PROLOGIS
Form 10-K/A
March 17, 2008

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

FORM 10-K/A

Amendment #1

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2007

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number 1-12846

PROLOGIS
(Exact name of registrant as specified in its charter)

Maryland	**74-2604728**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

4545 Airport Way
Denver, CO 80239
(Address of principal executive offices and zip code)

(303) 567-5000
(Registrant s telephone number, including area code)

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

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

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes o No þ

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes o No þ

Based on the closing price of the registrant s shares on June 30, 2007, the aggregate market value of the voting common equity held by non-affiliates of the registrant was $14,561,373,852.

At February 22, 2008, there were outstanding approximately 258,202,700 common shares of beneficial interest of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement for the 2008 annual meeting of its shareholders are incorporated by reference in Part III of this report.

Explanatory Note:

This Annual Report on Form 10-K for ProLogis for the year ended December 31, 2007 is being amended to revise Part II, Item 8 and Part IV, Item 15 to include audited Financial Statements for ProLogis North American Industrial Fund, LP.

PART II

ITEM 8. Financial Statements and Supplementary Data

Our Consolidated Balance Sheets as of December 31, 2007 and 2006, our Consolidated Statements of Earnings, Shareholders Equity and Comprehensive Income and Cash Flows for each of the years in the three-year period ended December 31, 2007, Notes to Consolidated Financial Statements, Schedule III Real Estate and Accumulated Depreciation and Financial Statements of ProLogis North American Industrial Fund, LP, together with the reports of KPMG LLP, Independent Registered Public Accounting Firm, are included under Item 15 of this report and are incorporated herein by reference. Selected unaudited quarterly financial data is presented in Note 20 of our Consolidated Financial Statements.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules

The following documents are filed as part of this amendment:

(a) Financial Statements and Schedules:

1. Financial Statements:

See the financial statements identified below.

2. Financial Statement Schedules:

Schedule III Real Estate and Accumulated Depreciation

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

(b) Exhibits: See the exhibit index on page 94 of this amendment, which is incorporated herein by reference.

(c) Financial Statements: See Index to Consolidated Financial Statements and Schedule III below, which is incorporated by reference.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Trustees and Shareholders
ProLogis:

We have audited the accompanying consolidated balance sheets of ProLogis and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of earnings, shareholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2007. These consolidated financial statements are the responsibility of ProLogis management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ProLogis and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), ProLogis internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 27, 2008 expressed an unqualified opinion on the effectiveness of ProLogis internal control over financial reporting.

KPMG LLP

Denver, Colorado
February 27, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Trustees and Shareholders
ProLogis:

We have audited ProLogis internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. ProLogis management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on ProLogis internal control over financial reporting based on our audit.

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

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

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

In our opinion, ProLogis maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of ProLogis and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of earnings, shareholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2007, and our report dated February 27, 2008 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Denver, Colorado

February 27, 2008

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CONSOLIDATED STATEMENTS OF EARNINGS
Years Ended December 31, 2007, 2006 and 2005
(In thousands, except per share data)

	2007	2006	2005
Revenues:			
Rental income	$ 1,067,865	$ 910,202	$ 584,352
CDFS disposition proceeds:			
Developed and repositioned properties	2,530,377	1,286,841	1,140,457
Acquired property portfolios	2,475,035		
Property management and other fees and incentives	104,719	211,929	66,934
Development management and other income	26,670	37,420	25,464
Total revenues	6,204,666	2,446,392	1,817,207
Expenses:			
Rental expenses	288,569	239,221	162,245
Cost of CDFS dispositions:			
Developed and repositioned properties	1,835,274	993,926	917,782
Acquired property portfolios	2,406,426		
General and administrative	204,558	153,516	118,166
Depreciation and amortization	308,971	286,807	186,605
Other expenses	24,963	13,013	8,633
Total expenses	5,068,761	1,686,483	1,393,431
Operating income	1,135,905	759,909	423,776
Other income (expense):			
Earnings from unconsolidated property funds	94,453	93,055	46,078
Earnings from CDFS joint ventures and other unconsolidated investees	11,165	50,703	6,421
Interest expense	(368,065)	(294,403)	(177,562)
Interest income on notes receivable	8,066	16,730	6,781
Interest and other income, net	25,935	18,248	10,724
Total other income (expense)	(228,446)	(115,667)	(107,558)
Earnings before minority interest	907,459	644,242	316,218
Minority interest	(6,003)	(3,457)	(5,243)
Earnings before certain net gains	901,456	640,785	310,975
Gains recognized on dispositions of certain non-CDFS business assets	146,667	81,470	
Foreign currency exchange gains, net	7,915	21,086	15,979

Earnings before income taxes	1,056,038	743,341	326,954
Income taxes:			
Current income tax expense	68,349	84,250	14,847
Deferred income tax expense (benefit)	550	(53,722)	12,045
Total income taxes	68,899	30,528	26,892
Earnings from continuing operations	987,139	712,813	300,062
Discontinued operations:			
Income attributable to disposed properties and assets held for sale	5,704	24,311	24,191
Losses related to temperature-controlled distribution assets			(25,150)
Gains recognized on dispositions:			
Non-CDFS business assets	52,776	103,729	86,444
CDFS business assets	28,721	33,514	10,616
Total discontinued operations	87,201	161,554	96,101
Net earnings	1,074,340	874,367	396,163
Less preferred share dividends	25,423	25,416	25,416
Net earnings attributable to common shares	$ 1,048,917	$ 848,951	$ 370,747
Weighted average common shares outstanding Basic	256,873	245,952	203,337
Weighted average common shares outstanding Diluted	267,226	256,852	213,713
Net earnings per share attributable to common shares Basic:			
Continuing operations	$ 3.74	$ 2.79	$ 1.35
Discontinued operations	0.34	0.66	0.47
Net earnings per share attributable to common shares Basic	$ 4.08	$ 3.45	$ 1.82
Net earnings per share attributable to common shares Diluted:			
Continuing operations	$ 3.61	$ 2.69	$ 1.31
Discontinued operations	0.33	0.63	0.45
Net earnings per share attributable to common shares Diluted	$ 3.94	$ 3.32	$ 1.76
Distributions per common share	$ 1.84	$ 1.60	$ 1.48

