News Release Archive

Prologis Announces Third Quarter 2011 Earnings Results

-- Strategic Business Priorities Ahead of Plan --
-- Solid Leasing Across All Regions --
-- Company Increases Core FFO and Disposition Guidance --

PR Newswire
SAN FRANCISCO

SAN FRANCISCO, Oct. 26, 2011 /PRNewswire/ -- Prologis, Inc. (NYSE: PLD), the leading global owner, operator and developer of industrial real estate, today reported results for the third quarter of 2011.

On June 3, 2011, AMB Property Corporation and ProLogis completed their merger and became Prologis, Inc. Under the structure of the merger, AMB Property Corporation was the legal acquirer and ProLogis was the accounting acquirer. Financial results for the third quarter 2011 represent the performance of the combined company whereas financial results for the third quarter of 2010 reflect stand-alone legacy ProLogis and therefore are not directly comparable.

Core funds from operations ("Core FFO") per fully diluted share was $0.44 for the third quarter of 2011. Funds from operations ("FFO") as defined by Prologis per fully diluted share was $0.45 for the third quarter of 2011. The differential between Core FFO and FFO in the third quarter of 2011 primarily relates to net gains on dispositions of real estate of $0.03 per share offset by merger costs of $0.02 per share.

Net income per share for the third quarter of 2011 was $0.12.

"Our third-quarter results are a testament to the quality of execution by our dedicated teams around the world," said Hamid R. Moghadam, chairman and co-chief executive officer. "Given the weaker global economic backdrop, our success this quarter affirms we are achieving the synergies we anticipated from the merger of AMB and ProLogis. We'll continue to advance our strategic priorities as we manage the business for the long term."

Operating Portfolio Metrics

Prologis' operating portfolio was 91.0 percent occupied at the end of the third quarter, up 30 basis points from 90.7 percent occupied at June 30, 2011. Same-store net operating income (NOI) decreased by (0.7) percent in the third quarter, compared to an increase of 3.1 percent in the second quarter of 2011. Rental rates on leases signed in the same-store pool decreased (8.6) percent for the third quarter.

During the third quarter, the company leased a total of 33.4 million square feet (3.1 million square meters) in its operating and development portfolios. The company also achieved a 76.3 percent tenant retention rate for the quarter, signing 20.1 million square feet (1.9 million square meters) of renewals.

"On a combined basis, we had the strongest third quarter of leasing since 2008, and we believe that this momentum will carry through the fourth quarter. Leasing volume was strong across all of our regions including Europe, where occupancy increased 70 basis points from the second quarter," said Walter C. Rakowich, co-chief executive officer. "Our ability to meet demand and retain customers is unparalleled given our global platform."

Private Capital Activity

Year-to-date through September 30, 2011, Prologis raised or received commitments for $1.8 billion of new third-party equity in its private capital business. This activity includes the approval on a $500 million allocation from the Oregon Public Employees Retirement Fund. Under this arrangement Oregon intends to invest in several of the company's funds around the world. The initial euro 75 million (approximately $100 million) was invested in the Prologis Targeted Europe Logistics Fund subsequent to quarter end.

As previously announced, the company sold its 20 percent interest in its ProLogis Korea Fund during the third quarter. The fund consisted of 12 properties, totaling 1.7 million square feet (161,048 square meters).

Contributions & Dispositions

Prologis is ahead of its 2011 plan and has completed approximately $844 million in building and land dispositions and contributions. The company's share of the proceeds was $745 million.

During the third quarter, the company completed $391 million in building and land dispositions and contributions. Prologis' share of the proceeds was $292 million. Disposition and contribution activity during the quarter included:

- $334 million of building and land dispositions of which $236 million was Prologis' share; and
- $57 million in contributions from the company's balance sheet to its ProLogis European Property Fund II and the Prologis China Logistics Venture.

Subsequent to quarter end, the company contributed an additional $453 million of its balance sheet assets to its co-investment ventures in the United States and Europe and received 100 percent of the proceeds.

Capital Deployment Activity

New development starts in the third quarter totaled approximately 1.4 million square feet (130,000 square meters) in 10 projects across Asia, Europe, and the Americas; the estimated total expected investment was $134 million, of which $98 million was Prologis' share. At quarter end, Prologis' global development portfolio totaled approximately 12.7 million square feet (1.2 million square meters), with an estimated total investment of $1.4 billion, of which $1.2 billion was Prologis' share.

Deepening the company's presence in its global markets, Prologis acquired 9 industrial properties and 10.5 acres of land from third parties at a total cost of $152 million, $101 million of which was Prologis' share.

Capital Markets Activity

During the third quarter the company completed more than $975 million of capital markets activities, of which $550 million was Prologis' share, including debt repayments, repurchases, extensions and new financings.

"Our capital markets activities in the third quarter focused principally on addressing near-term debt maturities," said William E. Sullivan, Prologis' chief financial officer. "With our increased contribution and disposition activity planned for the fourth-quarter, we will make significant progress on reducing our debt by year end and expect to exceed our 2011 delevering plan."

Guidance for the Remainder of 2011

"Our solid performance in the third quarter and our expectations for the fourth quarter operating environment give us the basis for raising our Core FFO guidance for the second half of 2011," said Sullivan.

