ended June 30, 2003, but required a net cash investment of $24.6 million for the six months ended June 30, 2002. This change between periods is the result of the additional investments in ProLogis European Properties Fund aggregating $20.2 million that were made during the six months in 2002.

For the six months ended June 30, 2003, ProLogis financing activities provided net cash of $19.1 million. For the six months ended June 30, 2002, ProLogis financing activities utilized net cash of $160.3 million. Excluding cash distributions on Common Shares, distributions to minority interest holders and preferred share dividends, ProLogis financing activities provided net cash of $170.0 million for the six months ended June 30, 2003. Proceeds from the sales of Common Shares, net of repurchases of Common Shares, were $14.7 million for the six months in 2003. Proceeds from the issuance of debt (senior unsecured debt and secured debt) was the primary source of cash and net repayments on ProLogis revolving lines of credit and short-term borrowings and principal payments on secured debt were the primary uses of cash for the six months in 2003. Excluding cash distributions on Common Shares, distributions to minority interest holders and preferred share dividends, ProLogis financing activities used net cash of $14.5 million for the six months ended June 30, 2002. Proceeds from the sales of Common Shares, net of repurchases of Common Shares, were $40.7 million for the six months in 2002. Principal payments on secured debt and net repayments on ProLogis revolving lines of credit and short-term borrowings were the primary uses of cash for the six months in 2002.

Distributions paid to holders of Common Shares were $128.8 million and $125.8 million for the six months ended June 30, 2003 and 2002, respectively. Distributions to minority interest holders were $5.8 million and $3.7 million for the six months ended June 30, 2003 and 2002, respectively. Dividends paid on preferred shares were $16.4 million for both six-month periods.

Borrowing Capacity and Debt Maturities

As of August 11, 2003, ProLogis had $1.4 billion of short-term borrowing commitments through six revolving lines of credit. Certain of ProLogis credit agreements were amended after June 30, 2003. See Note 4 to ProLogis Consolidated Condensed Financial Statements in Item 1. These borrowings are available in four currencies and are summarized below for the periods indicated (dollar amounts in millions of U.S. dollars, as applicable):

	Commitments at		Outstanding Balances at		Weighted Average	
Facility	06/30/03	08/ 11 /03	06/30/03	08/11 /03	Interest Rate(1)	Expiration
North America	$ 400.0	$ 400.0	$	$		11/08/05 (2)
North America(3)(4)	100.0	100.0	97.7	95.4	2.83%	11/07/03 (2)
North America(3)(5)	60.0	60.0				11/08/03
Europe(6)	380.2	508.3	200.0	216.3	2.75%	08/08/06 (7)
United Kingdom(8)	42.0	40.0				07/31/04 (9)

Japan(10)	6.7		4.1		1.06%	08/05/03
Japan(11)	203.8	337.5	167.3	178.9	1.06%	08/05/06 (2)(12)
	$1,192.7	$1,445.8	$469.1	$490.6	2.15%	

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(1) Represents the weighted average interest rate on borrowings outstanding at June 30, 2003.

(2) The credit agreement may be extended for one year from this date at ProLogis option.

(3) Borrowings can be denominated in U.S. dollar, euro, pound sterling or yen.

(4) The borrowings outstanding at June 30, 2003 and August 11, 2003 represent the U.S. dollar equivalent of borrowings of 83.5 million euro and 84.5 million euro, respectively.

(5) Commitments available to ProLogis at June 30, 2003 and August 11, 2003, have been reduced by letters of credit outstanding of $10.6 million and $11.8 million, respectively.

(6) As of August 8, 2003, borrowings can be denominated in euro, pound sterling, U.S. dollars or yen. The total commitment in Europe was increased to 450.0 million euro from the previous commitment of 325.0 million euro on August 8, 2003. At June 30, 2003 and August 11, 2003, amounts outstanding represent the U.S. dollar equivalent of borrowings of 171.0 million euro and 191.5 million euro, respectively.

(7) The new credit agreement that was entered into in Europe on August 8, 2003 extended the term of the borrowing arrangement.

(8) Borrowings are denominated in pound sterling with a total commitment of 25.0 million pound sterling. Commitments available to ProLogis at June 30, 2003 and August 11, 2003, have been reduced by letters of credit outstanding of $10.6 million (the currency equivalent of 6.3 million pound sterling) and $10.9 million (the currency equivalent of 6.8 million pound sterling).

(9) This borrowing arrangement was extended to July 31, 2004 prior to its expiration on July 31, 2003.

(10) Borrowings are denominated in yen with a total commitment of 800.0 million yen. At June 30, 2003, amount outstanding represent the U.S. dollar equivalent of borrowings of 495.0 million yen. On August 5, 2003, borrowings under this short-term borrowing arrangement were repaid with borrowings under ProLogis yen-denominated revolving line of credit. The borrowing arrangement provided for a six-month term but also contained a provision that it would terminate on the date that ProLogis entered into a new credit agreement in Japan, which was August 5, 2003.