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

PROLOGIS

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

	December 31, 2007	December 31, 2006
ASSETS		
Real estate	$ 16,578,845	$ 13,897,091
Less accumulated depreciation	1,368,458	1,264,227
	15,210,387	12,632,864
Investments in and advances to unconsolidated investees	2,345,277	1,299,697
Cash and cash equivalents	418,991	475,791
Accounts and notes receivable	340,039	439,791
Other assets	1,389,733	998,224
Discontinued operations assets held for sale	19,607	57,158
Total assets	$ 19,724,034	$ 15,903,525
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Debt	$ 10,506,068	$ 8,386,886
Accounts payable and accrued expenses	933,075	518,651
Other liabilities	769,408	546,129
Discontinued operations assets held for sale	424	1,012
Total liabilities	12,208,975	9,452,678
Minority interest	78,661	52,268
Shareholders equity:		
Series C preferred shares at stated liquidation preference of $50 per share; $0.01 par value; 2,000 shares issued and outstanding at December 31, 2007 and 2006	100,000	100,000
Series F preferred shares at stated liquidation preference of $25 per share; $0.01 par value; 5,000 shares issued and outstanding at December 31, 2007 and 2006	125,000	125,000
Series G preferred shares at stated liquidation preference of $25 per share; $0.01 par value; 5,000 shares issued and outstanding at December 31, 2007 and 2006	125,000	125,000
Common shares; $0.01 par value; 257,712 shares issued and outstanding at December 31, 2007 and 250,912 shares issued and outstanding at December 31, 2006	2,577	2,509
Additional paid-in capital	6,412,473	6,000,119
Accumulated other comprehensive income:		
Unrealized (losses) gains on derivative contracts	(27,091)	4,524

Foreign currency translation gains	302,413	212,398
Retained earnings (distributions in excess of net earnings)	396,026	(170,971)
Total shareholders equity	7,436,398	6,398,579
Total liabilities and shareholders equity	$ 19,724,034	$ 15,903,525

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

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**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
AND COMPREHENSIVE INCOME
Years Ended December 31, 2007, 2006 and 2005
(In thousands)**

	2007	2006	2005
Common shares number of shares at beginning of year	250,912	243,781	185,789
Issuance of common shares in connection with mergers and acquisitions	4,781		55,889
Issuances of common shares under common share plans	1,891	6,951	2,092
Conversions of limited partnership units	128	180	11
Common shares number of shares at end of year	257,712	250,912	243,781
Common shares par value at beginning of year	$ 2,509	$ 2,438	$ 1,858
Issuance of common shares in connection with mergers and acquisitions	48		559
Issuances of common shares under common share plans	19	69	21
Conversions of limited partnership units	1	2	
Common shares par value at end of year	$ 2,577	$ 2,509	$ 2,438
Preferred shares at stated liquidation preference at beginning and end of year	$ 350,000	$ 350,000	$ 350,000
Additional paid-in capital at beginning of year	$ 6,000,119	$ 5,606,017	$ 3,249,576
Issuance of common shares in connection with mergers and acquisitions	339,449		2,285,029
Issuances of common shares under common share plans	37,417	357,448	43,126
Conversions of limited partnership units	4,444	6,475	150
Cost of issuing common shares	(106)	(76)	(1,395)
Change in receivable from timing differences on equity transactions	247	244	2,494
Cost of share-based compensation awards	30,903	30,011	27,037
Additional paid-in capital at end of year	$ 6,412,473	$ 6,000,119	$ 5,606,017
Accumulated other comprehensive income at beginning of year	$ 216,922	$ 149,586	$ 194,445
Foreign currency translation gains (losses), net	90,015	70,777	(70,076)
Unrealized (losses) gains on derivative contracts, net	(31,615)	(3,441)	25,217
Accumulated other comprehensive income at end of year	$ 275,322	$ 216,922	$ 149,586
Distributions in excess of net earnings at beginning of year	$ (170,971)	$ (620,018)	$ (693,386)
Net earnings	1,074,340	874,367	396,163

FIN 48 adoption	(9,272)		
Preferred share dividends	(25,423)	(25,416)	(25,416)
Common share distributions	(472,648)	(399,904)	(297,379)
Retained earnings (distributions in excess of net earnings) at end of year	$ 396,026	$ (170,971)	$ (620,018)
Total shareholders equity at end of year	$ 7,436,398	$ 6,398,579	$ 5,488,023
Comprehensive income attributable to common shares:			
Net earnings	$ 1,074,340	$ 874,367	$ 396,163
Preferred share dividends	(25,423)	(25,416)	(25,416)
Foreign currency translation gains (losses), net	90,015	70,777	(70,076)
(Losses) gains on derivative contracts, net	(31,615)	(3,441)	25,217
Comprehensive income attributable to common shares	$ 1,107,317	$ 916,287	$ 325,888

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2007, 2006 and 2005
(In thousands)

	2007	2006	2005
Operating activities:			
Net earnings	$ 1,074,340	$ 874,367	$ 396,163
Minority interest share in earnings	6,003	3,457	5,243
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Straight-lined rents	(44,403)	(36,418)	(11,411)
Cost of share-based compensation awards	23,934	21,567	22,615
Depreciation and amortization	311,867	298,342	204,378
Equity in earnings from unconsolidated investees	(105,618)	(143,758)	(52,499)
Distributions from unconsolidated investees	74,348	99,062	47,514
Amortization of deferred loan costs	10,555	7,673	5,595
Amortization of debt premium, net	(7,797)	(13,861)	(3,980)
Gains recognized on dispositions of non-CDFS business assets	(199,443)	(185,199)	(86,444)
Gains recognized on dispositions of CDFS business assets included in discontinued operations	(28,721)	(33,514)	(10,616)
Cumulative translation losses and impairment charge on disposed properties			26,864
Unrealized foreign currency exchange losses (gains)	16,229	(18,774)	(10,288)
Deferred income tax expense (benefit)	550	(53,722)	12,045
Impairment charges	13,259		
Increase in accounts and notes receivable and other assets	(136,405)	(204,096)	(54,091)
Increase (decrease) in accounts payable and accrued expenses and other liabilities	216,338	72,201	(2,986)
Net cash provided by operating activities	1,225,036	687,327	488,102
Investing activities:			
Real estate investments	(5,213,870)	(3,695,799)	(2,457,780)
Purchase of ownership interests in property funds		(259,248)	
Tenant improvements and lease commissions on previously leased space	(67,317)	(66,787)	(53,919)
Recurring capital expenditures	(37,948)	(29,437)	(26,989)
Cash consideration paid in Parkridge acquisition in 2007 and Catellus Merger in 2005, net of cash acquired	(700,812)		(1,292,644)
Purchase of Macquarie ProLogis Trust (MPR), net of cash acquired	(1,137,028)		
Proceeds from dispositions of real estate assets	3,618,622	2,095,231	1,516,614
Advances on notes receivable	(18,270)	(115,417)	
Proceeds from repayments of notes receivable	115,620	73,723	59,991
Increase in restricted cash for potential investment		(42,174)	

