

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 96<sup>th</sup> 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

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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, 2008	December 31, 2007
	(Unaudited)	
<b>ASSETS</b>		
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
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
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		<b>1,044,000</b>	744,000
Common shares (\$.01 par value); 250,000 shares authorized; 146,670 and 146,175 shares issued and outstanding		<b>1,467</b>	1,462
Additional paid-in capital		<b>2,637,099</b>	2,632,615
Accumulated other comprehensive income (loss)		<b>(9,719)</b>	(1,279)
Distributions in excess of net income		<b>(693,194)</b>	(626,765)
Total shareholders' equity		<b>2,979,653</b>	2,750,033
		<b>\$ 7,760,243</b>	\$ 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
<b>RENTAL OPERATIONS</b>		
Revenues:		
Rental revenue from continuing operations	\$ 217,802	\$ 202,105
Equity in earnings of unconsolidated companies	10,099	7,691
	<b>227,901</b>	<b>209,796</b>
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
	<b>205,818</b>	<b>184,875</b>
Earnings from continuing rental operations	<b>22,083</b>	<b>24,921</b>
<b>SERVICE OPERATIONS</b>		
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
	<b>14,776</b>	<b>14,730</b>
Total service operations revenue	<b>14,776</b>	<b>14,730</b>
Operating expenses	<b>10,363</b>	<b>7,796</b>
Earnings from service operations	<b>4,413</b>	<b>6,934</b>
General and administrative expense	(12,162)	(13,460)
Operating income	<b>14,334</b>	<b>18,395</b>
<b>OTHER INCOME (EXPENSE)</b>		
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	<b>18,474</b>	<b>33,464</b>
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	<b>880</b>	<b>50,325</b>
Net income	<b>19,354</b>	<b>83,789</b>
Dividends on preferred shares	<b>(15,306)</b>	<b>(15,226)</b>

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