

DUKE REALTY CORP
Form 8-K/A
May 10, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 8-K/A

**CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Date of Report (Date of earliest event reported): February 28, 2006

DUKE REALTY CORPORATION

(Exact name of registrant as specified in its charter)

Indiana
(State or Other Jurisdiction
of Incorporation)

1-9044
(Commission
File Number)

35-1740409
(IRS Employer
Identification No.)

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**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

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- o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

Item 2.01. Completion of Acquisition or Disposition of Assets

On March 3, 2006, Duke Realty Corporation (the Company) filed a Current Report on Form 8-K (the Original Form 8-K) relating to the acquisition (the Acquisition) on February 28, 2006 by Duke Realty Limited Partnership, an Indiana limited partnership (the Operating Partnership) of which the Company is the sole general partner, of (i) a portfolio of commercial real estate properties consisting of approximately 2.3 million square feet of suburban office and light industrial buildings located in three primary submarkets in Northern Virginia, (ii) the operating assets of The Mark Winkler Company related to those commercial properties, and (iii) approximately 166 acres of undeveloped land associated with those properties, as described in the Original Form 8-K. This Current Report on Form 8-K/A (this Amendment) amends the Original Form 8-K to include historical and pro forma financial information that give effect to the Acquisition as of and for the year ended December 31, 2005, as required pursuant to Items 2.01 and 9.01 of the Securities and Exchange Commission's Form 8-K.

Item 9.01. Financial Statements and Exhibits

(a) *Financial Statements of Real Estate Property Acquired.* The following financial statements are filed with this Amendment and are included herein:

The Mark Winkler Operating Properties

Independent Auditors' Report

Combined Statement of Revenue In Excess of Certain Expenses

Notes to Combined Statement of Revenues In Excess of Certain Expenses

(b) *Unaudited Pro Forma Financial Information.* The following financial statements are filed with this Amendment and are included herein:

Duke Realty Corporation and Subsidiaries

Unaudited Pro Forma Condensed Consolidated Financial Statements for the Fiscal Year Ended December 31, 2005:

Unaudited Pro Forma Condensed Consolidated Balance Sheet

Unaudited Pro Forma Condensed Consolidated Statement Operations

Unaudited Notes to Pro Forma Condensed Consolidated Financial Statements

(d) *Exhibits.* The following exhibit is included in this Amendment:

23.1 Consent of KPMG LLP

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DUKE REALTY CORPORATION

By: /s/ Howard L. Feinsand
Howard L. Feinsand
Executive Vice President, General Counsel
and Corporate Secretary

Dated: May 10, 2006

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Independent Auditors Report

The Board of Directors
Duke Realty Corporation

We have audited the accompanying combined statement of revenue in excess of certain expenses (the Combined Statement) of The Mark Winkler Operating Properties (the Properties) described in note 1 for the year ended December 31, 2005. This Combined Statement is the responsibility of Duke Realty Corporation s (Company) management. Our responsibility is to express an opinion on this Combined Statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Combined Statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Properties internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Combined Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Combined Statement. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Combined Statement was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and for inclusion in the Form 8-K/A of the Company, as described in Note 2 to the Combined Statement. It is not intended to be a complete presentation of the Properties revenue and expenses.

In our opinion, the Combined Statement referred to above presents fairly, in all material respects, the combined revenue in excess of certain expenses, as described in Note 2, of the Properties for the year ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Indianapolis, Indiana
April 28, 2006

THE MARK WINKLER OPERATING PROPERTIES
COMBINED STATEMENT OF REVENUE IN EXCESS OF CERTAIN EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2005

| | |
|--|---------------|
| Revenue: | |
| Rental income, including recoveries from tenants | \$ 55,922,720 |
| Certain Expenses: | |
| Rental expenses | 10,697,135 |
| Real estate taxes | 4,148,694 |
| Interest expense | 6,387,917 |
| | 21,233,746 |
| Revenue in excess of certain expenses | \$ 34,688,974 |

See accompanying notes to the Combined Statement.

THE MARK WINKLER OPERATING PROPERTIES
NOTES TO COMBINED STATEMENT OF REVENUE IN EXCESS OF CERTAIN
EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2005

(1) Operating Properties

The Mark Winkler Operating Properties are part of a portfolio acquisition by Duke Realty Limited Partnership (the Partnership), of which Duke Realty Corporation (the Company) is the sole general partner, of certain assets from the Mark Winkler Company and affiliates that include land held for development and 32 rental properties. The Company acquired 29 of the rental properties in the first quarter of 2006 and will close on the remaining three buildings of the portfolio in the second quarter of 2006. Of the 32 total rental properties, one was placed in service in 2005 and one will be placed in service in 2006. Only the revenue and certain expenses of the 31 acquired properties that were in service as of December 31, 2005 (the Mark Winkler Operating Properties or the Properties) are included in this Combined Statement.