The company is increasing its Core FFO guidance for the second half of 2011 to $0.83 to $0.85 per share, up from its previous guidance of $0.78 to $0.82 per share, resulting in a fourth-quarter Core FFO guidance of $0.39 to $0.41 per share.

Prologis also expects to recognize net income (loss) of $(0.05) to $0.05 per share for the second half of 2011. In reconciling from net earnings to Core FFO, Prologis makes certain adjustments including the removal of gains (losses) recognized from property dispositions, real estate depreciation and amortization expense, deferred taxes, transaction and merger costs.

"In light of the robust sales environment for industrial real estate, we are also substantially increasing our disposition guidance," said Sullivan. "We will continue to be selective in our capital deployment decisions, acquiring properties and commencing development where demand is sound and where understanding economics justify the risk."

Based upon the company's view of current market conditions, Prologis is increasing disposition and contribution guidance for the second half of 2011 to $1.8 to $2.0 billion, of which 90 percent represents Prologis' share. The previous disposition and contribution guidance range was $1.2 billion to $1.5 billion.

The company is lowering its second half 2011 development starts guidance range to $325 million to $375 million, of which 65 percent represents Prologis' share. Prologis is also reducing its second half 2011 property acquisition range to $225 million to $275 million, of which 30 percent represents Prologis' share.

Webcast and Conference Call Information

The company will host a webcast /conference call to discuss quarterly results, current market conditions and future outlook today, October 26, 2011, at 12:00 p.m. Eastern Time. Interested parties are encouraged to access the live webcast by clicking the microphone icon located near the top of the opening page at: http://ir.prologis.com. Interested parties also can participate via conference call by dialing (877) 256-7020 domestically or (706) 643-7823 internationally with reservation code 14936609.

About Prologis

Prologis, Inc. is the leading owner, operator and developer of industrial real estate, focused on global and regional markets across the Americas, Europe and Asia. As of September 30, 2011, Prologis owned or had investments in, on a consolidated basis or through unconsolidated joint ventures, properties and development projects expected to total approximately 600 million square feet (55.7 million square meters) in 22 countries. The company leases modern distribution facilities to more than 4,500 customers, including manufacturers, retailers, transportation companies, third-party logistics providers and other enterprises.

Some of the information included in this press release contains forward-looking statements which are made pursuant to the safe-harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause our actual results to differ materially from those in the forward-looking statements, and you should not rely on the forward-looking statements as predictions of future events. The events or circumstances reflected in forward-looking statements might not occur. You can identify forward-looking statements by the use of forward-looking terminology such as “believes,” “expects,” “may,” “will,” “should,” “seeks,” “approximately,” “intends,” “plans,” “pro forma,” “estimates” or “anticipates” or the negative of these words and phrases or similar words or phrases. You can also identify forward-looking statements by discussions of strategy, plans or intentions. Forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and we may not be able to realize them. We caution you not to place undue reliance on forward-looking statements, which reflect our analysis only and speak only as of the date of this report or the dates indicated in the statements. We assume no obligation to update or supplement forward-looking statements. The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements: changes in general economic conditions in California, the U.S. or globally (including financial market fluctuations), global trade or in the real estate sector (including risks relating to decreasing real estate valuations and impairment charges); risks associated with using debt to fund the company’s business activities, including refinancing and interest rate risks; the company’s failure to obtain, renew, or extend necessary financing or access the debt or equity markets; the company’s failure to maintain its current credit agency ratings or comply with its debt covenants; risks related to the merger transaction with ProLogis, including the risk that the merger may not achieve its intended results; risks related to the company’s obligations in the event of certain defaults under co-investment venture and other debt; defaults on or non-renewal of leases by customers, lease renewals at lower than expected rent or failure to lease properties at all or on favorable rents and terms; difficulties in identifying properties, portfolios of properties, or interests in real-estate related entities or platforms to acquire and in effecting acquisitions on advantageous terms and the failure of acquisitions to perform as the company expects; unknown liabilities acquired in connection with the acquired properties, portfolios of properties, or interests in real-estate related entities; the company’s failure to successfully integrate acquired properties and operations; risks and uncertainties affecting property development, redevelopment and value-added conversion (including construction delays, cost overruns, the company’s inability to obtain necessary permits and financing, the company’s inability to lease properties at all or at favorable rents and terms, and public opposition to these activities); the company’s failure to set up additional funds, attract additional investment in existing funds or to contribute properties to its co-investment ventures due to such factors as its inability to acquire, develop, or lease properties that meet the investment criteria of such ventures, or the co-investment ventures’ inability to access debt and equity capital to pay for property contributions or their allocation of available capital to cover other capital requirements; risks and uncertainties relating to the disposition of properties to third parties and the company’s ability to effect such transactions on advantageous terms and to timely reinvest proceeds from any such dispositions; risks of doing business internationally and global expansion, including unfamiliarity with the new markets and currency risks; risks of changing personnel and roles; losses in excess of the company’s insurance coverage; changes in local, state and federal regulatory requirements, including changes in real estate and zoning laws; increases in real property tax rates; risks associated with the company’s tax structuring; increases in interest rates and operating costs or greater than expected capital expenditures; environmental uncertainties and risks related to natural disasters; and our failure to qualify and maintain our status as a real estate investment trust. Our success also depends upon economic trends generally, various market conditions and fluctuations and those other risk factors discussed under the heading “Risk Factors” and elsewhere in our most recent annual report on Form 10-K for the year ended December 31, 2010 and our other public reports.

