

DUKE REALTY CORP  
Form 10-Q  
August 06, 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 June 30, 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)

**35-1740409**  
(I.R.S. Employer

of Incorporation or Organization)

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 ☐

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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 August 1, 2008
Common Stock, \$.01 par value per share	146,886,740 shares

**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)**

	<b>June 30, 2008 (Unaudited)</b>	<b>December 31, 2007</b>
<b><u>ASSETS</u></b>		
Real estate investments:		
Land and improvements	<b>\$ 997,827</b>	<b>\$ 872,372</b>
Buildings and tenant improvements	<b>4,936,654</b>	<b>4,600,408</b>
Construction in progress	<b>353,460</b>	<b>412,729</b>
Investments in and advances to unconsolidated companies	<b>664,885</b>	<b>601,801</b>
Land held for development	<b>836,623</b>	<b>912,448</b>
	<b>7,789,449</b>	<b>7,399,758</b>
Accumulated depreciation	<b>(1,074,188)</b>	<b>(951,375)</b>
Net real estate investments	<b>6,715,261</b>	<b>6,448,383</b>
Real estate investments and other assets held for sale	<b>198,496</b>	<b>273,591</b>
Cash and cash equivalents	<b>17,704</b>	<b>48,012</b>
Accounts receivable, net of allowance of \$1,384 and \$1,359	<b>23,494</b>	<b>29,009</b>
Straight-line rent receivable, net of allowance of \$2,244 and \$2,886	<b>118,856</b>	<b>110,737</b>
Receivables on construction contracts, including retentions	<b>89,717</b>	<b>66,925</b>
Deferred financing costs, net of accumulated amortization of \$32,259 and \$29,170	<b>53,456</b>	<b>55,987</b>
Deferred leasing and other costs, net of accumulated amortization of \$170,639 and \$150,702	<b>375,645</b>	<b>374,635</b>
Escrow deposits and other assets	<b>240,440</b>	<b>254,702</b>
	<b>\$ 7,833,069</b>	<b>\$ 7,661,981</b>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
Indebtedness:		
Secured debt	<b>\$ 507,031</b>	<b>\$ 524,393</b>
Unsecured notes	<b>3,346,000</b>	<b>3,246,000</b>
Unsecured lines of credit	<b>493,791</b>	<b>546,067</b>
	<b>4,346,822</b>	<b>4,316,460</b>
Liabilities of properties held for sale	<b>5,660</b>	<b>8,954</b>
Construction payables and amounts due subcontractors, including retentions	<b>139,110</b>	<b>142,655</b>
Accrued expenses:		
Real estate taxes	<b>81,879</b>	<b>63,796</b>
Interest	<b>57,568</b>	<b>54,631</b>
Other	<b>27,150</b>	<b>59,221</b>
Other liabilities	<b>129,710</b>	<b>148,013</b>
Tenant security deposits and prepaid rents	<b>35,256</b>	<b>34,535</b>
Total liabilities	<b>4,823,155</b>	<b>4,828,265</b>
Minority interest	<b>74,893</b>	<b>83,683</b>

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## Shareholders' equity:

Preferred shares (\$.01 par value); 5,000 shares authorized; 4,176 and 2,976 shares issued and outstanding	<b>1,044,000</b>	744,000
Common shares (\$.01 par value); 250,000 shares authorized; 146,869 and 146,175 shares issued and outstanding	<b>1,469</b>	1,462
Additional paid-in capital	<b>2,644,227</b>	2,632,615
Accumulated other comprehensive income (loss)	<b>(8,472)</b>	(1,279)
Distributions in excess of net income	<b>(746,203)</b>	(626,765)
Total shareholders' equity	<b>2,935,021</b>	2,750,033
	<b>\$ 7,833,069</b>	\$ 7,661,981

See accompanying Notes to Consolidated Financial Statements.

## DUKE REALTY CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Operations

For the Three and Six Months Ended June 30,

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended 2008	2007	Six Months Ended 2008	2007
<b>RENTAL OPERATIONS</b>				
Revenues:				
Rental revenue from continuing operations	\$ 212,215	\$ 192,731	\$ 424,239	\$ 393,711
Equity in earnings of unconsolidated companies	6,881	7,949	16,980	15,640
	<b>219,096</b>	200,680	<b>441,219</b>	409,351
Operating expenses:				
Rental expenses	46,094	41,977	97,780	90,664
Real estate taxes	27,641	24,645	54,990	49,505
Interest expense	47,034	40,185	94,375	84,430
Depreciation and amortization	76,382	67,139	152,851	133,276
	<b>197,151</b>	173,946	<b>399,996</b>	357,875
Earnings from continuing rental operations	<b>21,945</b>	26,734	<b>41,223</b>	51,476
<b>SERVICE OPERATIONS</b>				
Revenues:				
General contractor gross revenue	85,635	63,561	162,394	117,718
General contractor costs	(76,834)	(55,990)	(146,938)	(104,678)
Net general contractor revenue	8,801	7,571	15,456	13,040
Service fee revenue	8,613	7,655	16,137	14,052
Gain on sale of service operations properties	5,722	6,813	6,319	9,677
Total service operations revenue	23,136	22,039	37,912	36,769
Operating expenses	12,746	10,021	23,109	17,817
Earnings from service operations	10,390	12,018	14,803	18,952
General and administrative expense	(6,888)	(10,608)	(19,050)	(24,067)
Other operating expenses	(1,991)	(315)	(2,799)	(858)
Operating income	23,456	27,829	34,177	45,503
<b>OTHER INCOME (EXPENSE)</b>				
Interest and other income, net	1,786	2,845	6,319	5,791
Earnings from sales of land, net	3,393	2,411	4,022	16,408
Minority interest in earnings of common unitholders	(728)	(1,190)	(795)	(2,507)
Income from continuing operations	<b>27,907</b>	31,895	<b>43,723</b>	65,195
Discontinued operations:				
Income (loss) from discontinued operations, net of minority interest	(301)	1,404	2,189	3,610

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Gain on sale of depreciable properties, net of minority interest	<b>9,057</b>	19,003	<b>10,105</b>	67,286
Income from discontinued operations	<b>8,756</b>	20,407	<b>12,294</b>	70,896
Net income	<b>36,663</b>	52,302	<b>56,017</b>	136,091
Dividends on preferred shares	<b>(18,866)</b>	(15,226)	<b>(34,172)</b>	(30,452)
Net income available for common shareholders	<b>\$ 17,797</b>	\$ 37,076	<b>\$ 21,845</b>	\$ 105,639
Basic net income per common share:				
Continuing operations	<b>\$ .06</b>	\$ .12	<b>\$ .07</b>	\$ .25
Discontinued operations	<b>.06</b>	.15	<b>.08</b>	.52
Total	<b>\$ .12</b>	\$ .27	<b>\$ .15</b>	\$ .77
Diluted net income per common share:				
Continuing operations	<b>\$ .06</b>	\$ .12	<b>\$ .07</b>	\$ .25