The Combined Statement for the year ended December 31, 2005 for the Mark Winkler Operating Properties relates to the following properties:

| Property Location | Property Type | Rentable Square Footage |
|-------------------|---------------|-------------------------|
| Alexandria, VA | Office | 14,980 |
| Alexandria, VA | Office | 119,088 |
| Alexandria, VA | Office | 52,761 |
| Alexandria, VA | Office | 239,945 |
| Chantilly, VA | Office | 79,067 |
| Alexandria, VA | Office | 123,053 |
| Alexandria, VA | Office | 87,172 |
| Alexandria, VA | Office | 36,276 |
| Alexandria, VA | Office | 51,750 |
| Alexandria, VA | Office | 52,716 |
| Alexandria, VA | Office | 96,411 |
| Chantilly, VA | Office | 281,283 |
| Chantilly, VA | Office | 158,919 |
| Chantilly, VA | Office | 80,339 |
| Chantilly, VA* | Office | 82,205 |
| Alexandria, VA | Office | 216,482 |
| Alexandria, VA | Office | 199,005 |
| Sterling, VA | Industrial | 61,500 |
| Sterling, VA | Industrial | 69,587 |
| Sterling, VA | Office | 120,000 |
| Sterling, VA | Industrial | 94,545 |
| Sterling, VA | Industrial | 42,580 |
| Sterling, VA | Office | 24,196 |

THE MARK WINKLER OPERATING PROPERTIES
 NOTES TO COMBINED STATEMENT OF REVENUE IN EXCESS OF CERTAIN
 EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2005

(1) Operating Properties, continued

| | | |
|-----------------|------------|---------|
| Sterling, VA | Industrial | 57,600 |
| Sterling, VA | Office | 18,372 |
| Sterling, VA | Industrial | 24,050 |
| Sterling, VA | Industrial | 64,537 |
| Sterling, VA | Industrial | 21,600 |
| Sterling, VA | Industrial | 48,958 |
| Sterling, VA | Industrial | 43,120 |
| Sterling, VA | Industrial | 126,841 |
| Chantilly, VA** | Office | 169,540 |

* Property was placed in service in December 2005.

** Property excluded from the Combined Statement as it was not in service during 2005.

(2) Basis of Presentation

The accompanying Combined Statement has been prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and for inclusion in Form 8-K/A to be filed by the Company. The Combined Statement is not representative of the actual results of operations of the Mark Winkler Company and affiliates for the year ended December 31, 2005, due to the exclusion of the following expenses, which may not be comparable to the proposed future operations of the Mark Winkler Operating Properties:

- Depreciation and amortization.
- Property management fees.
- Other costs not directly related to the proposed future operations of the Mark Winkler Operating Properties.

Additionally, rental revenues from the properties related to leases with the Mark Winkler Company and affiliates are not included in the Combined Statement as they will be eliminated in consolidation when presenting the future operations of the Mark Winkler Operating Properties.

(3) Summary of Significant Accounting Policies

(A) Revenue Recognition

Rental income from leases with scheduled rental increases during their term are recognized for financial reporting purposes on a straight-line basis.

THE MARK WINKLER OPERATING PROPERTIES
 NOTES TO COMBINED STATEMENT OF REVENUE IN EXCESS OF CERTAIN
 EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2005

(B) Use of Estimates

Management has made a number of estimates and assumptions relating to the reporting and disclosure of revenue and certain expenses during the reporting period to prepare the Combined Statement in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

(4) Rent Revenue

Space is leased to tenants under various operating leases with initial terms ranging from one year to twenty-five years. The leases provide for reimbursement of real estate taxes, common area maintenance and certain other operating expenses.

Future minimum rentals to be received under noncancelable operating leases in effect at December 31, 2005 are as follows:

| | |
|------------|----------------|
| 2006 | \$ 50,682,983 |
| 2007 | 47,512,350 |
| 2008 | 45,357,777 |
| 2009 | 41,149,058 |
| 2010 | 34,997,135 |
| Thereafter | 119,975,017 |
| | \$ 339,674,320 |

(5) Interest Expense

The Mark Winkler Operating Properties have total secured mortgage debt outstanding, as of December 31, 2005, with a face value of approximately \$113.2 million that matures from 2014 to 2025. The secured mortgage debt bears interest at fixed rates ranging from 5.57% to 8.33%. There was one property placed in service in December 2005 and, accordingly, interest expense was only recorded during the portion of 2005 in which it was in service.