(11) Borrowings are denominated in yen. The total commitment in Japan was increased to 40.0 billion yen from the previous commitment of 24.5 billion yen on August 5, 2003. At June 30, 2003 and August 11, 2003, amounts outstanding represent the U.S. dollar equivalent of borrowings of 20.1 billion yen and 21.2 billion yen, respectively.

(12) The new credit agreement that was entered into in Japan on August 5, 2003 extended the term of the borrowing arrangement.

The approximate principal payments on ProLogis Notes and secured debt (mortgage notes, assessment bonds and securitized debt) outstanding at June 30, 2003 that are due during the remainder of 2003, during the other years in the five-year period ending December 31, 2007 and thereafter as follows (in thousands of U.S. dollars):

Remainder of 2003	$ 128,628
2004	314,956
2005	109,600
2006	320,165
2007	331,777
2008 and thereafter	1,218,997
Total principal due	2,424,123
Less: Original issue discount	(2,175)
Total carrying value	$2,421,948

Off-Balance Sheet Arrangements

Liquidity and Capital Resources of ProLogis Unconsolidated Investees

ProLogis had investments in and advances to unconsolidated investees of $898.7 million at June 30, 2003. Summarized financial information for certain of these unconsolidated investees at June 30, 2003 is presented below (in millions of U.S. dollars, as applicable). The information presented is for the entire entity, not ProLogis proportionate share of the entity.

	ProLogis California	**ProLogis North American Properties Fund I**	**ProLogis North American Properties Fund II**	**ProLogis North American Properties Fund III**	**ProLogis North American Properties Fund IV**
Total assets	$585.6	$357.0	$229.4	$204.2	$141.6
Third party debt	$288.6(1)	$232.6(2)	$165.0(3)	$150.3(4)	$103.2(5)
Amounts due to ProLogis	$ 0.2	$ 0.3	$ 0.1	$ 0.1	$ 0.1
Total liabilities	$294.9	$237.9	$169.4	$152.6	$104.8
Equity	$290.7	$119.1	$ 60.0	$ 51.6	$ 36.8
Revenues	$ 35.8	$ 22.9	$ 13.2	$ 12.4	$ 8.6
Net earnings	$ 10.3	$ 4.3	$ 1.3	$ 1.4	$ 1.0
ProLogis ownership at June 30, 2003	50%	41.3%	20%	20%	20%

[Additional columns below]

[Continued from above table, first column(s) repeated]

	ProLogis North American Properties Fund V	**ProLogis European Properties Fund**	**ProLogis Japan Properties Fund**	**Frigoscandia S.A.**
Total assets	$808.0	$3,243.3	$110.2	$ 288.8
Third party debt	$408.0(6)	$1,389.4(7)	$ 54.1(8)	$ 0.2(9)
Amounts due to ProLogis	$ 3.4	$ 10.0	$ 4.4	$ 333.2
Total liabilities	$437.4	$1,708.9	$ 79.4	$ 426.4
Equity	$370.6	$1,534.4	$ 30.8	$(137.6)
Revenues	$ 38.1	$ 111.4	$ 2.7	$ 96.0
Net earnings	$ 11.1	$ 0.7	$ 1.6	$ (0.9)
ProLogis ownership at June 30, 2003	14.1%	30.3%	20%	95%(10)

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(1) Third party debt of ProLogis California includes the following amounts:

$17.2 million due to a third party; due May 2005; none of which has been guaranteed by ProLogis;

$178.6 million due to a third party; due March 2009; none of which has been guaranteed by ProLogis; and

$92.8 million due to a third party; due August 2009; none of which has been guaranteed by ProLogis.

(2) Third party debt of ProLogis North American Properties Fund I includes the following amounts:

$130.6 million due to a third party; due December 2010; none of which has been guaranteed by ProLogis and

$102.0 million due to a third party; due March 2011; none of which has been guaranteed by ProLogis.

(3) Third party debt of ProLogis North American Properties Fund II of $165.0 million is due June 2007 and has not been guaranteed by ProLogis.

(4) Third party debt of ProLogis North American Properties Fund III includes the following amounts:

$150.0 million due to a third party; due September 2007; none of which has been guaranteed by ProLogis and

$0.3 million (three assessment bond issues) of third party debt; due at various dates between June 2005 and March 2021; none of which have been guaranteed by ProLogis.

(5) Third party debt of ProLogis North American Properties Fund IV includes the following amounts:

$103.0 million due to a third party; due January 2008; none of which has been guaranteed by ProLogis and

$0.2 million of other third party debt; due March 2021; none of which has been guaranteed by ProLogis.