Investments in and advances to unconsolidated investees	(661,796)	(175,677)	(16,726)
Return of investment from unconsolidated investees	50,243	146,206	48,652
Net cash used in investing activities	(4,052,556)	(2,069,379)	(2,222,801)
Financing activities:			
Proceeds from sales and issuances of common shares under various common share plans	46,855	358,038	45,641
Distributions paid on common shares	(472,645)	(393,317)	(297,379)
Minority interest distributions	(9,341)	(11,576)	(13,953)
Dividends paid on preferred shares	(31,781)	(19,062)	(25,416)
Debt and equity issuance costs paid	(15,830)	(13,840)	(8,112)
Repayment of debt assumed in Catellus Merger			(106,356)
Net (payments) proceeds from lines of credit and short-term borrowings	(431,506)	368,158	1,348,023
Proceeds from issuance of debt to finance MPR and Parkridge acquisitions	1,719,453		
Proceeds from issuance of senior convertible notes	2,329,016		
Proceeds from issuance of senior notes, secured and unsecured debt	781,802	1,945,325	890,011
Payments on senior notes, secured debt, unsecured debt and assessment bonds	(1,174,335)	(588,844)	(119,067)
Net cash provided by financing activities	2,741,688	1,644,882	1,713,392
Effect of exchange rate changes on cash	29,032	9,161	(11,422)
Net (decrease) increase in cash and cash equivalents	(56,800)	271,991	(32,729)
Cash and cash equivalents, beginning of year	475,791	203,800	236,529
Cash and cash equivalents, end of year	$ 418,991	$ 475,791	$ 203,800

See Note 19 for information on non-cash investing and financing activities and other information.

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

PROLOGIS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business:

ProLogis, collectively with our consolidated subsidiaries (we, our, us, the Company or ProLogis), is a publicly held real estate investment trust (REIT) that owns, operates and develops (directly and through our unconsolidated investees) primarily industrial distribution properties in North America, Europe and Asia. Our business consists of three reportable business segments: (i) property operations; (ii) investment management; and (iii) development or CDFS business. Our property operations segment represents the direct long-term ownership of industrial distribution and retail properties. Our investment management segment represents the long-term investment management of property funds and the properties they own. Our CDFS business segment primarily encompasses our development or acquisition of real estate properties that are generally contributed to a property fund in which we have an ownership interest and act as manager, or sold to third parties. See Note 18 for further discussion of our business segments.

2. Summary of Significant Accounting Policies:

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

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

(i) the form of our ownership interest and legal structure;

(ii) our representation on the entity s governing body;

(iii) the size of our investment (including loans);

(iv) estimates of future cash flows;

(v) our ability to participate in policy making decisions, including but not limited to, the acquisition or disposition of investment properties and the incurrence or refinancing of debt;

(vi) the rights of other investors to participate in the decision making process; and

(vii) the ability for other partners or owners to replace us as manager and/or liquidate the venture, if applicable.

Use of Estimates. The accompanying consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as 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.

Foreign Operations. The U.S. dollar is the functional currency for our consolidated subsidiaries and unconsolidated investees operating in the United States and Mexico and certain of our consolidated subsidiaries that operate as holding companies for foreign investments. The functional currency for our consolidated subsidiaries and unconsolidated investees operating in countries other than the United States and Mexico is the principal currency in which the entity s assets, liabilities, income and expenses are denominated, which may be different from the local currency of the country of incorporation or the country where the entity conducts its operations. The functional currencies of our consolidated subsidiaries and unconsolidated investees include the British pound sterling, Canadian dollar, Chinese renminbi, Czech Republic koruna, euro, Hungarian forint, Japanese yen, Korean won, Indian rupee, Polish zloty, Slovakia crown, Swedish krona and Singapore dollar.

PROLOGIS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For our consolidated subsidiaries whose functional currency is not the U.S. dollar, we translate their financial statements into U.S. dollars at the time we consolidate those subsidiaries financial statements. Generally, assets and liabilities are translated at the exchange rate in effect as of the balance sheet date. Our initial investments in unconsolidated investees are reflected at the historical exchange rate. Income statement accounts are translated using the average exchange rate for the period and income statement accounts that represent significant non-recurring transactions are translated at the rate in effect as of the date of the transaction. We translate our share of the net earnings or losses of our unconsolidated investees whose functional currency is not the U.S. dollar at the average exchange rate for the period. The resulting translation adjustments are included in the accumulated other comprehensive income component of shareholders equity.

We and certain of our consolidated subsidiaries have intercompany and third party debt that is not denominated in the entity s functional currency. When the debt is remeasured against the functional currency of the entity, a gain or loss can result. The resulting adjustment is generally reflected in results of operations unless it is intercompany debt that is deemed to be long-term in nature. If the intercompany debt is deemed long-term in nature, when the debt is remeasured, the resulting adjustment is recognized as a cumulative translation adjustment in accumulated other comprehensive income in shareholders equity.

Gains or losses are included in results of operations when transactions with a third party, denominated in a currency other than the entity s functional currency, are settled. Additionally, we utilize derivative financial instruments to manage certain foreign currency exchange risks. See our policy footnote on financial instruments and Note 16 for more information related to our derivative financial instruments.

Revenue Recognition.

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

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

When we contribute a property to a property fund or joint venture in which we have an ownership interest, we do not recognize a portion of the proceeds in our computation of the gain resulting from the contribution. The amount of proceeds not recognized is based on our continuing ownership interest in the contributed property that arises due to our ownership interest in the entity acquiring the property. We defer this portion of the proceeds by recognizing a reduction to our investment in the applicable unconsolidated investee. We adjust our proportionate share of net

earnings or losses recognized in future periods to reflect the investee s recorded depreciation expense as if it were computed on our lower basis in the contributed properties rather than on the entity s basis. We reflect the gains recognized from contributions of CDFS properties to property funds and CDFS joint ventures in operating cash flows and we include the costs related to the CDFS properties and the recovery of those costs through the proceeds we receive upon contribution in investing cash flows in our Consolidated Statements of Cash Flows.

When a property that we originally contributed to a property fund or joint venture is disposed of to a third party, we recognize the amount of the proceeds we had previously deferred during the period, along with

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

our proportionate share of the gain recognized by the investee. During periods when our ownership interest in an investee decreases, we recognize gains relating to previously deferred proceeds to coincide with our new ownership interest in the investee.

