

DUKE REALTY CORP

Form 10-Q

November 02, 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 September 30, 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) 0-20625 (Duke Realty Limited Partnership)

DUKE REALTY CORPORATION

DUKE REALTY LIMITED PARTNERSHIP

(Exact Name of Registrant as Specified in Its Charter)

Indiana (Duke Realty Corporation)

35-1740409 (Duke Realty Corporation)

Indiana (Duke Realty Limited Partnership)

35-1898425 (Duke Realty Limited Partnership)

(State or Other Jurisdiction

(I.R.S. Employer

of Incorporation or Organization)

Identification Number)

600 East 96<sup>th</sup> Street, Suite 100

46240

Indianapolis, Indiana

(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.

Duke Realty Corporation Yes  No  Duke Realty Limited Partnership 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).

Duke Realty Corporation Yes  No  Duke Realty Limited Partnership 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.

Duke Realty Corporation:

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Duke Realty Limited Partnership:

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Duke Realty Corporation Yes  No  Duke Realty Limited Partnership 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 Common Shares of Duke Realty Corporation at November 2, 2012
Common Stock, \$.01 par value per share	275,025,508



## EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended September 30, 2012 of both Duke Realty Corporation and Duke Realty Limited Partnership. Unless stated otherwise or the context otherwise requires, references to “Duke Realty Corporation” or the “General Partner” mean Duke Realty Corporation and its consolidated subsidiaries; and references to the “Partnership” mean Duke Realty Limited Partnership and its consolidated subsidiaries. The terms the “Company,” “we,” “us” and “our” refer to the General Partner and the Partnership, collectively, and those entities owned or controlled by the General Partner and/or the Partnership.

Duke Realty Corporation is a self-administered and self-managed real estate investment trust (“REIT”) and is the sole general partner of the Partnership, owning 98.4% of the common partnership interests of the Partnership (“General Partner Units”) as of September 30, 2012. The remaining 1.6% of the common partnership interests (“Limited Partner Units” and, together with the General Partner Units, the “Common Units”) are owned by limited partners. As the sole general partner of the Partnership, the General Partner has full, exclusive and complete responsibility and discretion in the day-to-day management and control of the Partnership. The General Partner also owns preferred partnership interests in the Partnership (“Preferred Units”).

The General Partner and the Partnership are operated as one enterprise. The management of the General Partner consists of the same members as the management of the Partnership. As the sole general partner with control of the Partnership, the General Partner consolidates the Partnership for financial reporting purposes, and the General Partner does not have any significant assets other than its investment in the Partnership. Therefore, the assets and liabilities of the General Partner and the Partnership are substantially the same.

We believe combining the quarterly reports on Form 10-Q of the General Partner and the Partnership into this single report results in the following benefits:

- enhances investors' understanding of the General Partner and the Partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;
- eliminates duplicative disclosure and provides a more streamlined and readable presentation of information since a substantial portion of the Company's disclosure applies to both the General Partner and the Partnership; and
- creates time and cost efficiencies through the preparation of one combined report instead of two separate reports.

We believe it is important to understand the few differences between the General Partner and the Partnership in the context of how we operate as an interrelated consolidated company. The General Partner's only material asset is its ownership of partnership interests in the Partnership. As a result, the General Partner does not conduct business itself, other than acting as the sole general partner of the Partnership and issuing public equity from time to time. The General Partner does not issue any indebtedness, but does guarantee the unsecured debt of the Partnership. The Partnership holds substantially all the assets of the business, directly or indirectly, and holds the ownership interests related to certain of the Company's investments. The Partnership conducts the operations of the business and has no publicly traded equity. Except for net proceeds from equity issuances by the General Partner, which are contributed to the Partnership in exchange for General Partner Units or Preferred Units, the Partnership generates the capital required by the business through its operations, its incurrence of indebtedness and the issuance of Limited Partner Units to third parties.

Noncontrolling interests, shareholders' equity and partners' capital are the main areas of difference between the consolidated financial statements of the General Partner and those of the Partnership. The noncontrolling interests in the Partnership's financial statements include the interests in consolidated investees not wholly owned by the Partnership. The noncontrolling interests in the General Partner's financial statements include the same noncontrolling interests at the Partnership level, as well as the common limited partnership interests in the Partnership, which are accounted for as partners' capital by the Partnership.

In order to highlight the differences between the General Partner and the Partnership, there are separate sections in this report, as applicable, that separately discuss the General Partner and the Partnership including separate financial statements, and separate Exhibit 31 and 32 certifications. In the sections that combine disclosure of the General Partner and the Partnership, this report refers to actions or holdings as being actions or holdings of the collective Company.