(6) Third party debt of ProLogis North American Properties Fund V includes the following amounts:

$69.0 million due to a third party; due September 2003; all of which has been guaranteed by ProLogis; ProLogis North American Properties Fund V has executed a rate lock letter and loan application with an institutional lender; proceeds from this new secured loan facility, if funded, are expected to be used to repay the borrowings due in September 2003; loan application does not require ProLogis to guarantee the debt;

$102.0 million due to a third party; due June 2008; none of which has been guaranteed by ProLogis;

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$173.0 million due to a third party; due July 2007; none of which has been guaranteed by ProLogis; and

$64.0 million due to a third party; due January 2013; none of which has been guaranteed by ProLogis.

(7) Third party debt of ProLogis European Properties Fund includes the following amounts:

$254.0 million due to a third party; due in December 2004; none of which has been guaranteed by ProLogis;

$250.1 million due to a third party; due in May 2008; none of which has been guaranteed by ProLogis;

$168.5 million due to a third party; due in April 2009; none of which has been guaranteed by ProLogis;

$416.5 million due to a third party; due in May 2009; none of which has been guaranteed by ProLogis;

$222.8 million due to a third party; due May 2010; none of which has been guaranteed by ProLogis; and

$77.5 million (nine mortgage issues) due to third parties; due in March 2015; none of which have been guaranteed by ProLogis.

(8) Third party debt of ProLogis Japan Properties Fund of $54.1 million is due in November 2003 and has not been guaranteed by ProLogis.

(9) Third party debt of Frigoscandia S.A. of $0.2 million is due on various dates and has not been guaranteed by ProLogis.

(10) ProLogis direct ownership of all of the non-voting preferred stock of Frigoscandia S.A. represents a 95% interest in its earnings or losses. CSI/Frigo LLC is excluded from the information presented.

The property funds may enter into short-term financing arrangements associated with ProLogis contributions of properties to the property funds prior to obtaining long-term secured debt. ProLogis may provide guarantees of such short-term financing arrangements in the future.

Distribution and Dividend Requirements

ProLogis distribution policy is to distribute a percentage of its cash flow that ensures that ProLogis will meet the distribution requirements of the Code for ProLogis to qualify as a REIT and allows ProLogis to maximize the cash retained to meet other cash needs such as capital improvements and investment activities. Because depreciation is a non-cash expense, cash flow typically will be greater than earnings from operations and net earnings. Therefore, distributions are expected to be higher than net earnings in a given period.

The Board set a projected annual distribution rate for 2003 of $1.44 per Common Share (as compared to actual distributions of $1.42 per Common Share in 2002). ProLogis paid a quarterly distribution of 2003 of $0.36 per Common Share on February 28, 2003 and May 30, 2003. The payment of distributions is subject to the discretion of the Board and is dependent upon the financial condition and operating results of ProLogis and may be adjusted by the Board during the year. On August 1, 2003, ProLogis declared a distribution of $0.36 per Common Share, payable on August 29, 2003 to holders of Common Shares as of August 15, 2003.

The annual dividend rates on ProLogis cumulative redeemable preferred shares of beneficial interest are $4.27 per share (Series C) and $1.98 per share (Series D). ProLogis paid a quarterly dividend of $0.495 per share on its series C preferred shares and Series D preferred shares, respectively, on both March 31, 2003 and June 30, 2003.

ProLogis paid a quarterly dividend on its Series E cumulative redeemable preferred shares of $0.5469 per share on January 31, 2003 and April 30, 2003. On May 30, 2003, ProLogis called for redemption of its Series E preferred shares at the price of $25.00 per share plus $0.3685 in accrued and unpaid dividends for an aggregate price of $25.3685 per Series E preferred share. The shares were redeemed on July 1, 2003 at a total cost of $50.7 million.

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

Other Commitments

At June 30, 2003, ProLogis had letters of intent or contingent contracts, subject to ProLogis final due diligence, for the acquisition of properties aggregating 0.9 million square feet at an estimated acquisition cost of $23.4 million. These remaining transactions are subject to a number of conditions and ProLogis cannot predict with certainty that they will be consummated.

At June 30, 2003, ProLogis had properties under development with an expected cost at completion of $640.8 million of which $308.7 million was unfunded at that date.

ProLogis has a Common Share repurchase program under which it may repurchase up to $215.0 million of its Common Shares. Common Share repurchases have been and, to the extent they continue, will occur in the open market and through privately negotiated transactions, depending on market prices and other conditions. An additional $84.1 million of Common Shares may be repurchased under the program as of August 11, 2003.

