

DUKE REALTY CORP
Form 10-Q
May 08, 2009
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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, 2009

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 96th 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.

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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 May 1, 2009
Common Stock, \$.01 par value per share	223,827,840 shares

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	March 31, 2009 (Unaudited)	December 31, 2008 (Revised)
<u>ASSETS</u>		
Real estate investments:		
Land and improvements	\$ 1,085,898	\$ 1,077,362
Buildings and tenant improvements	5,180,916	5,220,561
Construction in progress	199,899	159,330
Investments in and advances to unconsolidated companies	691,267	693,503
Undeveloped land	811,551	806,379
	7,969,531	7,957,135
Accumulated depreciation	(1,203,054)	(1,167,113)
Net real estate investments	6,766,477	6,790,022
Cash and cash equivalents	22,171	22,532
Accounts receivable, net of allowance of \$3,262 and \$1,777	23,684	28,026
Straight-line rent receivable, net of allowance of \$4,794 and \$4,086	126,410	123,863
Receivables on construction contracts, including retentions	70,747	75,100
Deferred financing costs, net of accumulated amortization of \$39,056 and \$38,046	45,258	47,907
Deferred leasing and other costs, net of accumulated amortization of \$207,973 and \$195,034	369,873	369,224
Escrow deposits and other assets	251,799	234,209
	\$ 7,676,419	\$ 7,690,883
<u>LIABILITIES AND EQUITY</u>		
Indebtedness:		
Secured debt	\$ 660,621	\$ 507,351
Unsecured notes	2,998,363	3,285,980
Unsecured lines of credit	673,926	483,659
	4,332,910	4,276,990
Construction payables and amounts due subcontractors, including retentions	100,361	105,227
Accrued real estate taxes	80,763	78,483
Accrued interest	39,925	56,376
Other accrued expenses	26,263	45,059
Other liabilities	168,720	187,425
Tenant security deposits and prepaid rents	35,381	41,348
Total liabilities	4,784,323	4,790,908
Shareholders' equity:		
Preferred shares (\$.01 par value); 5,000 shares authorized; 4,067 shares issued and outstanding	1,016,625	1,016,625

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Common shares (\$.01 par value); 250,000 shares authorized; 148,547 and 148,420 shares issued and outstanding	1,485	1,484
Additional paid-in capital	2,705,660	2,702,513
Accumulated other comprehensive income (loss)	(8,036)	(8,652)
Distributions in excess of net income	(882,357)	(867,951)
Total shareholders' equity	2,833,377	2,844,019
Noncontrolling interests	58,719	55,956
Total equity	2,892,096	2,899,975
	\$ 7,676,419	\$ 7,690,883

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**DUKE REALTY CORPORATION AND SUBSIDIARIES****Consolidated Statements of Operations****For the Three Months Ended March 31,****(in thousands, except per share amounts)****(Unaudited)**

	2009	2008 (Revised)
RENTAL OPERATIONS		
Revenues:		
Rental and related revenue	\$ 220,951	\$ 211,988
Operating expenses:		
Rental expenses	54,270	50,366
Real estate taxes	29,176	25,484
Depreciation and amortization	80,016	75,707
	163,462	151,557
Equity in earnings of unconsolidated companies	2,527	10,099
Earnings from rental operations	60,016	70,530
SERVICE OPERATIONS		
Revenues:		
General contractor gross revenue	98,357	76,759
General contractor costs	(88,148)	(70,104)
Net general contractor revenue	10,209	6,655
Service fee revenue	6,542	7,524
Gain on disposition of Build-for-Sale properties, net	195	372
Total service operations revenue	16,946	14,551
Operating expenses	8,598	10,138
Earnings from service operations	8,348	4,413
General and administrative expense	(9,880)	(12,163)
Earnings from sales of land, net	357	629
Undeveloped land carrying costs	(2,365)	(2,149)
Impairment charges	(338)	(808)
Operating income	56,138	60,452
OTHER INCOME (EXPENSE)		
Interest and other income	123	1,559
Interest expense	(52,068)	(48,101)
Gain on extinguishment of debt	33,062	
Income from continuing operations	37,255	13,910
Discontinued operations:		

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Income from discontinued operations before gain on sales	213	2,705
Gain on sale of depreciable properties	5,119	1,110
Income from discontinued operations	5,332	3,815
Net income	42,587	17,725
Dividends on preferred shares	(18,363)	(15,306)
Net (income) loss attributable to noncontrolling interests	(977)	114
Net income attributable to common shareholders	\$ 23,247	\$ 2,533
Basic net income (loss) per Common Share:		
Continuing operations attributable to common shareholders	\$.12	\$ (.01)
Discontinued operations attributable to common shareholders	.03	.03
Total	\$.15	\$.02
Diluted net income (loss) per Common Share:		
Continuing operations attributable to common shareholders	\$.12	\$ (.01)
Discontinued operations attributable to common shareholders	.03	.03
Total	\$.15	\$.02
Weighted average number of Common Shares outstanding	148,488	146,331
Weighted average number of Common Shares and potential dilutive securities	155,747	154,596

See accompanying Notes to Consolidated Financial Statements

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DUKE REALTY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three months ended March 31,

(in thousands)

(Unaudited)

	2009	2008 (Revised)
Cash flows from operating activities:		
Net income	\$ 42,587	\$ 17,725
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of buildings and tenant improvements	63,724	60,850
Amortization of deferred leasing and other costs	16,484	18,271
Amortization of deferred financing costs	3,407	3,399
Straight-line rent adjustment	(6,108)	(4,638)
Gain on debt extinguishment	(33,062)	
Earnings from land and depreciated property sales	(5,476)	(1,739)
Build-for-Sale operations, net	(11,470)	(41,775)
Construction contracts, net	(652)	(14,418)
Other accrued revenues and expenses, net	(28,441)	(33,410)
Operating distributions received in excess of (less than) equity in earnings from unconsolidated companies	7,435	(2,042)
Net cash provided by operating activities	48,428	2,223
Cash flows from investing activities:		
Development of real estate investments	(85,210)	(151,872)
Acquisition of real estate investments and related intangible assets		(8,701)
Acquisition of undeveloped land	(5,474)	(14,741)
Recurring tenant improvements, leasing costs and building improvements	(16,208)	(17,868)
Other deferred leasing costs	(6,208)	(5,939)
Other deferred costs and other assets	(26,769)	(298)
Proceeds from land and depreciated property sales, net	61,203	26,684
Capital distributions from unconsolidated companies		38,753
Capital contributions and advances to unconsolidated companies, net	(3,863)	(20,296)
Net cash used for investing activities	(82,529)	(154,278)
Cash flows from financing activities:		&nbs