Rental Expenses. Rental expenses primarily include the cost of on-site and property management personnel, utilities, repairs and maintenance, property insurance and real estate taxes. Also included are direct expenses associated with our management of the property funds operations.

Share-Based Compensation. On January 1, 2006, we adopted Statement of Financial Accounting Standards (SFAS) No. 123R *Share Based Payment* (SFAS 123R) using the modified prospective application. This standard requires companies to measure the cost of employee services received in exchange for an award of an equity instrument based on the award s fair value on the grant date and recognize the cost over the period during which an employee is required to provide service in exchange for the award, generally the vesting period. With the adoption of SFAS 123R, we recognize compensation cost associated with stock options that was previously disclosed in the notes to our consolidated financial statements and we treat dividend equivalent units (DEUs) as dividends, which are charged to retained earnings and factored into the computation of the fair value of the underlying share award at grant date.

Prior to January 1, 2006, we recognized the costs of our share-based compensation plans under SFAS No. 123 *Accounting and Disclosure of Stock Based Compensation* that allowed us to continue to account for these plans under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25). Under APB 25, if the exercise price of the share option granted equaled or exceeded the market price of the underlying share on the date of grant, no compensation expense was recognized. We grant share options to employees and members of our Board of Trustees (the Board) with an exercise price equal to the market price on the day of grant and therefore, we generally did not recognize expense related to share options. We recognized the intrinsic value related to other share awards granted as compensation expense over the applicable vesting period. We recognized the value of DEUs issued as compensation expense, based on the market price of a common share on the grant date, over the vesting period of the underlying share award.

Had we adopted SFAS 123R on January 1, 2005, our net earnings attributable to common shares for the years ended December 31 would have changed as follows (in thousands, except per share amounts):

		2005
Net earnings attributable to common shares:		
As reported	$	370,747
Pro forma	$	373,074
Net earnings per share attributable to common shares:		
As reported Basic	$	1.82
As reported Diluted	$	1.76
Pro forma Basic	$	1.83
Pro forma Diluted	$	1.77

Further information regarding stock options can be found in Note 5, Long-Term Compensation.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

subsequent taxable years. Even as a REIT, we may be subject to certain state and local taxes on our own income and property, and to federal income and excise taxes on our undistributed taxable income.

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

In July 2006, Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109* (FIN 48) was issued. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes* . FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The new standard also provides guidance on various income tax accounting issues, including derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN 48 were effective for our fiscal year beginning January 1, 2007 and were applied to all tax positions upon initial adoption. Under FIN 48, we may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities. The cumulative effect of applying the provisions of FIN 48 was reported as an adjustment to the opening balance of retained earnings for the year of adoption. We adopted the provisions of FIN 48 and, as a result, we recognized a $9.3 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of distributions in excess of net earnings.

Deferred income tax is generally a function of the period s temporary differences (items that are treated differently for tax purposes than for financial reporting purposes), the utilization of tax net operating losses generated in prior years that had been previously recognized as deferred income tax assets and deferred income tax liabilities related to indemnification agreements related to certain contributions to property funds. A valuation allowance for deferred income tax assets is provided if we believe all or some portion of the deferred income tax asset may not be realized. Any increase or decrease in the valuation allowance that results from a change in circumstances that causes a change in the estimated realizability of the related deferred income tax asset is included in income. For further information of income taxes, see Note 7.

Long-Lived Assets

Real Estate Assets. Real estate assets are carried at depreciated cost. Costs incurred that are directly associated with the successful acquisition of real estate assets are capitalized as part of the investment basis of the real estate assets. Costs that are associated with unsuccessful acquisition efforts are expensed at the time the acquisition is abandoned. Costs incurred in developing, renovating, rehabilitating and improving real estate assets are capitalized as part of the investment basis of the real estate assets. Costs incurred in making repairs and maintaining real estate assets are

expensed as incurred.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

finances costs we incur for public infrastructure improvements, we record the costs in real estate until we are reimbursed.

The depreciable portions of real estate assets are charged to depreciation expense on a straight-line basis over their respective estimated useful lives. We generally use the following useful lives: seven years for capital improvements, 10 years for standard tenant improvements, 30 years for industrial properties acquired, 40 years for office and retail properties acquired and 40 years for properties we develop. Capitalized leasing costs are amortized over the respective lease term. Our average lease term for all leases in effect at December 31, 2007 was between six and seven years. We develop properties in our CDFS business segment generally with the intent to contribute the properties to property funds in which we maintain an ownership interest and act as manager. We may acquire properties or portfolios of properties in our CDFS business segment that we generally plan to contribute to a property fund. We generally do not depreciate properties during the period from the completion of the development, rehabilitation or repositioning activities through the date the properties are contributed.

Business Combinations, Goodwill and Intangible Assets. When we acquire a business or individual properties, with the intention to hold for long term investment, we allocate the purchase price to the various components of the acquisition based upon the fair value of each component. We estimate:

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

We amortize the acquired assets or liabilities as follows:

- Above and below market leases are charged to rental income over the average remaining estimated life of the lease.
- Leasing commissions are charged to amortization expense over the average remaining estimated life of the lease.

Debt discount or premium is charged to interest expense using the effective interest method over the remaining term of the related debt.

Management contracts are charged against income over the remaining term of the contract.

Goodwill represents the excess of the purchase price over the fair value of net tangible and intangible assets acquired in a business combination. Goodwill amounts are not amortized, but rather we assess goodwill for impairment annually or when circumstances indicate goodwill may be impaired.

Investments in Unconsolidated Investees. Our investments in certain entities are presented under the equity method. The equity method is used when we have the ability to exercise significant influence over

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

operating and financial policies of the investee but do not have control of the investee. Under the equity method, these investments (including advances to the investee) are initially recognized in the balance sheet at our cost and are subsequently adjusted to reflect our proportionate share of net earnings or losses of the investee, distributions received, deferred proceeds on the contribution of properties and certain other adjustments, as appropriate.

Impairment of Long-Lived Assets. We assess the carrying values of our respective long-lived assets, including goodwill and intangible assets, whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be fully recoverable. Recoverability of these assets is measured by comparison of the carrying amount of the asset to the estimated fair value. For operating buildings that we intend to hold long-term, the recoverability is based on the future undiscounted cash flows. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset, and the loss would be recognized as other expense in our Consolidated Statements of Earnings.

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

Properties disposed of to third parties are considered discontinued operations unless such properties were developed under a pre-sale agreement. Properties contributed to property funds in which we maintain an ownership interest and act as manager are not considered discontinued operations due to our continuing involvement with the properties. The contribution of properties to the property funds is reflected in our Consolidated Statements of Earnings based on the nature of the properties contributed, either CDFS or non-CDFS.