DUKE REALTY CORPORATION/DUKE REALTY LIMITED PARTNERSHIP  
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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)

	September 30, 2012 (Unaudited)	December 31, 2011
<b>ASSETS</b>		
Real estate investments:		
Land and improvements	\$1,239,276	\$1,202,872
Buildings and tenant improvements	5,016,464	4,766,793
Construction in progress	219,931	44,259
Investments in and advances to unconsolidated companies	367,221	364,859
Undeveloped land	613,183	622,635
	7,456,075	7,001,418
Accumulated depreciation	(1,246,853)	(1,108,650)
Net real estate investments	6,209,222	5,892,768
Real estate investments and other assets held-for-sale	—	55,580
Cash and cash equivalents	113,152	213,809
Accounts receivable, net of allowance of \$3,080 and \$3,597	29,737	22,255
Straight-line rent receivable, net of allowance of \$5,274 and \$7,447	117,016	105,900
Receivables on construction contracts, including retentions	36,413	40,247
Deferred financing costs, net of accumulated amortization of \$45,233 and \$59,109	42,095	42,268
Deferred leasing and other costs, net of accumulated amortization of \$356,776 and \$292,334	465,588	460,881
Escrow deposits and other assets	176,894	170,729
	\$7,190,117	\$7,004,437
<b>LIABILITIES AND EQUITY</b>		
Indebtedness:		
Secured debt	\$1,096,455	\$1,173,233
Unsecured notes	3,043,690	2,616,063
Unsecured lines of credit	—	20,293
	4,140,145	3,809,589
Liabilities related to real estate investments held-for-sale	—	975
Construction payables and amounts due subcontractors, including retentions	80,934	55,775
Accrued real estate taxes	102,646	69,272
Accrued interest	36,666	58,904
Other accrued expenses	41,661	60,174
Other liabilities	122,776	131,735
Tenant security deposits and prepaid rents	40,248	38,355
Total liabilities	4,565,076	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; 273,519 and 252,927 shares issued and outstanding	2,735	2,529
Additional paid-in capital	3,871,155	3,594,588
Accumulated other comprehensive income	2,177	987
Distributions in excess of net income	(1,912,802 )	(1,677,328 )
Total shareholders' equity	2,588,903	2,714,686
Noncontrolling interests	36,138	64,972
Total equity	2,625,041	2,779,658
	\$7,190,117	\$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 and nine months ended September 30,  
(in thousands, except per share amounts)  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	2012	2011	2012	2011
Revenues:				
Rental and related revenue	\$208,957	\$184,581	\$616,451	\$554,752
General contractor and service fee revenue	93,932	127,708	226,507	409,617
	302,889	312,289	842,958	964,369
Expenses:				
Rental expenses	39,659	35,105	111,477	108,224
Real estate taxes	28,676	26,355	85,255	79,866
General contractor and other services expenses	87,719	120,547	209,519	379,180
Depreciation and amortization	95,117	81,068	279,136	242,043
	251,171	263,075	685,387	809,313
Other operating activities:				
Equity in earnings of unconsolidated companies	2,280	3,104	4,056	5,890
Gain on sale of properties	403	(1,437)	245	66,910
Undeveloped land carrying costs	(2,140)	(2,259)	(6,606)	(7,021)
Other operating expenses	(130)	(60)	(591)	(171)
General and administrative expenses	(8,934)	(9,493)	(32,367)	(29,231)
	(8,521)	(10,145)	(35,263)	36,377
Operating income	43,197	39,069	122,308	191,433
Other income (expenses):				
Interest and other income, net	150	172	394	543
Interest expense	(61,539)	(54,528)	(183,623)	(161,765)
Acquisition-related activity	(954)	(342)	(2,563)	(1,525)
Income (loss) from continuing operations before income taxes	(19,146)	(15,629)	(63,484)	28,686
Income tax benefit	103	194	103	194
Income (loss) from continuing operations	(19,043)	(15,435)	(63,381)	28,880
Discontinued operations:				
Loss before gain on sales	(114)	(1,522)	(1,185)	(9,223)
Gain on sale of depreciable properties	1,608	2,088	11,179	16,405
Income from discontinued operations	1,494	566	9,994	7,182
Net income (loss)	(17,549)	(14,869)	(53,387)	36,062
Dividends on preferred shares	(11,081)	(14,399)	(35,356)	(46,347)
Adjustments for redemption/repurchase of preferred shares	—	(3,633)	(5,730)	(3,796)
Net loss attributable to noncontrolling interests	400	825	1,371	532
Net loss attributable to common shareholders	\$(28,230)	\$(32,076)	\$(93,102)	\$(13,549)
Basic net income (loss) per common share:				
Continuing operations attributable to common shareholders	\$(0.11)	\$(0.13)	\$(0.40)	\$(0.09)
Discontinued operations attributable to common shareholders	—	—	0.04	0.03
Total	\$(0.11)	\$(0.13)	\$(0.36)	\$(0.06)
Diluted net income (loss) per common share:				
Continuing operations attributable to common shareholders	\$(0.11)	\$(0.13)	\$(0.40)	\$(0.09)
Discontinued operations attributable to common shareholders	—	—	0.04	0.03
Total	\$(0.11)	\$(0.13)	\$(0.36)	\$(0.06)