

DUKE REALTY CORP

Form 10-Q

November 04, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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: 1-9044

DUKE REALTY CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Indiana  
(State or Other Jurisdiction  
of Incorporation or Organization)

35-1740409  
(I.R.S. Employer  
Identification Number)

600 East 96<sup>th</sup> Street, Suite 100  
Indianapolis, Indiana  
(Address of Principal Executive Offices)

46240  
(Zip Code)

Registrant's Telephone Number, Including Area Code: (317) 808-6000

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): YES  NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Outstanding at November 4, 2011
Common Stock, \$.01 par value per share	252,921,718

DUKE REALTY CORPORATION  
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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## DUKE REALTY CORPORATION AND SUBSIDIARIES

## Consolidated Balance Sheets

(in thousands, except per share amounts)

	September 30, 2011 (Unaudited)	December 31, 2010
<b>ASSETS</b>		
Real estate investments:		
Land and improvements	\$1,307,608	\$1,166,409
Buildings and tenant improvements	5,601,866	5,396,339
Construction in progress	41,490	61,205
Investments in and advances to unconsolidated companies	368,671	367,445
Undeveloped land	622,254	625,353
	7,941,889	7,616,751
Accumulated depreciation	(1,413,804)	(1,290,417)
Net real estate investments	6,528,085	6,326,334
Real estate investments and other assets held-for-sale	21,992	394,287
Cash and cash equivalents	16,182	18,384
Accounts receivable, net of allowance of \$2,854 and \$2,945	21,685	22,588
Straight-line rent receivable, net of allowance of \$7,502 and \$7,260	140,732	125,185
Receivables on construction contracts, including retentions	44,425	7,408
Deferred financing costs, net of accumulated amortization of \$56,105 and \$46,407	39,449	46,320
Deferred leasing and other costs, net of accumulated amortization of \$329,325 and \$269,000	497,594	517,934
Escrow deposits and other assets	194,517	185,836
	\$7,504,661	\$7,644,276
<b>LIABILITIES AND EQUITY</b>		
Indebtedness:		
Secured debt	\$1,184,268	\$1,065,628
Unsecured notes	2,783,762	2,948,405
Unsecured lines of credit	304,293	193,046
	4,272,323	4,207,079
Liabilities related to real estate investments held-for-sale	957	14,732
Construction payables and amounts due subcontractors, including retentions	66,786	44,782
Accrued real estate taxes	123,524	83,615
Accrued interest	35,725	62,407
Other accrued expenses	42,729	61,448
Other liabilities	128,123	129,860
Tenant security deposits and prepaid rents	59,551	50,450
Total liabilities	4,729,718	4,654,373
Shareholders' equity:		
Preferred shares (\$.01 par value); 5,000 shares authorized; 3,176 and 3,618 shares issued and outstanding	793,910	904,540
	2,529	2,522

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Common shares (\$.01 par value); 400,000 shares authorized; 252,918 and 252,195 shares issued and outstanding

Additional paid-in capital	3,591,381	3,573,720
Accumulated other comprehensive income (loss)	493	(1,432 )
Distributions in excess of net income	(1,678,484 )	(1,533,740 )
Total shareholders' equity	2,709,829	2,945,610
Noncontrolling interests	65,114	44,293
Total equity	2,774,943	2,989,903
	\$7,504,661	\$7,644,276

See accompanying Notes to Consolidated Financial Statements

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DUKE REALTY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations

For the three and nine months ended September 30,

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	2011	2010	2011	2010
Revenues:				
Rental and related revenue	\$233,555	\$228,299	\$698,619	\$642,489
General contractor and service fee revenue	127,708	132,351	409,617	414,391
	361,263	360,650	1,108,236	1,056,880
Expenses:				
Rental expenses	49,947	47,628	153,002	143,133
Real estate taxes	33,785	32,659	101,936	88,394
General contractor and other services expenses	120,547	124,653	379,180	392,433
Depreciation and amortization	96,909	94,487	290,751	253,209
	301,188	299,427	924,869	877,169
Other operating activities:				
Equity in earnings of unconsolidated companies	3,104	580	5,890	7,525
Gain on sale of properties	(1,437)	) (125)	) 66,910	) 6,917
Undeveloped land carrying costs	(2,259)	) (2,359)	) (7,021)	) (7,152)
Impairment charges	—	) (1,860)	) —	) (9,834)
Other operating expenses	(60)	) (580)	) (171)	) (1,002)
General and administrative expenses	(9,493)	) (8,476)	) (29,231)	) (31,171)
	(10,145)	) (12,820)	) 36,377	) (34,717)
Operating income	49,930	48,403	219,744	144,994
Other income (expenses):				
Interest and other income, net	172	149	543	504
Interest expense	(66,875)	) (61,491)	) (199,269)	) (175,076)
Loss on debt transactions	—	) (167)	) —	) (16,294)
Acquisition-related activity	(342)	) 57,513	(1,525)	) 57,513
Income (loss) from continuing operations before income taxes	(17,115)	) 44,407	19,493	11,641
Income tax benefit	194	1,126	194	1,126
Income (loss) from continuing operations	(16,921)	) 45,533	19,687	12,767
Discontinued operations:				
Income (loss) before gain on sales	(36)	) 375	(30)	) 2,293
Gain on sale of depreciable properties	2,088	11,527	16,405	24,383
Income from discontinued operations	2,052	11,902	16,375	26,676
Net income (loss)	(14,869)	) 57,435	36,062	39,443
Dividends on preferred shares	(14,399)	) (16,726)	) (46,347)	) (53,452)
Adjustments for redemption/repurchase of preferred shares	(3,633)	) (5,652)	) (3,796)	) (10,144)
Net (income) loss attributable to noncontrolling interests	825	(993)	) 532	562
Net income (loss) attributable to common shareholders	\$(32,076)	) \$34,064	) \$(13,549)	) \$(23,591)
Basic net income (loss) per common share:				
Continuing operations attributable to common shareholders	\$(0.14)	) \$0.08	) \$(0.13)	) \$(0.22)
Discontinued operations attributable to common shareholders	0.01	0.05	0.07	0.11
Total	\$(0.13)	) \$0.13	) \$(0.06)	) \$(0.11)