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

Notes Receivable. The principal balance of notes receivable from third parties at December 31, 2007 and 2006 was $24.2 million and $237.3 million, respectively. Interest is recognized as earned and included in interest income on notes receivable in our Consolidated Statements of Earnings; however, we discontinue accruing interest when collection is considered doubtful. We use the effective interest method for notes receivable with stepped interest rates. Our weighted average effective annual interest rate for our notes receivable as of December 31, 2007 and 2006 was 6.9% and 8.6%, respectively. Notes receivable are generally collateralized by real property or a financing agreement.

Minority Interest. We recognize the minority interests in real estate partnerships or joint ventures in which we consolidate at each minority holder s respective share of the estimated fair value of the real estate as of the date of formation. Minority interest that was created or assumed as a part of a business combination is recognized at the underlying book value as of the date of the transaction. Minority interest is subsequently

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

adjusted for additional contributions, distributions to minority holders and the minority holders proportionate share of the net earnings or losses of each respective entity.

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

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

Financial Instruments. In the normal course of business, we use certain types of derivative financial instruments for the purpose of managing our foreign currency exchange rate and interest rate risk. We reflect our derivative financial instruments at fair value and record changes in the fair value of these derivatives each period in earnings, unless specific hedge accounting criteria are met. To qualify for hedge accounting treatment, the derivative instruments used for risk management purposes must effectively reduce the risk exposure that they are designed to hedge (primarily interest rate swaps). For instruments associated with the hedge of anticipated transactions, hedge effectiveness criteria also require that the occurrence of the underlying transactions be probable. Instruments meeting these hedging criteria are formally designated as hedges at the inception of the contract.

The ineffective portion of a hedge, if any, is immediately recognized in earnings to the extent that the change in value of a derivative does not perfectly offset the change in value of the instrument being hedged. The unrealized gains and losses recorded in accumulated other comprehensive income are amortized to earnings over the remaining term of the hedged items.

In estimating the fair value of our financial instruments, we use a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date. Primarily, we use quoted market prices or quotes from brokers or dealers for the same or similar instruments. These values represent a general approximation of possible value and may never actually be realized.

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

Recent Accounting Pronouncements. In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements but does not require any new fair value

measurements. SFAS 157 is effective for our fiscal year beginning January 1, 2008. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2), that delays the effective date of SFAS 157 s fair value measurement requirements for nonfinancial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis. Fair value measurements identified in FSP FAS 157-2 will be effective for our fiscal year beginning January 1, 2009. The adoption of SFAS 157 will primarily impact the valuation of our financial instruments,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

as discussed above, which we do not expect to materially impact our financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an Amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 provides entities the irrevocable option to measure many financial instruments and certain other items at fair value. If the fair value option is elected, changes in the fair value would be recorded in earnings at each subsequent reporting date. The provisions of SFAS 159 are effective for our fiscal year beginning January 1, 2008. We do not plan to elect the fair value option provided by SFAS 159.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations* (SFAS 141R) and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51* (SFAS 160). SFAS 141R and 160 require most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at full fair value and require noncontrolling interests (previously referred to as minority interests) to be reported as a component of equity, which changes the accounting for transactions with noncontrolling interest holders. The provisions of SFAS 141R and 160 are effective for our fiscal year beginning January 1, 2009. SFAS 141R will be applied to business combinations occurring after the effective date and SFAS 160 will be applied prospectively to all noncontrolling interests, including any that arose before the effective date. We are currently assessing what impact the adoption of SFAS 141R and 160 will have on our financial position and results of operations.

Proposed Accounting Pronouncements. The FASB has issued proposed FASB Staff Position No. APB-14a, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (the proposed FSP) that would require, if ratified, separate accounting for the debt and equity components of convertible instruments. The proposed FSP would require that the value assigned to the debt component would be the estimated fair value of a similar bond without the conversion feature, which would result in the debt being recorded at a discount. The debt would subsequently be accreted to its par value over its expected life with a rate of interest being reflected in earnings that reflects the market rate at issuance. The proposed FSP, if ratified in the form expected, would be effective January 1, 2009 and would be applied retrospectively to both new and existing convertible instruments, including the convertible notes that we issued in March 2007 and November 2007, and would result in us recognizing additional interest expense of between $55.8 million and $67.1 million per annum.

Reclassifications. Certain amounts included in our consolidated financial statements for prior years have been reclassified to conform to the 2007 financial statement presentation. This includes a reclass of the gains recognized on the disposition of CDFS business assets included in discontinued operations of $33.5 million and $10.6 million for the years ended December 31, 2006 and 2005, respectively, from operating activities to investing activities in the Consolidated Statements of Cash Flows.

3. Mergers and Acquisitions:

Parkridge Holdings Limited

In February 2007, we purchased the industrial business and made a 25% investment in the retail business of Parkridge Holdings Limited (Parkridge), a European real estate development company. The total purchase price was $1.3 billion, which was financed with $733.9 million in cash, including amounts settled in cash subsequent to the purchase date, the issuance of 4.8 million common shares (valued for accounting purposes at $71.01 per share for a total of $339.5 million) and the assumption of $191.5 million in debt and other liabilities. The assumption of debt included $113.0 million of loans made by us to certain affiliates of Parkridge in November 2006, which were included in Accounts and Notes Receivable in our Consolidated Balance Sheet at December 31, 2006. The cash portion of the acquisition was funded with borrowings under

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

our global senior credit facility (Global Line) and a new senior unsecured facility (see Note 13 for more information on our credit facilities).

The acquisition included 6.3 million square feet of operating distribution properties, including developments under construction, and 1,139 acres of land, primarily in Central Europe and the United Kingdom. We allocated the purchase price based on estimated fair values and recorded approximately $724.7 million of real estate assets, $156.3 million of investments in CDFS joint ventures and other unconsolidated investees, $58.1 million of cash and other tangible assets and $325.8 million of goodwill and other intangible assets, which are included in Other Assets in our Consolidated Balance Sheet. The allocation of the purchase price was based upon preliminary estimates and assumptions and, accordingly, these allocations are subject to revision when final information is available. Revisions to the fair value allocations, which may be significant, will be recorded as adjustments to the purchase price allocation in subsequent periods and should not have a significant impact on our overall financial position or results of operations. The Parkridge acquisition would not have had a material impact on our consolidated results of operations for the years ended December 31, 2007, 2006 and 2005, and as such, we have not presented any pro forma financial information.