Funds from Operations

ProLogis considers funds from operations to be a useful supplemental measure of comparative period operating performance. Funds from operations does not represent net earnings or cash from operating activities that are computed in accordance with GAAP and is not indicative of cash available to fund cash needs, which is presented in the Consolidated Condensed Statements of Cash Flows in ProLogis Consolidated Condensed Financial Statements in Item 1. Funds from operations should not be considered as an alternative to net earnings as an indicator of ProLogis operating performance or as an alternative to cash flows from operating, investing or financing activities as a measure of liquidity. Additionally, the funds from operations measure presented by ProLogis will not necessarily be calculated in the same manner as similarly titled measures of other REITs.

Funds from operations is defined by the National Association of Real Estate Investment Trusts (NAREIT) generally as net earnings attributable to common equity (computed in accordance with GAAP), excluding real estate related depreciation and amortization, gains and losses from sales of properties, except those gains and losses from sales of properties upon completion or stabilization under pre-sale agreements and after adjustments from unconsolidated investees to reflect their funds from operations on the same basis. ProLogis includes the income generated by its CDFS business segment in its computation of funds from operations, including the gains and losses from the contributions or sales of its CDFS business segment assets (see - Results of Operations CDFS Business).

Funds from operations, as used by ProLogis, is modified from the NAREIT definition. The items that ProLogis excludes from the funds from operations measure as defined by NAREIT, while not infrequent and unusual, are subject to significant fluctuations from period-to-period resulting in both positive and negative effects on ProLogis results from operations. Generally, the reasons for these fluctuations are unrelated to factors that ProLogis considers to be key in evaluating and analyzing its operating performance, particularly when comparing ProLogis operating performance to that of other REITs who do not have similar operating platforms and who do not operate in the same markets as ProLogis. Further, ProLogis believes that financial analysts, potential investors and shareholders are primarily interested in, and are best served by, the clearer presentation of comparable period operating results generated from the funds from operations measure which incorporates these adjustments to the NAREIT definition.

Accordingly, ProLogis funds from operations measure does not include: (i) deferred income tax benefits and deferred income tax expenses recognized by ProLogis taxable subsidiaries; (ii) foreign currency exchange gains and losses resulting from certain debt transactions between ProLogis and its foreign consolidated subsidiaries and its foreign unconsolidated investees; (iii) foreign currency exchange gains and losses from the remeasurement (based on current foreign currency exchange rates) of certain third party debt of ProLogis foreign consolidated subsidiaries and foreign unconsolidated investees; and (iv) mark-to-market adjustments associated with derivative financial instruments utilized to manage ProLogis foreign currency risks.

Funds from operations attributable to Common Shares decreased by $14.6 million to $200.1 million for the six months ended June 30, 2003 from $214.7 million for the same period in 2002. Funds from operations are as follows for the periods indicated (in

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thousands of U.S. dollars):

	Six Months Ended June 30,	
	2003	2002
Net earnings attributable to Common Shares	$ 86,186	$ 111,831
Add (Deduct) NAREIT defined adjustments:		
Real estate related depreciation and amortization	78,174	68,513
Gains from contributions and sales of non-CDFS business segment assets, net	(3,590)	(4,647)
ProLogis share of reconciling items of unconsolidated investees:		
Real estate related depreciation and amortization	21,010	17,801
Other amortization items(1)	(1,726)	(1,252)
Gains from contributions and sales of non-CDFS business segment assets, net	(19)	3,420
Subtotals	180,035	195,666
Add (Deduct) ProLogis defined adjustments:		
Foreign currency exchange losses, net	7,402	6,252
Deferred income tax expense	5,549	12,296
ProLogis share of reconciling items of unconsolidated investees:		
Foreign currency exchange (gains) losses, net	7,662	(6,586)
Deferred income tax (benefit) expense	(550)	7,041
Funds from operations as defined by ProLogis attributable to Common Shares	$ 200,098	$ 214,669

(1) Consists primarily of adjustments to the amounts that ProLogis recognizes under the equity method that are necessary to reduce the original gain that was deferred on contributions of properties to property funds based on the lower depreciation expense recognized by ProLogis under the equity method. See footnote 9 to the table in Note 3 to ProLogis Consolidated Condensed Financial Statements in Item 1.

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PART II

Item 8. Exhibits and Reports on Form 8-K

(a) Exhibits:

15.1	Letter from KPMG LLP regarding unaudited financial information dated August 14, 2003
31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PROLOGIS

By: /s/ WALTER C. RAKOWICH

Walter C. Rakowich
Managing Director and
Chief Financial Officer
(Principal Financial Officer)

By: /s/ LUKE A. LANDS

Luke A. Lands
Senior Vice President and Controller

By: /s/ SHARI J. JONES

Shari J. Jones
First Vice President
(Principal Accounting Officer)

Date: August 14, 2003

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EXHIBIT INDEX

Exhibit No.	Description
15.1	Letter from KPMG LLP regarding unaudited financial information dated August 14, 2003
31.1	Certification of Chief Executive Officer
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