

DUKE REALTY CORP
Form 10-Q
May 12, 2008

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 **March 31, 2008**

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)

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

35-1740409
(IRS Employer
Identification Number)

46240
(Zip Code)

Registrant's telephone number, including area code: (317) 808-6000

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

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 May 1, 2008
Common Stock, \$.01 par value per share	146,686,438 shares

DUKE REALTY CORPORATION

INDEX

	Page	
<u>Part I - Financial Information</u>		
<u>Item 1. Financial Statements</u>		
<u>Consolidated Balance Sheets as of March 31, 2008 (Unaudited) and December 31, 2007</u>	2	
<u>Consolidated Statements of Operations (Unaudited) for the three months ended March 31, 2008 and 2007</u>	3	
<u>Consolidated Statements of Cash Flows (Unaudited) for the three months ended March 31, 2008 and 2007</u>	4	
<u>Consolidated Statement of Shareholders' Equity (Unaudited) for the three months ended March 31, 2008</u>	5	
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	6-14	
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14-25
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	25
<u>Item 4.</u>	<u>Controls and Procedures</u>	26
<u>Part II - Other Information</u>		
<u>Item 1.</u>	<u>Legal Proceedings</u>	26
<u>Item 1A.</u>	<u>Risk Factors</u>	26
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	27
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	27
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	27
<u>Item 5.</u>	<u>Other Information</u>	27
<u>Item 6.</u>	<u>Exhibits</u>	28-29

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

DUKE REALTY CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except per share amounts)

	March 31, 2008	December 31, 2007
	(Unaudited)	
ASSETS		
Real estate investments:		
Land and improvements	\$ 938,764	\$ 872,372
Buildings and tenant improvements	4,849,556	4,600,408
Construction in progress	444,691	412,729
Investments in and advances to unconsolidated companies	665,572	601,801
Land held for development	836,245	912,448
	7,734,828	7,399,758
Accumulated depreciation	(1,029,862)	(951,375)
Net real estate investments	6,704,966	6,448,383
Real estate investments and other assets held for sale	144,077	273,591
Cash and cash equivalents	15,529	48,012
Accounts receivable, net of allowance of \$1,812 and \$1,359	26,672	29,009
Straight-line rent receivable, net of allowance of \$2,095 and \$2,886	116,682	110,737
Receivables on construction contracts, including retentions	70,684	66,925
Deferred financing costs, net of accumulated amortization of \$30,337 and \$29,170	53,480	55,987
Deferred leasing and other costs, net of accumulated amortization of \$163,576 and \$150,702	377,253	374,635
Escrow deposits and other assets	250,900	254,702
	\$ 7,760,243	\$ 7,661,981
LIABILITIES AND SHAREHOLDERS' EQUITY		
Indebtedness:		
Secured debt	\$ 506,071	\$ 524,393
Unsecured notes	3,121,000	3,246,000
Unsecured lines of credit	635,068	546,067
	4,262,139	4,316,460
Liabilities of properties held for sale	3,813	8,954
Construction payables and amounts due subcontractors, including retentions	129,631	142,655
Accrued expenses:		
Real estate taxes	72,559	63,796
Interest	38,490	54,631
Other	31,283	59,221
Other liabilities	127,971	148,013
Tenant security deposits and prepaid rents	38,085	34,535
Total liabilities	4,703,971	4,828,265
Minority interest	76,619	83,683

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Shareholders' equity:			
Preferred shares (\$.01 par value); 5,000 shares authorized; 4,176 and 2,976 shares issued and outstanding		1,044,000	744,000
Common shares (\$.01 par value); 250,000 shares authorized; 146,670 and 146,175 shares issued and outstanding		1,467	1,462
Additional paid-in capital		2,637,099	2,632,615
Accumulated other comprehensive income (loss)		(9,719)	(1,279)
Distributions in excess of net income		(693,194)	(626,765)
Total shareholders' equity		2,979,653	2,750,033
		\$ 7,760,243	\$ 7,661,981

See accompanying Notes to Consolidated Financial Statements.

DUKE REALTY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations

For the Three Months Ended March 31,

(in thousands, except per share amounts)

(Unaudited)