THE MARK WINKLER OPERATING PROPERTIES
NOTES TO COMBINED STATEMENT OF REVENUE IN EXCESS OF CERTAIN
EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2005

(6) Debt Maturities

At December 31, 2005 the scheduled amortization and maturities of indebtedness of the Mark Winkler Operating Properties for the next five years and thereafter were as follows (in thousands):

| | | |
|------------|----|-------------|
| 2006 | \$ | 1,107,210 |
| 2007 | | 1,734,091 |
| 2008 | | 1,892,461 |
| 2009 | | 2,020,714 |
| 2010 | | 2,157,888 |
| Thereafter | | 104,306,325 |
| | \$ | 113,218,689 |

DUKE REALTY CORPORATION AND SUBSIDIARIES

PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The unaudited pro forma condensed consolidated balance sheet of Duke Realty Corporation and Subsidiaries (the Company) as of December 31, 2005 is presented as if the acquisition of the Mark Winkler Properties occurred on December 31, 2005. The unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2005 is presented as if the acquisition of the Mark Winkler Properties occurred on January 1, 2005.

The Company acquired 29 rental properties and land held for development in the first quarter of 2006 and will close on an additional three rental properties in the second quarter of 2006. Of the 32 total rental properties, one was placed in service in 2005 and one will be placed in service in 2006. The unaudited pro forma condensed consolidated financial statements of the Company should be read in conjunction with the Company's consolidated historical financial statements including the notes thereto. The unaudited pro forma condensed consolidated financial statements do not purport to represent the Company's financial position as of December 31, 2005, or the results of operations for the year then ended that would have actually occurred had the acquisition been completed on December 31, 2005 for the purposes of the balance sheet or January 1, 2005 for the purposes of the statement of operations, or to project the Company's financial position or results of operations as of any future date or for any future period.

DUKE REALTY CORPORATION AND SUBSIDIARIES
PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2005
(UNAUDITED, IN THOUSANDS, EXCEPT PAR VALUE AMOUNTS)

| | Historical | The Mark Winkler Properties | Pro Forma |
|---|--------------|-----------------------------------|----------------|
| ASSETS | | | |
| Net real estate investments | \$ 5,034,422 | \$ 792,776 | A \$ 5,827,198 |
| Cash and cash equivalents | 26,732 | | 26,732 |
| Accounts receivable, net of allowance of \$1,093 | 31,342 | | 31,342 |
| Straight line rent receivable, net of allowance of \$1,538 | 95,948 | | 95,948 |
| Receivables on construction contracts, including retentions | 50,035 | | 50,035 |
| Deferred financing costs, net of accumulated amortization of \$14,113 | 27,118 | | 27,118 |
| Deferred leasing and other costs, net of accumulated amortization of \$112,246 | 227,648 | 71,425 | B 299,073 |
| Escrow deposits and other assets | 154,315 | | 154,315 |
| | \$ 5,647,560 | \$ 864,201 | \$ 6,511,761 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | |
| Secured and unsecured debt | \$ 2,600,651 | \$ 864,201 | C \$ 3,464,852 |
| Construction payables and amounts due subcontractors, including retentions | 93,137 | | 93,137 |
| Accounts payable and accrued expenses | 149,564 | | 149,564 |
| Other liabilities | 133,920 | | 133,920 |
| Tenant security deposits and prepaid rents | 34,924 | | 34,924 |
| Total liabilities | 3,012,196 | 864,201 | 3,876,397 |
| Minority interest | 182,566 | | 182,566 |
| Shareholders equity: | | | |
| Preferred shares (\$.01 par value); 5,000 shares authorized; 2,365 shares issued and outstanding | 657,250 | | 657,250 |
| Common shares (\$.01 par value); 250,000 shares authorized; 143,509 shares issued and outstanding | 1,347 | | 1,347 |
| Additional paid-in capital | 2,266,204 | | 2,266,204 |
| Accumulated other comprehensive income (loss) | (7,118) | | (7,118) |
| Distributions in excess of net income | (464,885) | | (464,885) |
| Total shareholders equity | 2,452,798 | | 2,452,798 |
| | \$ 5,647,560 | \$ 864,201 | \$ 6,511,761 |

See accompanying notes to pro forma condensed consolidated financial statements.