Company Profile

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011 (A)	2010 (A)	2011 (A)	2010 (A)
Revenues	$ 501,393	$ 228,614	$ 1,075,683	$ 665,191
Net earnings (loss) attributable to common shares	$ 54,906	$ (15,052)	$ (143,181)	$ (129,331)
FFO, as defined by Prologis	$ 207,200	$ 104,050	$ 277,541	$ 179,011

Core FFO	$ 205,903	$ 69,871	$ 389,972	$ 182,542
Core EBITDA, as adjusted	$ 412,192	$ 225,368	$ 1,172,958	$ 648,235
Per common share - diluted:				
Net earnings (loss) attributable to common shares	$ 0.12	$ (0.07)	$ (0.42)	$ (0.61)
FFO, as defined by Prologis	$ 0.45	$ 0.48	$ 0.81	$ 0.84
Core FFO	$ 0.44	$ 0.33	$ 1.13	$ 0.85

(A) We completed the merger with AMB (the "Merger") on June 3, 2011. The financial results presented throughout this supplemental include Prologis for the full period and AMB results from the date of the Merger going forward. Results for the nine months ended September 30, 2011 include approximately four months of the impact from both the Merger and PEPR acquisition. See the Notes and Definitions for more information.

Balance Sheets

(in thousands)

	September 30, 2011	June 30, 2011	December 31, 2010 (A)
Assets:			
Investments in real estate assets:			
Operating portfolio	$ 22,474,206	$ 22,629,855	$ 10,714,799
Development portfolio	676,019	632,196	365,362
Land	1,972,277	2,045,826	1,533,611
Other real estate investments	469,852	440,877	265,869
	25,592,354	25,748,754	12,879,641
Less accumulated depreciation	1,908,152	1,764,289	1,595,678
Net investments in properties	23,684,202	23,984,465	11,283,963
Investments in and advances to unconsolidated investees	2,900,646	3,012,144	2,024,661
Notes receivable backed by real estate	354,254	359,228	302,144
Assets held for sale	89,519	171,765	574,791
Net investments in real estate	27,028,621	27,527,602	14,185,559
Cash and cash equivalents	216,749	260,893	37,634
Restricted cash	77,798	68,390	27,081
Accounts receivable	216,423	197,475	58,979
Other assets	1,046,713	1,080,146	593,414
Total assets	**$ 28,586,304**	**$ 29,134,506**	**$ 14,902,667**
Liabilities and Equity:			
Liabilities:			
Debt	$ 12,147,277	$ 12,119,952	$ 6,506,029
Accounts payable, accrued expenses, and other liabilities	1,837,061	1,944,309	876,283
Total liabilities	13,984,338	14,064,261	7,382,312
Equity:			
Stockholders' equity:			
Preferred stock	582,200	582,200	350,000
Common stock	4,592	4,589	2,545
Additional paid-in capital	16,365,581	16,384,229	9,671,560
Accumulated other comprehensive income (loss)	(102,546)	225,364	(3,160)
Distributions in excess of net earnings	(2,916,997)	(2,842,842)	(2,515,722)
Total stockholders' equity	13,932,830	14,353,540	7,505,223
Noncontrolling interests	609,259	654,912	15,132
Noncontrolling interests - limited partnership unitholders	59,877	61,793	-
Total equity	14,601,966	15,070,245	7,520,355
Total liabilities and equity	**$ 28,586,304**	**$ 29,134,506**	**$ 14,902,667**

(A) Represents legacy Prologis only.