	2008	2007
RENTAL OPERATIONS		
Revenues:		
Rental revenue from continuing operations	\$ 217,802	\$ 202,105
Equity in earnings of unconsolidated companies	10,099	7,691
	227,901	209,796
Operating expenses:		
Rental expenses	52,027	49,049
Real estate taxes	27,544	25,043
Interest expense	47,534	44,408
Depreciation and amortization	78,713	66,375
	205,818	184,875
Earnings from continuing rental operations	22,083	24,921
SERVICE OPERATIONS		
Revenues:		
General contractor gross revenue	76,759	54,157
General contractor costs	(70,104)	(48,688)
Net general contractor revenue	6,655	5,469
Service fee revenue	7,524	6,397
Gain on sale of service operations properties	597	2,864
	14,776	14,730
Total service operations revenue	14,776	14,730
Operating expenses	10,363	7,796
Earnings from service operations	4,413	6,934
General and administrative expense	(12,162)	(13,460)
Operating income	14,334	18,395
OTHER INCOME (EXPENSE)		
Interest and other income, net	3,725	2,403
Earnings from sale of land, net	629	13,997
Minority interest in earnings of common unitholders	(214)	(1,331)
Income from continuing operations	18,474	33,464
Discontinued operations:		
Income (loss) from discontinued operations, net of minority interest	(173)	2,039
Gain on sale of depreciable property, net of minority interest	1,053	48,286
Income from discontinued operations	880	50,325
Net income	19,354	83,789
Dividends on preferred shares	(15,306)	(15,226)

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Net income available for common shareholders	\$	4,048	\$	68,563
Basic net income per common share:				
Continuing operations	\$.02	\$.13
Discontinued operations		.01		.37
Total	\$.03	\$.50
Diluted net income per common share:				
Continuing operations	\$.02	\$.13
Discontinued operations		.01		.36
Total	\$.03	\$.49
Weighted average number of common shares outstanding		146,331		136,823
Weighted average number of common shares and potential dilutive securities		154,596		149,465

See accompanying Notes to Consolidated Financial Statements.

DUKE REALTY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three months ended March 31,

(in thousands)

(Unaudited)

	2008	2007
Cash flows from operating activities:		
Net income	\$ 19,354	\$ 83,789
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of buildings and tenant improvements	60,850	52,143
Amortization of deferred leasing and other costs	18,271	15,596
Amortization of deferred financing costs	3,399	2,865
Minority interest in earnings	261	4,910
Straight-line rent adjustment	(4,638)	(5,773)
Earnings from land and depreciated property sales	(1,739)	(65,717)
Build-for-sale operations, net	(41,775)	(49,989)
Construction contracts, net	(14,418)	6,764
Other accrued revenues and expenses, net	(35,300)	(32,590)
Operating distributions received in excess of (less than) equity in earnings from unconsolidated companies	(2,042)	137
Net cash provided by operating activities	2,223	12,135
Cash flows from investing activities:		
Development of real estate investments	(151,872)	(96,588)
Acquisition of real estate investments and related intangible assets	(8,701)	(33,628)
Acquisition of land held for development	(14,741)	(34,738)
Recurring tenant improvements	(10,803)	(10,333)
Recurring leasing costs	(6,098)	(7,732)
Recurring building improvements	(967)	(974)
Other deferred leasing costs	(5,939)	(3,664)
Other deferred costs and other assets	(298)	(1,053)
Proceeds from land and depreciated property sales, net	26,684	176,726
Capital distributions from unconsolidated companies	38,753	53,500
Capital contributions and advances to unconsolidated companies, net	(20,296)	(33,140)
Net cash provided by (used for) investing activities	(154,278)	8,376
Cash flows from financing activities:		
Proceeds from issuance of common shares	5,801	
Proceeds (disbursements) from exercise of stock options	112	(12)
Proceeds from issuance of preferred shares, net	290,445	
Proceeds from unsecured debt issuance		5,812
Payments on unsecured debt	(125,000)	
Payments on secured indebtedness including principal amortization	(36,532)	(12,007)
Borrowings on lines of credit, net	89,001	13,000
Distributions to common shareholders	(70,211)	(65,004)
Distributions to preferred shareholders	(15,306)	(15,226)
Distributions to minority interest, net	(3,828)	(4,662)
Cash settlement of interest rate swaps	(14,625)	
Deferred financing costs	(285)	(1,403)
Net cash provided by (used for) financing activities	119,572	(79,502)

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Net decrease in cash and cash equivalents		(32,483)		(58,991)
Cash and cash equivalents at beginning of period		48,012		68,483
Cash and cash equivalents at end of period	\$	15,529	\$	9,492
Other non-cash items:				
Conversion of Limited Partner Units to common shares	\$	4,376	\$	117,245
Issuance of Limited Partner Units for acquisition	\$		\$	11,020
Assumption of secured debt for real estate acquisitions	\$	18,465	\$	
Contribution of property to unconsolidated company	\$	77,158	\$	

See accompanying Notes to Consolidated Financial Statements

DUKE REALTY CORPORATION AND SUBSIDIARIES

Consolidated Statement of Shareholders Equity

For the three months ended March 31, 2008

(in thousands, except per share data)

(Unaudited)

	Preferred Shares	Common Shares	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Net Income	Total
Balance at December 31, 2007	\$ 744,000	\$ 1,462	\$ 2,632,615	\$ (1,279)	\$ (626,765)	\$ 2,750,033
Comprehensive Income:						
Net income					19,354	19,354
Losses on derivative instruments				(8,440)		(8,440)
Comprehensive income						