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DUKE REALTY CORP

Form 10-Q

May 04, 2012

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, 2012

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.

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 4, 2012

Common Stock, \$.01 par value per share

266,446,952

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)

	March 31, 2012 (Unaudited)	December 31, 2011
ASSETS		
Real estate investments:		
Land and improvements	\$1,209,840	\$1,202,872
Buildings and tenant improvements	4,868,066	4,766,793
Construction in progress	80,306	44,259
Investments in and advances to unconsolidated companies	361,818	364,859
Undeveloped land	622,642	622,635
	7,142,672	7,001,418
Accumulated depreciation	(1,151,322)	(1,108,650)
Net real estate investments	5,991,350	5,892,768
Real estate investments and other assets held-for-sale	19,395	55,580
Cash and cash equivalents	14,740	213,809
Accounts receivable, net of allowance of \$2,693 and \$3,597	24,045	22,255
Straight-line rent receivable, net of allowance of \$6,997 and \$7,447	111,115	105,900
Receivables on construction contracts, including retentions	33,257	40,247
Deferred financing costs, net of accumulated amortization of \$42,720 and \$59,109	39,685	42,268
Deferred leasing and other costs, net of accumulated amortization of \$311,525 and \$292,334	469,936	460,881
Escrow deposits and other assets	168,882	170,729
	\$6,872,405	\$7,004,437
LIABILITIES AND EQUITY		
Indebtedness:		
Secured debt	\$1,180,965	\$1,173,233
Unsecured notes	2,615,612	2,616,063
Unsecured lines of credit	20,293	20,293
	3,816,870	3,809,589
Liabilities related to real estate investments held-for-sale	643	975
Construction payables and amounts due subcontractors, including retentions	51,309	55,775
Accrued real estate taxes	76,263	69,272
Accrued interest	33,675	58,904
Other accrued expenses	29,058	60,174
Other liabilities	132,734	131,735
Tenant security deposits and prepaid rents	46,383	38,355
Total liabilities	4,186,935	4,224,779
Shareholders' equity:		
Preferred shares (\$.01 par value); 5,000 shares authorized; 2,503 and 3,176 shares issued and outstanding	625,638	793,910

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Common shares (\$.01 par value); 400,000 shares authorized; 266,405 and 252,927 shares issued and outstanding	2,664	2,529
Additional paid-in capital	3,780,293	3,594,588
Accumulated other comprehensive income	1,506	987
Distributions in excess of net income	(1,758,467)	(1,677,328)
Total shareholders' equity	2,651,634	2,714,686
Noncontrolling interests	33,836	64,972
Total equity	2,685,470	2,779,658
	\$6,872,405	\$7,004,437

See accompanying Notes to Consolidated Financial Statements

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DUKE REALTY CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations and Comprehensive Income
For the three months ended March 31,
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended	
	2012	2011
Revenues:		
Rental and related revenue	\$203,432	\$190,986
General contractor and service fee revenue	68,968	146,547
	272,400	337,533
Expenses:		
Rental expenses	37,342	40,699
Real estate taxes	28,671	27,471
General contractor and other services expenses	63,921	135,664
Depreciation and amortization	91,613	77,822
	221,547	281,656
Other operating activities:		
Equity in earnings of unconsolidated companies	1,509	1,073
Gain on sale of properties	(277	) 67,856
Undeveloped land carrying costs	(2,298	) (2,309)
Other operating expenses	(265	) (85)
General and administrative expenses	(11,839	) (11,197)
	(13,170	) 55,338
Operating income	37,683	111,215
Other income (expenses):		
Interest and other income, net	146	87
Interest expense	(61,086	) (52,124)
Acquisition-related activity	(580	) (589)
Income (loss) from continuing operations	(23,837	) 58,589
Discontinued operations:		
Loss before gain on sales	(749	) (5,403)
Gain on sale of depreciable properties	6,476	11,603
Income from discontinued operations	5,727	6,200
Net income (loss)	(18,110	) 64,789
Dividends on preferred shares	(13,193	) (15,974)
Adjustments for redemption/repurchase of preferred shares	(5,730	) (163)
Net (income) loss attributable to noncontrolling interests	643	(1,083)
Net income (loss) attributable to common shareholders	\$(36,390	) \$47,569
Basic net income (loss) per common share:		
Continuing operations attributable to common shareholders	\$(0.16	) \$0.16
Discontinued operations attributable to common shareholders	0.02	0.03
Total	\$(0.14	) \$0.19
Diluted net income (loss) per common share:		
Continuing operations attributable to common shareholders	\$(0.16	) \$0.16
Discontinued operations attributable to common shareholders	0.02	0.03
Total	\$(0.14	) \$0.19
Weighted average number of common shares outstanding	258,365	252,406
Weighted average number of common shares and potential dilutive securities	258,365	258,837

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Comprehensive income (loss):		
Net income (loss)	\$(18,110) \$64,789
Other comprehensive income:		
Derivative instrument activity	519	771
Other comprehensive income	519	771
Comprehensive income (loss)	\$(17,591) \$65,560
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)

	2012	2011
Cash flows from operating activities:		
Net income (loss)	\$(18,110)	) \$64,789
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation of buildings and tenant improvements	63,860	67,063
Amortization of deferred leasing and other costs	28,396	27,918
Amortization of deferred financing costs	3,246	3,644
Straight-line rent adjustment	(5,852)	) (6,966)
Earnings from land and depreciated property sales	(6,199)	) (79,459)
Third-party construction contracts, net	(1,877)	) (13,974)
Other accrued revenues and expenses, net	(43,116)	) (42,945)
Operating distributions received in excess of equity in earnings from unconsolidated companies	4,995	7,955
Net cash provided by operating activities	25,343	28,025
Cash flows from investing activities:		
Development of real estate investments	(29,639)	) (37,318)
Acquisition of real estate investments and related intangible assets	(131,515)	) (22,261)
Acquisition of undeveloped land	(12,180))
Second generation tenant improvements, leasing costs and building improvements	(15,361)	) (17,476)
Other deferred leasing costs	(9,142)	) (6,272)
Other assets	502	2,816
Proceeds from land and depreciated property sales, net	63,281	437,494
Capital distributions from unconsolidated companies	—	54,730
Capital contributions and advances to unconsolidated companies, net	(3,521)	) (6,068)
Net cash provided by (used for) investing activities	(137,575)	) 405,645
Cash flows from financing activities:		
Proceeds from issuance of common shares, net	146,969	—
Payments for redemption/repurchase of preferred shares	(168,272)	) (2,096)
Payments on unsecured debt	(451)	) (42,948)
Payments on secured indebtedness including principal amortization	(10,455)	) (3,897)
Payments on lines of credit, net	—	) (174,717)
Distributions to common shareholders	(43,922)	) (42,892)
Distributions to preferred shareholders	(9,467)	) (15,974)
Distributions to noncontrolling interests	(1,033)	) (1,145)
Deferred financing costs	(206)	) (1,270)
Net cash used for financing activities	(86,837)	) (284,939)
Net increase (decrease) in cash and cash equivalents	(199,069)	) 148,731
Cash and cash equivalents at beginning of period	213,809	18,384
Cash and cash equivalents at end of period	\$14,740	\$167,115
Non-cash investing and financing activities:		
Assumption of indebtedness and other liabilities in real estate acquisitions	\$19,626	\$85,955
Contribution of properties to unconsolidated companies	\$—	