We may be required to make additional payments to the selling shareholders over the next several years (primarily through the issuance of our common shares) of up to £52.3 million (the currency equivalent of $105.0 million at December 31, 2007) upon the successful completion of pending land entitlements or achievement of certain incremental development profit targets.

Catellus Development Corporation

On September 15, 2005, Catellus Development Corporation, a publicly traded REIT (Catellus), merged with and into Palmtree Acquisition Corporation, one of our subsidiaries (the Catellus Merger). The total purchase price was $5.3 billion, which was financed by $1.3 billion of cash and the issuance of 55.9 million of our common shares to former Catellus stockholders (valued at $2.3 billion), $37.4 million in cash for transaction costs and the assumption of $1.7 billion in liabilities. In allocating the purchase price based on estimated fair values, we initially recorded approximately $4.5 billion of real estate assets, $661.9 million of other assets, primarily tangible assets, and $152.9 million of goodwill. The allocation of goodwill increased by approximately $11.0 million primarily as a result of changes in the valuation of real estate assets, partially offset by liabilities recorded for certain pre-merger contingencies that were deemed to be probable and could be reasonably estimated.

In connection with the Catellus Merger, we incurred $2.6 million and $12.2 million of merger integration costs in 2006 and 2005, respectively, which are included in General and Administrative Expenses in our Consolidated Statements of Earnings. These costs were indirect costs associated with the Catellus Merger, such as employee transition costs, as well as severance costs for certain of our employees whose responsibilities became redundant after the merger.

ProLogis North American Properties Fund XII

On September 30, 2005, we acquired the 80% interest in ProLogis North American Properties Fund XII owned by our fund partner. The acquisition resulted in the addition of 12 buildings aggregating 3.4 million square feet with an aggregate property value of $283.2 million to our direct-owned industrial portfolio, including assumed debt of approximately $15.1 million.

See also Note 11 for information on real estate acquisitions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Unconsolidated Investees:

Summary of Investments and Income

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

	December 31, 2007	December 31, 2006
Property funds	$ 1,755,113	$ 981,840
CDFS joint ventures and other unconsolidated investees	590,164	317,857
Totals	$ 2,345,277	$ 1,299,697

Property Funds

We recognize earnings or losses from our investments in unconsolidated property funds consisting of our proportionate share of the net earnings or losses of the property funds, including interest income on advances made to these investees, if any. In addition, we earn fees and incentives for providing services to the property funds. The amounts we have recognized from our investments in property funds are summarized as follows (in thousands):

	Years Ended December 31, 2007	2006	2005
Earnings from unconsolidated property funds:			
North America	$ 17,161	$ 59,732	$ 24,224
Europe	60,913	21,605	13,938
Asia	16,379	11,718	7,916
Total earnings from unconsolidated property funds	$ 94,453	$ 93,055	$ 46,078
Property management and other fees and incentives:			
North America	$ 47,164	$ 57,800	$ 32,124
Europe	43,752	145,622	30,064
Asia	13,803	8,507	4,746
Total property management and other fees and incentives	$ 104,719	$ 211,929	$ 66,934

In our CDFS business segment, as further discussed in Note 18, we develop and acquire real estate properties primarily with the intent to contribute to a property fund in which we have an ownership interest and act as manager. Upon contribution of properties to a property fund, we realize a portion of the profits from our CDFS activities while at the same time allowing us to maintain a long-term ownership interest in our CDFS properties. This business strategy also provides liquidity to fund our future development activities and enhances future fee income. We generally receive ownership interests in the property funds as part of the proceeds generated by the contributions of properties to maintain our ownership interest. The property funds generally own operating properties that we have contributed to them, although certain of the property funds have also acquired properties from third parties. We recognize our proportionate share of the earnings or losses of each property fund, earn fees for acting as the manager, and earn additional fees by providing other services including, but not limited to, acquisition, development, construction management, leasing and financing activities. We may also earn incentive performance returns based on the investors returns over a specified period.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Information about our property funds (the names in parentheses represent the legal names of the entities) is as follows as of December 31:

Fund Names	**Number of properties owned 2007**	**Square feet (in millions) 2007**	**Ownership Percentage 2007**	**Ownership Percentage 2006**	**Investment in and advances to 2007**	**Investment in and advances to 2006**
ProLogis California (ProLogis California I LLC) (1)	80	14.2	50.0%	50.0%	$ 106,630	$ 112,915
ProLogis North American Properties Fund I (ProLogis North American Properties Fund I LLC) (1)	36	9.4	41.3%	41.3%	27,135	30,902
ProLogis North American Properties Fund V (2)				11.3%		53,331
ProLogis North American Properties Fund VI (Allagash Property Trust) (1)	22	8.6	20.0%	20.0%	37,218	39,149
ProLogis North American Properties Fund VII (Brazos Property Trust) (1)	29	6.1	20.0%	20.0%	31,321	31,816
ProLogis North American Properties Fund VIII (Cimmaron Property Trust) (1)	24	3.1	20.0%	20.0%	14,982	15,397
ProLogis North American Properties Fund IX (Deerfield Property Trust) (1)	20	3.4	20.0%	20.0%	13,986	14,076
ProLogis North American Properties Fund X (Elkhorn Property Trust) (1)	29	4.2	20.0%	20.0%	15,721	15,399
ProLogis North American Properties Fund XI (KPJV, LLP) (1)	13	4.1	20.0%	20.0%	30,712	31,871
ProLogis North American Industrial Fund (3)	217	37.2	23.2%	20.0%	104,277	72,053
ProLogis North American Industrial Fund II (ProLogis NA2 LP) (1)(2)	153	36.1	36.9%		274,238	
ProLogis North American Industrial Fund III (ProLogis NA3 LP) (1)(4)	122	24.7	20.0%		123,720	
ProLogis Mexico Industrial Fund (ProLogis MX Fund LP) (5)	32	4.2	20.0%		38,085	
PEPR (ProLogis European Properties) (6)	247	56.4	24.9%	24.0%	494,593	430,761
	41	10.4	24.3%		158,483	

PEPF II (ProLogis European Properties II) (7)						
ProLogis Japan Properties Fund I (PLD/RECO Japan TMK Property Trust) (1)	16	7.1	20.0%	20.0%	87,663	87,705
ProLogis Japan Properties Fund II (ProLogis Japan Properties Trust) (1)(8)	44	14.6	20.0%	20.0%	189,584	46,465
ProLogis Korea Fund (ProLogis Korea Properties Trust) (1)(9)	6	0.4	20.0%		6,765	
Totals	1,131	244.2			$ 1,755,113	$ 981,840

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

(2) We referred to the combined entities in which we had ownership interests (ProLogis-Macquarie Fund and the management company) as one property fund named ProLogis North American Properties Fund V. During 2006, we contributed 20 properties for aggregate proceeds of $132.4 million to ProLogis North American Properties Fund V.

