

DUKE REALTY CORP  
Form 10-Q  
August 07, 2007

**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, 2007

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 96th Street, Suite 100**  
**Indianapolis, Indiana**  
(Address of Principal Executive Offices)

**35-1740409**  
(I.R.S. Employer  
Identification Number)  
**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

Edgar Filing: DUKE REALTY CORP - Form 10-Q

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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, 2007
Common Stock, \$.01 par value per share	136,945,089 shares

DUKE REALTY CORPORATION

INDEX

	<b>Page</b>
<b><u>Part I - Financial Information</u></b>	
<b><u>Item 1. Financial Statements</u></b>	
<u>Consolidated Balance Sheets as of June 30, 2007 (Unaudited) and December 31, 2006</u>	2
<u>Consolidated Statements of Operations (Unaudited) for the three and six months ended June 30, 2007 and 2006</u>	3
<u>Consolidated Statements of Cash Flows (Unaudited) for the six months ended June 30, 2007 and 2006</u>	4
<u>Consolidated Statement of Shareholders' Equity (Unaudited) for the six months ended June 30, 2007</u>	5
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	6-13
<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	14-30
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	30
<b><u>Item 4. Controls and Procedures</u></b>	30
<b><u>Part II - Other Information</u></b>	
<u>Item 1.</u>	
<u>Item 1A.</u>	
<u>Item 2.</u>	
<u>Item 3.</u>	
<u>Item 4.</u>	
<u>Item 5.</u>	
<u>Item 6.</u>	
<u>Legal Proceedings</u>	31
<u>Risk Factors</u>	31
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	31-32
<u>Defaults Upon Senior Securities</u>	32
<u>Submission of Matters to a Vote of Security Holders</u>	32-33
<u>Other Information</u>	33
<u>Exhibits</u>	33-34

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## DUKE REALTY CORPORATION AND SUBSIDIARIES

## Consolidated Balance Sheets

(in thousands)

	June 30, 2007 (Unaudited)	December 31, 2006
<b><u>ASSETS</u></b>		
Real estate investments:		
Land and improvements	\$ 773,469	\$ 844,091
Buildings and tenant improvements	4,300,028	4,211,602
Construction in progress	559,177	359,765
Investments in and advances to unconsolidated companies	537,547	628,323
Land held for development	797,983	737,752
	<b>6,968,204</b>	6,781,533
Accumulated depreciation	(883,601)	(867,079)
Net real estate investments	<b>6,084,603</b>	5,914,454
Real estate investments and other assets held for sale	<b>374,573</b>	512,925
Cash and cash equivalents	<b>45,456</b>	68,483
Accounts receivable, net of allowance of \$1,565 and \$1,088	<b>19,921</b>	24,118
Straight-line rent receivable, net of allowance of \$1,962 and \$1,915	<b>107,408</b>	105,319
Receivables on construction contracts, including retentions	<b>48,911</b>	64,768
Deferred financing costs, net of accumulated amortization of \$24,804 and \$19,492	<b>56,984</b>	62,277
Deferred leasing and other costs, net of accumulated amortization of \$134,041 and \$127,155	<b>332,889</b>	311,553
Escrow deposits and other assets	<b>232,153</b>	174,698
	<b>\$ 7,302,898</b>	\$ 7,238,595
<b><u>LIABILITIES AND SHAREHOLDERS EQUITY</u></b>		
Indebtedness:		
Secured debt	\$ 495,551	\$ 515,192
Unsecured notes	<b>3,143,351</b>	3,129,653
Unsecured line of credit	<b>440,000</b>	317,000
	<b>4,078,902</b>	3,961,845
Liabilities of properties held for sale	<b>40,375</b>	155,185
Construction payables and amounts due subcontractors, including retentions	<b>126,397</b>	136,508
Accrued expenses:		
Real estate taxes	<b>70,632</b>	59,276
Interest	<b>52,259</b>	52,106
Other	<b>38,018</b>	63,217
Other liabilities	<b>133,636</b>	118,901
Tenant security deposits and prepaid rents	<b>33,353</b>	31,121
Total liabilities	<b>4,573,572</b>	4,578,159
Minority interest	<b>114,583</b>	156,853
Shareholders equity:		
Preferred shares (\$.01 par value); 5,000 shares authorized; 3,241 shares issued and outstanding	<b>876,250</b>	876,250
Common shares (\$.01 par value); 250,000 shares authorized; 136,942 and 133,921 shares issued and outstanding	<b>1,369</b>	1,339