Consolidated Statement of Operations

(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010 (A)**	**2011 (A)**	**2010 (A)**
Revenues:				
Rental income	$ 462,539	$ 194,018	$ 960,779	$ 568,816
Private capital revenue	34,578	29,812	97,389	87,881
Development management and other income	4,276	4,784	17,515	8,494
Total revenues	501,393	228,614	1,075,683	665,191
Expenses:				
Rental expenses	126,994	56,531	270,760	166,207
Private capital expenses	17,080	9,829	39,228	30,079
General and administrative expenses	53,341	34,959	144,364	115,886
Merger, acquisition and other integration expenses	12,683	-	121,723	-
Depreciation, amortization and other expenses	200,529	91,558	417,269	253,524
Total expenses	410,627	192,877	993,344	565,696
Operating income	90,766	35,737	82,339	99,495
Other income (expense):				
Earnings from unconsolidated property funds, net	27,855	7,455	48,422	13,305
Earnings from other unconsolidated investees, net	3,120	1,770	7,593	7,197
Interest income	4,960	1,681	14,063	2,178
Interest expense	(136,064)	(120,233)	(339,579)	(349,132)
Impairment of other assets	-	-	(103,823)	-
Gains (losses) on acquisitions and dispositions of investments in real estate, net	8,396	35,922	114,650	58,688
Foreign currency and derivative gains (losses) and other income (expenses), net	52,208	11,838	36,921	6,281
Gain (loss) on early extinguishment of debt, net	(298)	(1,791)	(298)	(48,449)
Total other income (expense)	(39,823)	(63,358)	(222,051)	(309,932)
Earnings (loss) before income taxes	50,943	(27,621)	(139,712)	(210,437)
Income tax expense (benefit) - current and deferred	(2,838)	7,455	9,960	(24,592)
Earnings (loss) from continuing operations	53,781	(35,076)	(149,672)	(185,845)
Discontinued operations:				
Income attributable to disposed properties and assets held for sale	677	18,557	10,204	59,102
Net gains on dispositions, net of related impairment charges and taxes	11,410	8,026	21,545	17,153
Total discontinued operations	12,087	26,583	31,749	76,255
Consolidated net earnings (loss)	65,868	(8,493)	(117,923)	(109,590)
Net earnings attributable to noncontrolling interests	(553)	(190)	(838)	(634)
Net earnings (loss) attributable to controlling interests	65,315	(8,683)	(118,761)	(110,224)
Less preferred stock dividends	10,409	6,369	24,420	19,107
Net earnings (loss) attributable to common shares	**$ 54,906**	**$ (15,052)**	**$ (143,181)**	**$ (129,331)**
Weighted average common shares outstanding - Diluted (B)	462,408	212,945	340,923	212,611
Net earnings (loss) per share attributable to common shares - Diluted	**$ 0.12**	**$ (0.07)**	**$ (0.42)**	**$ (0.61)**

(A) The financial results include Prologis for the full period and AMB and PEPR results from approximately June 1, 2011.
(B) See Calculation of Per Share Amounts in the *Notes and Definitions*.

Consolidated Statements of Funds from Operations (FFO)

(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010 (A)	2011 (A)	2010 (A)
Revenues:				
Rental income	$ 466,954	$ 236,252	$ 979,957	$ 697,419
Private capital revenue	34,578	29,812	97,389	87,881
Development management and other income	4,276	4,784	17,515	8,494
Total revenues	505,808	270,848	1,094,861	793,794
Expenses:				
Rental expenses	129,136	69,326	276,951	202,607
Private capital expenses	17,080	9,829	39,228	30,079
General and administrative expenses	53,341	34,959	144,364	115,886
Merger, acquisition and other integration expenses	12,683	-	121,723	-
Depreciation and amortization of non-real estate assets and other expenses	10,026	12,157	31,022	29,041
Total operating expenses	222,266	126,271	613,288	377,613
Operating FFO	283,542	144,577	481,573	416,181
Other income (expense):				
FFO from unconsolidated property funds	54,367	42,315	147,263	116,016
FFO from other unconsolidated investees	6,385	3,660	11,888	12,135
Interest income	4,960	1,681	14,063	2,178
Interest expense	(136,188)	(120,233)	(339,809)	(349,132)
Impairment of other assets	-	-	(103,823)	-
Gains on acquisitions and dispositions of investments in real estate, net	11,018	40,899	120,338	62,001
Foreign currency exchange gains (losses) and other income (expenses), net	(1,479)	5,000	(8,115)	3,672
Gain (loss) on early extinguishment of debt, net	(298)	(1,791)	(298)	(48,449)
Current income tax (expense) benefit	4,611	(5,499)	(9,121)	(15,850)
Total other income (expense)	(56,624)	(33,968)	(167,614)	(217,429)
Less preferred share dividends	10,409	6,369	24,420	19,107
Less FFO attributable to noncontrolling interests	9,309	190	11,998	634
FFO, as defined by Prologis	**207,200**	**104,050**	**277,541**	**179,011**
Impairment charges	-	2,929	106,482	3,296
Japan disaster expenses	(400)	-	5,210	-
Merger and other integration expenses	12,683	-	121,723	-
Our share of gains on acquisitions and dispositions of investments in real estate, net	(13,878)	(40,899)	(123,198)	(62,001)
Loss (gain) on early extinguishment of debt, net	298	1,791	298	16,049
Income tax expense on dispositions	-	2,000	1,916	2,851
Adjustments made in 2010, not applicable to 2011	-	-	-	43,336
Total of adjustments	(1,297)	(34,179)	112,431	3,531
Core FFO	**$ 205,903**	**$ 69,871**	**$ 389,972**	**$ 182,542**
Weighted average common shares outstanding - Diluted (B)	**474,287**	**214,407**	**355,540**	**214,109**
Core FFO per share - Diluted	**$ 0.44**	**$ 0.33**	**$ 1.13**	**$ 0.85**

(A) The financial results include Prologis for the full period and AMB and PEPR results from approximately June 1, 2011.
(B) See Calculation of Per Share Amounts in the Notes and Definitions.