On July 11, 2007, we completed the acquisition of all of the units in Macquarie ProLogis Trust, an Australian listed property trust (MPR). At the time of acquisition, MPR owned approximately 89% of ProLogis North American Properties Fund V and certain other assets. The total consideration was approximately $2.0 billion, consisting of cash of $1.2 billion and assumed liabilities of $0.8 billion. The cash portion of the acquisition was financed primarily with borrowings under a credit agreement with an affiliate of Citigroup USA, Inc. (Citigroup), consisting of a $473.1 million term loan and a $646.2 million convertible loan. Prior to the acquisition, we entered into foreign currency forward contracts to economically hedge the purchase price of MPR (see Note 16 for additional information regarding these derivatives). As a result of the MPR transaction, on July 11, 2007, we owned 100% of, and began consolidating, ProLogis North American Properties Fund V.

On August 27, 2007, Citigroup converted $546.2 million of the convertible loan into equity of a newly formed property fund, which owns all of the real estate assets and debt obligations that were acquired or issued in connection with the MPR acquisition. We refer to the combined entities in which we have ownership interests as one property fund named ProLogis North American Industrial Fund II. Our ownership percentage is based on our levels of ownership interest in these different entities. In addition, we made an equity contribution of $100.0 million into the fund, which was used to repay the remaining balance on the convertible loan. The conversion resulted in Citigroup owning 63.1% and us owning 36.9% of the equity of ProLogis North American Industrial Fund II. We account for our investment under the equity method of accounting. Upon conversion, we recognized net gains of $68.6 million (including $16.6 million of previously deferred gains from the initial contribution of the assets to ProLogis North American Properties

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fund V) that are reflected in CDFS Acquired Property Portfolios in our Consolidated Statements of Earnings.

(3) In February 2006, we formed the North American Industrial Fund, with ten institutional investors. We refer to the combined entities in which we have ownership interests as one property fund named ProLogis North American Industrial Fund. Our ownership percentage is based on our levels of ownership interest in these different entities. We are committed to offer to contribute substantially all of the properties we develop and stabilize in Canada and the United States to the North American Industrial Fund, subject to the property meeting certain leasing and other criteria. ProLogis North American Industrial Fund has equity commitments, which expire in February 2009, aggregating approximately $1.4 billion from third party investors, of which $729.7 million was unfunded at December 31, 2007. In connection with the acquisition of MPR, discussed above, we acquired an additional 3% ownership interest in ProLogis North American Industrial Fund and are committed to fund $25.5 million in cash through February 2009 for our equity share in future acquisitions of properties, generally from us. During 2007 and 2006, we contributed 92 properties (26 CDFS and 66 non-CDFS) and 49 properties (22 CDFS and 27 non-CDFS) for aggregate proceeds of $907.5 million and $451.8 million, respectively, to ProLogis North American Industrial Fund in addition to the assets that were acquired from ProLogis North American Properties Funds II, III and IV (collectively Funds II-IV), as discussed below.

(4) In July 2007, we formed a new property fund, ProLogis North American Industrial Fund III, to acquire a portfolio of 122 industrial properties from a third party. We refer to the combined entities in which we have ownership interests as one property fund named ProLogis North American Industrial Fund III. The total consideration for the acquisition was approximately $1.8 billion, including transaction costs. Our investment was made in cash and represents a 20% ownership interest in this newly formed property fund. The remaining 80% of the property fund is owned by an affiliate of Lehman Brothers, Inc., who provided interim debt financing to the property fund.

(5) On September 11, 2007, we contributed properties to a new property fund formed with several institutional investors, ProLogis Mexico Industrial Fund. We refer to the combined entities in which we have ownership interests as one property fund named ProLogis Mexico Industrial Fund. We are committed to offer to contribute substantially all of the properties we develop and stabilize in Mexico, and in certain circumstances properties we acquire, to ProLogis Mexico Industrial Fund subject to the property meeting certain leasing and other criteria. ProLogis Mexico Industrial Fund has equity commitments of $500.0 million from third party investors that expire in August 2010 and of which $411.5 million was unfunded at December 31, 2007. In 2007, we contributed 35 properties (24 CDFS and 11 non-CDFS) to this property fund for aggregate proceeds of $251.8 million. This includes nine stabilized properties that were part of a portfolio of properties we had previously acquired with the intent to contribute to a new property fund at, or slightly above, our cost. The proceeds and costs related to these nine properties are reflected in CDFS Acquired Property Portfolios in our Consolidated Statements of Earnings. The proceeds and costs for the remaining 15 CDFS contributed properties are included in CDFS Developed and Repositioned Properties in our Consolidated Statements of Earnings.

(6) In September 2006, ProLogis European Properties (PEPR) completed an initial public offering (IPO) on the Euronext Amsterdam stock exchange in which the selling unitholders offered 49.8 million ordinary units. As the

manager of the property fund, we were entitled to an incentive return based on the internal rate of return that the pre-IPO unitholders earned. The final incentive return of $109.2 million was determined and recognized in the fourth quarter of 2006. The return was paid to us by an initial allocation of 3.9 million ordinary units, which increased our investment by $68.6 million and our ownership interest at that time to 24.0%, with the balance received in cash. In connection with PEPR s IPO, we entered into a property contribution agreement under which we were committed to offer to contribute certain stabilized properties to PEPR having an aggregate contribution value of 200 million. During 2007, we fulfilled our commitment by contributing 16 CDFS properties to PEPR for aggregate proceeds of $287.6 million. As a

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

result of these contributions, our ownership interest increased to 24.9% at December 31, 2007. In July 2007, PEPR sold a portfolio of 47 properties, which resulted in a net gain of $155.8 million to PEPR and $38.2 million to us as our proportionate share. In 2006, prior to PEPR s IPO, we contributed 19 properties to the fund for aggregate proceeds of $419.6 million.