Edgar Filing: DUKE REALTY CORP - Form 10-Q

Additional paid-in capital	<b>2,322,721</b>	2,196,388
Accumulated other comprehensive income	<b>16,784</b>	5,435
Distributions in excess of net income	<b>(602,381)</b>	<b>(575,829)</b>
Total shareholders' equity	<b>2,614,743</b>	2,503,583
	<b>\$ 7,302,898</b>	\$ 7,238,595

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		Six Months Ended	
	2007	2006	2007	2006
<b>RENTAL OPERATIONS:</b>				
Revenues:				
Rental income from continuing operations	\$ 189,705	\$ 185,576	\$ 388,008	\$ 360,818
Equity in earnings of unconsolidated companies	7,949	9,696	15,640	17,955
	<b>197,654</b>	<b>195,272</b>	<b>403,648</b>	<b>378,773</b>
Operating expenses:				
Rental expenses	41,036	40,945	88,625	82,298
Real estate taxes	24,148	22,132	48,519	42,855
Interest expense	39,207	42,192	82,444	77,540
Depreciation and amortization	65,943	59,405	130,984	114,300
	<b>170,334</b>	<b>164,674</b>	<b>350,572</b>	<b>316,993</b>
Earnings from continuing rental operations	27,320	30,598	53,076	61,780
<b>SERVICE OPERATIONS</b>				
Revenues:				
General contractor gross revenue	63,561	54,061	117,718	123,610
General contractor costs	(55,990 )	(48,798 )	(104,678 )	(113,006 )
Net general contractor revenue	7,571	5,263	13,040	10,604
Service fee revenue	7,655	4,430	14,052	8,848
Gain on sale of service operations properties	6,813	25	9,677	272
Total revenue	22,039	9,718	36,769	19,724
Operating expenses	10,021	6,242	17,817	11,798
Earnings from service operations	12,018	3,476	18,952	7,926
General and administrative expense	(10,606 )	(6,953 )	(24,065 )	(20,882 )
Operating income	28,732	27,121	47,963	48,824
<b>OTHER INCOME (EXPENSE)</b>				
Interest and other income, net	2,566	1,952	4,984	3,932
Earnings from sale of land, net of impairment adjustment	2,411	554	16,408	2,445
Other minority interest in earnings of subsidiaries	(36 )	(73 )	(51 )	(175 )
Minority interest in earnings of common unitholders	(1,230 )	(1,655 )	(2,613 )	(2,679 )
Income from continuing operations	32,443	27,899	66,691	52,347
Discontinued operations:				
Net income from discontinued operations, net of minority interest	856	5,708	2,114	7,594
Gain on sale of properties, net of minority interest	19,003	1,365	67,286	1,824
Income from discontinued operations	19,859	7,073	69,400	9,418
Net income	52,302	34,972	136,091	61,765
Dividends on preferred shares	(15,226 )	(13,255 )	(30,452 )	(25,967 )
Adjustments for redemption of preferred shares				(2,633 )
Net income available for common shareholders	\$ 37,076	\$ 21,717	\$ 105,639	\$ 33,165
Basic net income per common share:				
Continuing operations	\$ .13	\$ .11	\$ .26	\$ .18
Discontinued operations	.14	.05	.51	.07
Total	\$ .27	\$ .16	\$ .77	\$ .25
Diluted net income per common share:				
Continuing operations	\$ .13	\$ .11	\$ .26	\$ .18
Discontinued operations	.14	.05	.50	.06
Total	\$ .27	\$ .16	\$ .76	\$ .24
Weighted average number of common shares outstanding	136,921	134,969	136,873	134,876
Weighted average number of common shares and potential dilutive common equivalents	148,129	149,364	148,170	149,273