Reconciliations of Net Income (Loss) to FFO

(in thousands)

	Three Months Ended	Nine Months Ended

	September 30,		September 30,	
	2011	2010 (A)	2011 (A)	2010 (A)
Reconciliation of net earnings (loss) to FFO				
Net earnings (loss) attributable to common shares	$ 54,906	$ (15,052)	$ (143,181)	$ (129,331)
Add (deduct) NAREIT defined adjustments:				
Real estate related depreciation and amortization	190,503	79,401	388,906	224,483
Adjustments related to dispositions	(7,316)	7,833	(17,880)	19,261
Reconciling items related to noncontrolling interests	(8,756)	-	(11,160)	-
Our share of reconciling items from unconsolidated investees	31,393	35,987	103,730	105,830
Subtotal-NAREIT defined FFO	260,730	108,169	320,415	220,243
Add (deduct) our defined adjustments:				
Unrealized foreign currency and derivative gains, net	(53,688)	(6,838)	(45,036)	(2,609)
Deferred income tax expense (benefit)	1,773	1,956	2,755	(40,442)
Our share of reconciling items from unconsolidated investees	(1,615)	763	(593)	1,819
FFO, as defined by Prologis	**207,200**	**104,050**	**277,541**	**179,011**
Adjustments to arrive at Core FFO	(1,297)	(34,179)	112,431	3,531
Core FFO	**$ 205,903**	**$ 69,871**	**$ 389,972**	**$ 182,542**

(A) The financial results include Prologis for the full period of AMB and PEPR results from approximately June 1, 2011.

Debt to EBITDA Metrics

(dollars in thousands)

Reconciliation of Consolidated Net Earnings (Loss) to Core EBITDA

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Consolidated net earnings (loss)	$ 65,868	$ (8,493)	$ (117,923)	$ (109,590)
Net gains on acquisitions and dispositions of investments in real estate	(19,806)	(45,948)	(140,770)	(78,692)
Depreciation and amortization	196,558	83,220	403,027	235,903
Interest expense	136,064	120,233	339,579	349,132
Impairment charges	-	2,929	106,482	3,296
Merger, acquisition and other integration expenses	12,683	-	121,723	-
Current and deferred income tax expense (benefit)	(2,838)	9,455	11,876	(21,741)
Pro forma adjustment (A)	-	-	263,994	-
Income on properties sold during the quarter included in discontinued operations	(677)	(18,557)	(10,204)	(59,102)
Other non-cash charges (gains)	(44,680)	(1,717)	(23,409)	14,764
Other adjustments made to arrive at Core FFO	(102)	1,791	5,508	59,385
Core EBITDA, prior to our share of unconsolidated investees	**343,070**	**142,913**	**959,883**	**393,355**
Our share of reconciling items from unconsolidated investees:				
Depreciation and amortization	31,393	35,987	103,730	105,830
Interest expense	38,043	43,214	105,051	134,740
Current and deferred income tax expense (benefit)	1,301	2,491	4,661	6,507
Other non-cash charges (gains)	(1,615)	763	(593)	1,819
Realized losses (gains) on derivative activity	-	-	226	5,984
Core EBITDA	**$ 412,192**	**$ 225,368**	**$ 1,172,958**	**$ 648,235**

(A) Adjustments for the effects of the Merger and PEPR acquisition to reflect NOI for the full period.

Notes and Definitions

Please refer to our annual and quarterly financial statements filed with the Securities and Exchange Commission on Forms 10-K and 10-Q and other public reports for further information about us and our business. Certain amounts from previous periods presented in the Supplemental Information have been reclassified to conform to the 2011 presentation.

Our direct owned segment represents the direct, long-term ownership of industrial properties. Our investment strategy in this segment focuses primarily on the ownership and leasing of industrial properties in global and regional markets. Our intent is to hold and use these properties; however, depending on market and other conditions, we may contribute or sell these properties to property funds/co-investment ventures or sell to third parties. When we contribute or sell properties we have developed, we recognize FFO to the extent the proceeds received exceed our original investment (i.e. prior to depreciation) and present the results as Net Gains on Dispositions. In addition, we have industrial properties that are currently under development and land available for development that are part of this segment as well. We may develop the land or sell to third parties, depending on market conditions, customer demand and other factors. The private capital segment represents primarily the management of unconsolidated property funds and joint ventures and the properties they own.

On June 3, 2011, AMB Property Corporation ("AMB") and ProLogis combined through a merger of equals (the "Merger"). As a result of the Merger, each outstanding ProLogis common share was converted into 0.4464 shares of AMB common stock. At the time of the Merger, AMB changed its name to Prologis, Inc. After consideration of all applicable factors pursuant to the business combination accounting rules, the Merger resulted in a reverse acquisition in which AMB was considered the "legal acquirer" and ProLogis was considered the "accounting acquirer". As such, the historical results of ProLogis are included for the full period and AMB results are included from the date of the Merger going forward.

During the second quarter of 2011, we increased our ownership of ProLogis European Properties ("PEPR"), through open market purchases and a mandatory tender offer. On May 25, 2011, we settled on our mandatory tender offer. Pursuant to the tender offer and open-market purchases made during the tender period, we acquired an additional 96.5 million ordinary units and 2.7 million convertible preferred units of PEPR for an aggregate purchase price of approximately euro 615.5 million. We funded the aggregate purchases through borrowings under our existing credit facilities and a new euro 500 million bridge facility, which was subsequently repaid with proceeds received from our June equity offering.

After completion of the tender offer, we began consolidating PEPR and recognized of a gain of euro 59.6 million ($85.9 million). Following the tender offer, and including open market purchases and out participation in new equity offerings through September 30, 2011, we owned approximately 93.7% of the voting ordinary units of PEPR and 94.9% of the convertible preferred units as of September 30, 2011.