(7) In July 2007, we formed a new European property fund, ProLogis European Properties Fund II (PEPF II) with several third party investors. Our ownership interest in PEPF II is 24.3%, including a 16.85% direct interest in PEPF II, along with a 7.45% indirect interest through our 24.9% investment in PEPR, which owns approximately 30% of PEPF II. We are committed to offer to contribute substantially all of the properties we develop and stabilize in Europe and, in certain circumstances properties we acquire, to PEPF II, subject to the property meeting certain leasing and other criteria. PEPF II has equity commitments from PEPR and third party investors of 2.5 billion ($3.6 billion as of December 31, 2007), which expire in August 2010, and of which 2.1 billion ($3.1 billion as of December 31, 2007) was unfunded at December 31, 2007. In 2007, we contributed 38 properties for aggregate proceeds of $1.3 billion. This includes 13 stabilized properties that were part of a portfolio of properties we acquired in February 2007 as part of the Parkridge acquisition discussed in Note 3, with the intent to contribute to a new property fund at, or slightly above, our cost. The proceeds and costs related to these 13 properties are reflected in CDFS Acquired Property Portfolios in our Consolidated Statements of Earnings. The proceeds and costs for the remaining 25 CDFS properties are included in CDFS Developed and Repositioned Properties in our Consolidated Statements of Earnings. In connection with these contributions, we advanced PEPF II £25.2 million ($51.9 million as of December 31, 2007), which bears interest at LIBOR plus a margin and matures on February 26, 2008.

(8) We are committed to offer to contribute all of the properties that we develop and stabilize in Japan through September 2010 to ProLogis Japan Properties Fund II, subject to the property meeting certain leasing and other criteria. In 2007 and 2006, we contributed five properties and six properties, all CDFS properties, to this property fund for aggregate proceeds of $642.9 and $405.5 million, respectively. In addition in 2007, the property fund acquired nine properties from a third party and its investors acquired a portfolio of 17 properties for an aggregate purchase price of $735 million, through a joint venture in which we own 20% and our current partner in ProLogis Japan Properties Fund II owns the remaining 80%. ProLogis Japan Properties Fund II has an equity commitment of $600.0 million from our fund partner, which expires in August 2008, of which $28.2 million was unfunded at December 31, 2007. In February 2008, ProLogis Japan Properties Fund II received an additional equity commitment of $400.0 million from our fund partner that expires in September 2010.

(9) The ProLogis Korea Fund, which was formed in 2006, acquired six properties from a third party in 2007. We are committed to offer to contribute substantially all of the properties we develop and stabilize in South Korea and, in certain circumstances properties we acquire, to ProLogis Korea Fund, subject to the property meeting certain leasing and other criteria. ProLogis Korea Fund has an equity commitment from our fund partner of $200.0 million, which expires in June 2010, of which $179.4 million was unfunded at December 31, 2007.

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Summarized financial information of the property funds (for the entire entity, not our proportionate share) and our investment in such funds is presented below as of and for the years ended December 31, 2007 and 2006 (dollars in millions):

	2007			
	North America	Europe	Asia	Total
Revenues	$ 634.1	$ 493.2	$ 180.4	$ 1,307.7
Net earnings (1)	$ 27.6	$ 234.1	$ 64.4	$ 326.1
Total assets	$ 9,034.7	$ 6,526.4	$ 3,810.5	$ 19,371.6
Amounts due to us	$ 24.8	$ 70.0	$ 109.1	$ 203.9
Third party debt (2)	$ 5,305.2	$ 3,456.2	$ 1,889.5	$ 10,650.9
Total liabilities	$ 5,678.5	$ 4,057.7	$ 2,550.7	$ 12,286.9
Minority interest	$ 17.4	$ 10.8	$	$ 28.2
Equity	$ 3,338.8	$ 2,457.8	$ 1,259.9	$ 7,056.5
Our weighted average ownership at end of period (3)	27.9%	24.8%	20.0%	25.5%
Our investment balance (4)	$ 818.0	$ 653.1	$ 284.0	$ 1,755.1
Deferred proceeds, net of amortization (5)	$ 216.4	$ 193.9	$ 127.0	$ 537.3

	2006			
	North America	Europe	Asia	Total
Revenues	$ 494.6	$ 414.4	$ 120.9	$ 1,029.9
Net earnings (6)	$ 266.2	$ 88.2	$ 47.7	$ 402.1
Total assets	$ 6,420.7	$ 4,856.0	$ 1,958.3	$ 13,235.0
Amounts due to us	$ 6.7	$ 14.0	$ 75.2	$ 95.9
Third party debt (2)	$ 3,113.8	$ 2,615.6	$ 904.2	$ 6,633.6
Total liabilities	$ 4,360.8	$ 2,968.0	$ 1,054.2	$ 8,383.0
Minority interest	$ 5.7	$ 6.6	$	$ 12.3
Equity	$ 2,054.2	$ 1,881.4	$ 904.1	$ 4,839.7
Our weighted average ownership at end of period (3)	23.1%	24.0%	20.0%	23.0%
Our investment balance (4)	$ 416.8	$ 430.8	$ 134.2	$ 981.8
Deferred proceeds, net of amortization (5)	$ 112.8	$ 123.7	$ 66.2	$ 302.7

(1) Included in net earnings for Europe is a net gain of $155.8 million from the disposition of 47 properties by PEPR.

(2) As of December 31, 2007, we had not guaranteed any of the debt of the property funds. As of December 31, 2006, we had guaranteed $15.0 million of borrowings of ProLogis North American Properties Fund V.

(3) Represents the weighted average of our ownership interests in all property funds at December 31, based on each entity s contribution to total assets, before depreciation, net of other liabilities.

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

(5) This amount is recorded as a reduction to our investment and represents the proceeds that we defer when we contribute a property to a property fund due to our continuing ownership in the property.

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(6) Included in net earnings for Europe are expenses of approximately $43.3 million related to the costs to complete PEPR s IPO, as this was an offering of existing units and no new capital was raised by PEPR. Included in net earnings for North America is $185.7 million representing the net gain recognized by Funds II-IV upon termination in the first quarter of 2006 (see below).

The unconsolidated property funds that we manage, and in which we have an equity ownership, may enter into interest rate swap contracts that are designated as cash flow hedges to mitigate interest expense volatility associated with movements of interest rates for the debt they expect to issue. In 2007, certain of the property funds issued short-term bridge financing to finance their acquisitions of properties from us and third parties. Based on the anticipated refinancing of these bridge financings with long-term debt issuances, the property funds have the following interest rate swap contracts outstanding at December 31, 2007 (amounts are for the entire entity and are in thousands):

Entity	Our Ownership	Notional Amounts	Swap Rate	Maturity	Fair Value
ProLogis North American Industrial Fund II	36.9%	$ 1,005,900	5.31 - 5.83%	2009 - 2018	($ 68,757)
ProLogis North American Industrial Fund III	20.0%				