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DUKE REALTY CORP

Form 10-Q

May 03, 2013

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, 2013

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 96th 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 (§232.405 of this chapter) 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 definitions 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 May 3, 2013

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Common Stock, \$.01 par value per share 321,669,024

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended March 31, 2013 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 98.7% of the common partnership interests of the Partnership ("General Partner Units") as of March 31, 2013. The remaining 1.3% 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)

	March 31, 2013 (Unaudited)	December 31, 2012
ASSETS		
Real estate investments:		
Land and improvements	\$1,278,428	\$1,284,081
Buildings and tenant improvements	5,326,997	5,398,886
Construction in progress	303,383	234,918
Investments in and advances to unconsolidated companies	331,041	372,256
Undeveloped land	607,283	614,208
	7,847,132	7,904,349
Accumulated depreciation	(1,319,056)	(1,296,396)
Net real estate investments	6,528,076	6,607,953
Real estate investments and other assets held-for-sale	105,505	30,937
Cash and cash equivalents	307,167	33,889
Accounts receivable, net of allowance of \$3,616 and \$3,374	21,175	22,283
Straight-line rent receivable, net of allowance of \$6,107 and \$6,091	121,457	120,303
Receivables on construction contracts, including retentions	27,465	39,754
Deferred financing costs, net of accumulated amortization of \$50,582 and \$48,218	41,097	40,083
Deferred leasing and other costs, net of accumulated amortization of \$381,325 and \$372,047	480,458	497,827
Escrow deposits and other assets	169,699	167,072
	\$7,802,099	\$7,560,101
LIABILITIES AND EQUITY		
Indebtedness:		
Secured debt	\$1,151,660	\$1,167,953
Unsecured notes	3,242,737	2,993,217
Unsecured line of credit	—	285,000
	4,394,397	4,446,170
Liabilities related to real estate investments held-for-sale	1,973	807
Construction payables and amounts due subcontractors, including retentions	81,044	84,679
Accrued real estate taxes	78,524	74,565
Accrued interest	41,626	59,215
Other accrued expenses	33,056	57,881
Other liabilities	123,233	167,935
Tenant security deposits and prepaid rents	43,665	42,731
Total liabilities	4,797,518	4,933,983
Shareholders' equity:		
Preferred shares (\$.01 par value); 5,000 shares authorized; 1,791 and 2,503 shares issued and outstanding	447,683	625,638

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Common shares (\$.01 par value); 400,000 shares authorized; 321,667 and 279,423 shares issued and outstanding	3,217	2,794
Additional paid-in capital		