We have preliminarily allocated the aggregate purchase price related to the Merger of $5.9 billion and PEPR of euro 1.1 billion ($1.6 billion) as set forth below. The allocations are based on our preliminary valuations, estimates and assumptions and are subject to change.

(amounts in thousands)	Merger	PEPR	Total
Investments in real estate properties	$ 8,141,845	$ 4,497,598	$ 12,639,443
Investments in and advances to unconsolidated investees	1,588,223	-	1,588,223
Cash, accounts receivable and other assets	736,432	137,644	874,076
Debt	(3,646,719)	(2,240,764)	(5,887,483)
Accounts payable, accrued expenses and other liabilities	(421,027)	(633,889)	(1,054,916)
Noncontrolling interests	(542,305)	(133,651)	(675,956)
Total purchase price	$ 5,856,449	$ 1,626,938	$ 7,483,387

Assets Held For Sale and Discontinued Operations. As of September 30, 2011, we had 2 land parcels and 5 operating properties that met the criteria of held for sale. The amounts included in *Assets Held for Sale* include real estate investment balances and the related assets and liabilities for each property.

During the nine months ended September 30, 2011, we disposed of 54 non-development properties aggregating 5.8 million square feet to third parties, including 31 properties aggregating 1.3 million square feet that were included in *Assets Held for Sale* at December 31, 2010. During all of 2010, we disposed of land subject to ground leases and 205 properties aggregating 25.4 million square feet to third parties, two of which were development properties.

The operations of the properties held for sale and properties that are disposed of to third parties during a period, including the aggregate net gains or losses recognized upon their disposition, are presented as discontinued operations in our Consolidated Statements of Operations for all periods presented. The income attributable to these properties was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Rental income	$ 4,415	$42,234	$19,178	$28,603
Rental expenses	(2,142)	(12,795)	(6,191)	(36,400)
Depreciation and amortization	(1,472)	(10,882)	(2,553)	(33,101)
Interest expense	(124)	-	(230)	-
Income attributable to disposed properties and assets held for sale	$677	$ 18,557	$10,204	$ 59,102

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

Calculation of Per Share Amounts are as follows *(in thousands, except per share amounts)***:**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Net earnings (loss)				
Net earnings (loss)	**$ 54,906**	**$ (15,052)**	**$ (143,181)**	**$ (129,331)**
Noncontrolling interest attributable to convertible limited partnership units	45	-	-	-
Adjusted net earnings (loss) - Diluted	**$ 54,951**	**$ (15,052)**	**$ (143,181)**	**$ (129,331)**
Weighted average common shares outstanding - Basic (a)	458,256	212,945	340,923	212,611
Incremental weighted average effect of conversion of limited partnership units	3,362	-	-	-
Incremental weighted average effect of stock awards	790	-	-	-
Weighted average common shares outstanding - Diluted (a)	**462,408**	**212,945**	**340,923**	**212,611**
Net earnings (loss) per share - Basic	**$ 0.12**	**$ (0.07)**	**$ (0.42)**	**$ (0.61)**
Net earnings (loss) per share - Diluted	**$ 0.12**	**$ (0.07)**	**$ (0.42)**	**$ (0.61)**
FFO, as defined by Prologis				
FFO, as defined by Prologis	$ 207,200	$ 104,050	$ 277,541	$ 179,011
Noncontrolling interest attributable to convertible limited partnership units	45	157	181	-
Interest expense on convertible debt assumed converted to common shares	4,114	4,216	-	-
FFO - Diluted, as defined by Prologis	**$ 211,359**	**$ 108,423**	**$ 277,722**	**$ 179,011**
Weighted average common shares outstanding - Basic (a)	458,256	212,945	340,923	212,611
Incremental weighted average effect of conversion of limited partnership units	3,362	339	1,668	-
Incremental weighted average effect of stock awards	790	1,462	1,070	1,498
Incremental weighted average effect of conversion of certain convertible debt	11,879	11,879	-	-
Weighted average common shares outstanding - Diluted (a)	**474,287**	**226,625**	**343,661**	**214,109**

FFO per share - Diluted, as defined by Prologis	**$ 0.45**	**$ 0.48**	**$ 0.81**	**$ 0.84**
Core FFO				
Core FFO	$ 205,903	$ 69,871	$ 389,972	$ 182,542
Noncontrolling interest attributable to convertible limited partnership units	45	-	181	-
Interest expense on convertible debt assumed converted to common shares	4,114	-	12,659	-
Core FFO - Diluted	**$ 210,062**	**$ 69,871**	**$ 402,812**	**$ 182,542**
Weighted average common shares outstanding - Basic (a)	458,256	212,945	340,923	212,611
Incremental weighted average effect of conversion of limited partnership units	3,362	-	1,668	-
Incremental weighted average effect of stock awards	790	1,462	1,070	1,498
Incremental weighted average effect of conversion of certain convertible debt	11,879	-	11,879	-
Weighted average common shares outstanding - Diluted (a)	**474,287**	**214,407**	**355,540**	**214,109**
Core FFO per share - Diluted	**$ 0.44**	**$ 0.33**	**$ 1.13**	**$ 0.85**

(a) The historical ProLogis shares outstanding have been adjusted by the Merger exchange ratio of 0.4464. Amounts in 2011 include the assumed issuance of 254.8 million shares as of the Merger date.