Edgar Filing: DUKE REALTY CORP - Form 10-Q

See accompanying Notes to Consolidated Financial Statements

3

---

**DUKE REALTY CORPORATION AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**

**For the six months ended June 30,**  
**(in thousands)**  
**(Unaudited)**

	2007	2006
<b>Cash flows from operating activities:</b>		
Net income	\$ 136,091	\$ 61,765
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation of buildings and tenant improvements	105,114	103,658
Amortization of deferred leasing and other costs	31,032	22,091
Amortization of deferred financing costs	5,440	3,818
Minority interest in earnings	7,610	3,786
Straight-line rent adjustment	(9,592)	(10,207)
Earnings from land and depreciated property sales	(88,489)	(4,449)
Build-for-sale operations, net	(123,267)	(93,673)
Construction contracts, net	8,687	(3,878)
Other accrued revenues and expenses, net	6,698	12,932
Operating distributions received in excess of (less than) equity in earnings from unconsolidated companies	2,159	(11,520)
<b>Net cash provided by operating activities</b>	<b>81,483</b>	<b>84,323</b>
<b>Cash flows from investing activities:</b>		
Development of real estate investments	(186,940)	(167,746)
Acquisition of real estate investments and related intangible assets	(79,661)	(675,723)
Acquisition of land held for development	(125,908)	(284,609)
Recurring tenant improvements	(22,941)	(25,272)
Recurring leasing costs	(14,872)	(6,217)
Recurring building improvements	(2,373)	(3,146)
Other deferred leasing costs	(10,784)	(23,349)
Other deferred costs and other assets	(2,467)	(20,134)
Proceeds from land and depreciated property sales, net	269,434	29,686
Capital distributions from unconsolidated companies	195,427	21,238
Repayments from (advances to) unconsolidated companies	(69,350)	5,321
<b>Net cash used for investing activities</b>	<b>(50,435)</b>	<b>(1,149,951)</b>
<b>Cash flows from financing activities:</b>		
Payments for repurchases of common shares		(11,883)
Proceeds from exercise of stock options	136	5,607
Proceeds from issuance of preferred shares, net		283,994
Payments for redemption of preferred shares		(75,010)
Proceeds from unsecured debt issuance	13,824	150,000
Payments on unsecured debt		(100,000)
Proceeds from issuance of secured debt		710,450
Payments on secured indebtedness including principal amortization	(19,804)	(19,449)
Borrowings on line of credit, net	123,000	287,000
Distributions to common shareholders	(130,050)	(127,075)
Distributions to preferred shareholders	(30,452)	(25,967)
Distributions to minority interest, net	(9,306)	(12,698)
Deferred financing costs	(1,423)	(19,034)
<b>Net cash provided by (used for) financing activities</b>	<b>(54,075)</b>	<b>1,045,935</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(23,027)</b>	<b>(19,693)</b>
Cash and cash equivalents at beginning of period	68,483	26,732
Cash and cash equivalents at end of period	\$ 45,456	\$ 7,039
<b>Other non-cash items:</b>		
Assumption of secured debt for real estate acquisitions	\$	\$ 206,020
Conversion of Limited Partner Units to common shares	\$ 118,239	\$ 6,057
Contribution of real estate investments to, net of debt assumed by, unconsolidated companies	\$ 125,353	\$ 36,557



Edgar Filing: DUKE REALTY CORP - Form 10-Q

Issuance of Limited Partner Units for acquisition	\$	11,020	\$
---	----	--------	----

See accompanying Notes to Consolidated Financial Statements

4

---

**DUKE REALTY CORPORATION AND SUBSIDIARIES**  
**Consolidated Statement of Shareholders' Equity**

**For the six months ended June 30, 2007**  
**(in thousands, except per share data)**  
**(Unaudited)**

	<b>Preferred Stock</b>	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Distributions in Excess of Net Income</b>	<b>Total</b>
<b>Balance at December 31, 2006</b>	<b>\$ 876,250</b>					