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Diluted net income (loss) per common share:				
Continuing operations attributable to common shareholders	\$ (0.14	) \$ 0.08	\$ (0.13	) \$ (0.22
Discontinued operations attributable to common shareholders	0.01	0.05	0.07	0.11
Total	\$ (0.13	) \$ 0.13	\$ (0.06	) \$ (0.11
Weighted average number of common shares outstanding	252,802	251,866	252,618	234,468
Weighted average number of common shares and potential dilutive securities	252,802	257,383	252,618	234,468
See accompanying Notes to Consolidated Financial Statements				

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## DUKE REALTY CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

For the nine months ended September 30,

(in thousands)

(Unaudited)

	2011	2010
Cash flows from operating activities:		
Net income	\$36,062	\$39,443
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of buildings and tenant improvements	204,134	201,352
Amortization of deferred leasing and other costs	88,295	62,734
Amortization of deferred financing costs	11,070	10,492
Straight-line rent adjustment	(19,012)	(12,252)
Impairment charges	—	9,834
Loss on debt extinguishment	—	16,294
Gain on acquisitions, net	—	(57,815)
Earnings from land and depreciated property sales	(83,315)	(31,300)
Third-party construction contracts, net	(18,417)	(16,872)
Other accrued revenues and expenses, net	14,586	13,293
Operating distributions received in excess of equity in earnings from unconsolidated companies	11,681	7,649
Net cash provided by operating activities	245,084	242,852
Cash flows from investing activities:		
Development of real estate investments	(125,676)	(82,372)
Acquisition of real estate investments and related intangible assets, net of cash acquired	(179,047)	(260,877)
Acquisition of undeveloped land	(3,825)	(13,384)
Second generation tenant improvements, leasing costs and building improvements	(71,732)	(63,361)
Other deferred leasing costs	(20,950)	(26,060)
Other assets	(4,500)	(16,847)
Proceeds from land and depreciated property sales, net	504,688	200,445
Capital distributions from unconsolidated companies	54,730	3,897
Capital contributions and advances to unconsolidated companies, net	(28,362)	(48,410)
Net cash provided by (used for) investing activities	125,326	(306,969)
Cash flows from financing activities:		
Proceeds from issuance of common shares, net	—	297,896
Payments for redemption/repurchase of preferred shares	(110,726)	(115,849)
Proceeds from unsecured debt issuance	—	250,000
Payments on and repurchases of unsecured debt	(166,346)	(392,181)
Proceeds from secured debt financings	—	3,987
Payments on secured indebtedness including principal amortization	(24,841)	(8,814)
Borrowings on lines of credit, net	111,247	82,210
Distributions to common shareholders	(128,817)	(119,116)
Distributions to preferred shareholders	(46,347)	(53,452)
Distributions to noncontrolling interests	(3,952)	(4,844)
Deferred financing costs	(2,830)	(2,193)
Net cash used for financing activities	(372,612)	(62,356)
Net decrease in cash and cash equivalents	(2,202)	(126,473)
Cash and cash equivalents at beginning of period	18,384	147,322
Cash and cash equivalents at end of period	\$16,182	\$20,849
Non-cash investing and financing activities:		
Assumption of indebtedness and other liabilities in real estate acquisitions	\$150,042	\$332,982

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Contribution of properties to unconsolidated companies	\$53,245	\$7,002
Investment and advances related to acquisition of previously unconsolidated companies	\$5,987	\$134,026
Conversion of Limited Partner Units to common shares	\$3,052	\$(7,829 )
Issuance of Limited Partner Units for acquisition	\$28,357	\$—
See accompanying Notes to Consolidated Financial Statements		

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## DUKE REALTY CORPORATION AND SUBSIDIARIES

## Consolidated Statement of Changes in Equity

For the nine months ended September 30, 2011

(in thousands, except per share data)

(Unaudited)

	Common Shareholders			Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Net Income	Non- Controlling Interests	Total
	Preferred Stock	Common Stock	Additional Paid-in Capital				
Balance at December 31, 2010	\$904,540	\$2,522	\$3,573,720	\$(1,432 )	\$(1,533,740 )	\$44,293	\$2,989,903
Comprehensive income:							
Net income	—	—	—	—	36,594	(532 )	36,062
Derivative instrument activity	—	—	—	1,925	—	—	1,925
Comprehensive income							37,987
Issuance of Limited Partner Units for acquisition	—	—	—	—	—	28,357	28,357
Stock based compensation plan activity	—	4	10,912	—	(2,378 )	—	8,538
Conversion of Limited Partner Units	—	3	3,049	—	—	(3,052 )	—
Distributions to preferred shareholders	—	—	—	—	(46,347 )	—	(46,347 )
Redemption/repurchase of preferred shares	(110,630 )	—	3,700	—	(3,796 )	—	(110,726 )
Distributions to common shareholders (\$0.51 per share)	—	—	—	—	(128,817 )	—	(128,817 )
Distributions to noncontrolling interests	—	—	—	—	—	(3,952 )	(3,952 )
Balance at September 30, 2011	\$793,910	\$2,529	\$3,591,381	\$493	\$(1,678,484 )	\$65,114	\$