Core EBITDA. We use Core EBITDA to measure both our operating performance and liquidity. We calculate Core EBITDA beginning with consolidated net earnings/loss and removing the affect of interest, income taxes, depreciation and amortization, impairment charges, gains or losses from the acquisition or disposition of investments in real estate, gains or losses on early extinguishment of debt and derivative contracts (including cash charges), similar adjustments we make to our Core FFO (see definition below), and other non-cash charges or gains (such as stock based compensation amortization and unrealized gains or losses on foreign currency and derivative activity), including our share of these items from unconsolidated investees.

We consider Core EBITDA, to provide investors relevant and useful information because it permits investors to view income from operations on an unleveraged basis before the effects of income tax, non-cash depreciation and amortization expense and other items (including stock-based compensation amortization and certain unrealized gains and losses), gains or losses from the acquisition or disposition of investments in real estate, items that affect comparability, and other significant non-cash items. In 2011, we adjusted Core EBITDA to include a pro forma adjustment to reflect a full period of NOI on the operating properties we acquired through the Merger and PEPR acquisition and to exclude Merger, Acquisition and Other Integration Expenses and costs associated with the hurricane and tsunami that occurred in first quarter 2011 in Japan. By excluding interest expense, EBITDA allows investors to measure our operating performance independent of our capital structure and indebtedness and, therefore, allows for a more meaningful comparison of our operating performance to that of other companies, both in the real estate industry and in other industries. Gains and losses on the early extinguishment of debt generally included the costs of repurchasing debt securities. Although difficult to predict, these items may be recurring given the uncertainty of the current economic climate and its adverse effects on the real estate and financial markets. While not infrequent or unusual in nature, these items result from market fluctuations that can have inconsistent effects on our results of operations. The economics underlying these items reflect market and financing conditions in the short-term but can obscure our performance and the value of our long-term investment decisions and strategies.

As a liquidity measure, we believe that Core EBITDA, helps investors to analyze our ability to meet interest payment obligations and to make quarterly preferred share dividends. We believe that investors should consider Core EBITDA, in conjunction with net income (the primary measure of our performance) and the other required Generally Accepted Accounting Principles ("GAAP") measures of our performance and liquidity, to improve their understanding of our operating results and liquidity, and to make more meaningful comparisons of our performance against other companies. By using Core EBITDA, an investor is assessing the earnings generated by our operations, but not taking into account the eliminated expenses or gains incurred in connection with such operations. As a result, Core EBITDA, has limitations as an analytical tool and should be used in conjunction with our required GAAP presentations. Core EBITDA, does not reflect our historical cash expenditures or future cash requirements for working capital, capital expenditures distribution requirements or contractual commitments. Core EBITDA, also does not reflect the cash required to make interest and principal payments on our outstanding debt.

While EBITDA, is a relevant and widely used measure of operating performance and liquidity, it does not represent net income or cash flow from operations as defined by GAAP and it should not be considered as an alternative to those indicators in evaluating operating performance or liquidity. Further, our computation of Core EBITDA, as adjusted may not be comparable to EBITDA reported by other companies. We compensate for the limitations of Core EBITDA, as adjusted by providing investors with financial statements prepared according to GAAP, along with this detailed discussion of Core EBITDA, as adjusted and a reconciliation of Core EBITDA, as adjusted to consolidated net earnings (loss), a GAAP measurement.

FFO; FFO, as defined by Prologis; Core FFO (collectively referred to as "FFO"). FFO is a non-GAAP measure that is commonly used in the real estate industry. The most directly comparable GAAP measure to FFO is net earnings. Although the National Association of Real Estate Investment Trusts ("NAREIT") has published a definition of FFO, modifications to the NAREIT calculation of FFO are common among REITs, as companies seek to provide financial measures that meaningfully reflect their business.

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

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

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

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

Our FFO Measures

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

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

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

FFO, as defined by Prologis

To arrive at *FFO, as defined by Prologis*, we adjust the NAREIT defined FFO measure to exclude:

(i) deferred income tax benefits and deferred income tax expenses recognized by our subsidiaries;
(ii) current income tax expense related to acquired tax liabilities that were recorded as deferred tax liabilities in an acquisition, to the extent the expense is offset with a deferred income tax benefit in GAAP earnings that is excluded from our defined FFO measure;
(iii) foreign currency exchange gains and losses resulting from debt transactions between us and our foreign consolidated subsidiaries and our foreign unconsolidated investees;
(iv) foreign currency exchange gains and losses from the remeasurement (based on current foreign currency exchange rates) of certain third party debt of our foreign consolidated subsidiaries and our foreign unconsolidated investees; and
(v) mark-to-market adjustments associated with derivative financial instruments.

We calculate *FFO, as defined by Prologis* for our unconsolidated investees on the same basis as we calculate our *FFO, as defined by Prologis*.

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

FFO, excluding significant non-cash items

When we began to experience the effects of the global economic crises in the fourth quarter of 2008, we decided that *FFO, as defined by Prologis*, did not provide all of the information we needed to evaluate our business in this environment. As a result, we developed *FFO, excluding significant non-cash items* to provide additional information that allowed us to better evaluate our operating performance during that unprecedented economic time. Beginning in 2011, we no longer use FFO, excluding significant non-cash items.

Core FFO

Core FFO includes *FFO, as defined by Prologis*, adjusted to remove gains (losses) on acquisitions or dispositions of investments in real estate that are included in *FFO, as defined by Prologis*. If we recognize impairment charges due to the expected disposition of investments in real estate, we exclude those impairment charges. We may also adjust for certain other significant items that affect comparability as noted in the reconciliation. In 2011, we have adjusted to exclude Merger, Acquisitions and Other Integration Expenses; early extinguishment of debt; and losses for the disaster expenses that occurred in March 2011 in Japan.

Limitations on Use of our FFO Measures

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

- The current income tax expenses that are excluded from our defined FFO measures represent the taxes that are payable.
- Depreciation and amortization of real estate assets are economic costs that are excluded from FFO. FFO is limited, as it does not reflect the cash requirements that may be necessary for future replacements of the real estate assets. Further, the amortization of capital expenditures and leasing costs necessary to maintain the operating performance of industrial properties are not reflected in FFO.
- Gains or losses from property acquisitions and dispositions or impairment charges related to expected dispositions represent changes in the value of the properties. By excluding these gains and losses, FFO does not capture realized changes in the value of acquired or disposed properties arising from changes in market conditions.
- The deferred income tax benefits and expenses that are excluded from our defined FFO measures result from the creation of a deferred income tax asset or liability that may have to be settled at some future point. Our defined FFO measures do not currently reflect any income or expense that may result from such settlement.
- The foreign currency exchange gains and losses that are excluded from our defined FFO measures are generally recognized based on movements in foreign currency exchange rates through a specific point in time. The ultimate settlement of our foreign currency-denominated net assets is indefinite as to timing and amount. Our FFO measures are limited in that they do not reflect the current period changes in these net assets that result from periodic foreign currency exchange rate movements.

We compensate for these limitations by using our FFO measures only in conjunction with net earnings computed under GAAP when making our decisions. To assist investors in compensating for these limitations, we reconcile our defined FFO measures to our net earnings computed under GAAP. This information should be read with our complete financial statements prepared under GAAP.

General and Administrative Expenses ("G&A") consisted of the following (*in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Gross G&A expense	$ 94,741	$ 59,795	$ 243,373	$ 190,529
Reported as rental expense	(7,192)	(4,988)	(17,257)	(14,822)
Reported as private capital expenses	(17,080)	(9,829)	(39,228)	(30,079)
Capitalized amounts	(17,128)	(10,019)	(42,524)	(29,742)
Net G&A	**$ 53,341**	**$ 34,959**	**$ 144,364**	**$ 115,886**

Interest Expense consisted of the following (*in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Gross interest expense	$ 154,324	$ 114,291	$ 355,986	$ 332,525
Amortization of discount (premium), net	(7,079)	10,880	5,829	38,412
Amortization of deferred loan costs	3,572	6,110	16,324	20,027
Interest expense before capitalization	150,817	131,281	378,139	390,964
Capitalized amounts	(14,753)	(11,048)	(38,560)	(41,832)
Net interest expense	**$ 136,064**	**$ 120,233**	**$ 339,579**	**$ 349,132**

Merger, Acquisition and Other Integration Expenses. In connection with the Merger, we have incurred and expect to incur additional significant transaction, integration, and transitional costs. These costs include investment banker advisory fees; legal, tax, accounting and valuation fees; termination and severance costs (both cash and stock based compensation awards) for terminated and transitional employees; system conversion; and other integration costs. Certain of these costs were obligations of AMB and were expensed prior to the closing of the Merger by AMB. The remainder of the costs will be expensed by us as incurred, which in some cases will be through the end of 2012. At the time of the Merger, we cancelled our existing credit facilities and wrote-off the remaining unamortized deferred loan costs associated with such facilities, which is included in Merger, Acquisition and Other Integration Expenses. In addition, we have included costs associated with the acquisition of a controlling interest in PEPR and reduction in workforce charges associated with dispositions made in 2011. The following is a breakdown of the costs incurred (*in thousands*):

	Three Months Ended September 30,	Nine Months Ended September 30,
	2011	**2011**
Professional Fees	$ 909	$ 42,398
Termination, severance and transitional employee costs	11,107	45,444
Office closure, travel and other costs	667	23,012
Write-off of deferred loan costs	-	10,869

Total	**$**	**12,683**	**$**	**121,723**

Rental Income includes the following (*in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Rental income	$ 359,668	$ 145,270	$ 733,015	$ 417,383
Amortization of lease intangibles	(11,600)	(140)	(13,740)	(306)
Rental expense recoveries	94,568	40,792	198,305	123,927
Straight-lined rents	19,903	8,096	43,199	27,812
	$ 462,539	**$ 194,018**	**$ 960,779**	**$ 568,816**

SOURCE Prologis, Inc.

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http://prologis.mediaroom.com/2011-10-26-Prologis-Announces-Third-Quarter-2011-Earnings-Results