DUKE REALTY CORPORATION AND SUBSIDIARIES
 PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
 FOR THE YEAR ENDED DECEMBER 31, 2005
 (UNAUDITED, IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | Historical | Revenue in Excess of the Mark Winkler Properties | Other Pro-Forma Adjustments | Pro Forma |
|---|------------|---|-----------------------------------|--------------|
| RENTAL OPERATIONS: | | | | |
| Revenues: | | | | |
| Rental income from continuing operations | \$ 676,634 | \$ 55,923 | D(\$520) | E \$ 732,037 |
| Equity in earnings of unconsolidated companies | 29,549 | | | 29,549 |
| Operating expenses: | | | | |
| Rental expenses | 158,013 | 10,697 | D923 | E 169,633 |
| Real estate taxes | 82,751 | 4,149 | D | 86,900 |
| Interest expense | 120,369 | 6,388 | D38,341 | F 165,098 |
| Depreciation and amortization | 226,503 | | | 226,503 |
| | 587,636 | 21,234 | 39,264 | 648,134 |
| Earnings from continuing rental operations | 118,547 | 34,689 | (39,784) | 113,452 |
| SERVICE OPERATIONS: | | | | |
| Total income from service operations | 41,019 | | | 41,019 |
| General and administrative expense | (27,835) | | | (27,835) |
| Operating income | 131,731 | 34,689 | (39,784) | 126,636 |
| OTHER INCOME (EXPENSE): | | | | |
| Interest income | 5,844 | | | 5,844 |
| Earnings from sale of land and ownership interests in unconsolidated companies, net of impairment adjustments | 14,201 | | | 14,201 |
| Other revenue (expense) | (1,207) | | | (1,207) |
| Minority interest income (expense) | (10,816) | | 459 | H (10,357) |
| Income from continuing operations | 139,753 | 34,689 | (39,325) | 135,117 |
| Dividends on preferred shares | (46,479) | | | (46,479) |
| Net income available for common shareholders | \$ 93,274 | \$ 34,689 | (\$39,325) | \$ 88,638 |
| Basic net income per common share-continuing operations | \$ 0.66 | | | \$ 0.63 |
| Diluted net income per common share-continuing operations | \$ 0.65 | | | \$ 0.63 |
| Weighted average number of common shares outstanding | 141,508 | | | 141,508 |
| Weighted average number of common and dilutive potential common shares | 155,877 | | | 155,877 |

See accompanying notes to pro forma condensed consolidated financial statements.

DUKE REALTY CORPORATION AND SUBSIDIARIES
 NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)
 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(A) Represents the portion of the total purchase price and related costs allocated to the 32 rental properties and land held for development (the Mark Winkler Properties) acquired from the Mark Winkler Company and affiliates subsequent to December 31, 2005. The rental properties of the Mark Winkler Properties are classified and accounted for as held for sale by the Company and, accordingly, no depreciation or amortization is recognized in the Pro-Forma Condensed Consolidated Statement of Operations. Accounts receivable, other assets, accounts payable and other liabilities associated with the purchase of the properties are not considered material and have been excluded from the pro forma condensed consolidated balance sheet. The allocation of the purchase price based on the fair values of assets acquired is preliminary.

(B) Represents the preliminary estimate of fair value of intangible assets, such as above/below market leases and in place lease value, related to the acquisition.

(C) Represents the fair value of assumed mortgage debt and line of credit and term loan borrowings used to finance the acquisition of the properties.

| | |
|--|------------|
| Mortgage debt assumed at fair value | \$ 151,060 |
| Borrowings on unsecured line of credit | 13,141 |
| Term loan borrowings | 700,000 |
| | \$ 864,201 |

To fund the total acquisition of certain assets from the Mark Winkler Company and affiliates, the Company obtained a \$700 million term loan with a term of six months and extension options for an additional six months. The term loan bears interest at LIBOR plus .525%.

Borrowings outstanding under the Company s unsecured line of credit bear interest at LIBOR plus .525%.

The face value of the assumed mortgage debt at the time of acquisition was \$144,485.

(D) Represents historical revenue in excess of certain expenses for the 31 rental properties that were in service during the year ended December 31, 2005. Historical revenue and certain expenses exclude amounts, which would not be comparable to the future operations of the properties such as property management costs, depreciation and amortization. Also excluded are carrying costs related to the undeveloped land.

(E) Represents amortization of above/below market leases.

(F) Represents property management costs for the acquired properties that were in service during 2005.

(G) Interest expense related to the assumed mortgage debt has been adjusted to fair value. Interest expense for one rental property placed in service in December 2005 was only recorded during the portion of 2005 in which it was in service and for one rental property not yet in service as of December 31, 2005, interest expense has not been recorded during 2005, due to the Company's policy to capitalize interest expense for the period until the property is substantially complete and ready for its intended use. Interest expense on the fixed rate mortgage debt was recorded at fair value with effective rates ranging from 5.64% to 5.72%. The term loan and the unsecured line of credit bear interest at LIBOR plus .525%, resulting in an average effective interest rate for the year of 5.44%. The purchase of undeveloped land was financed through borrowings on the term loan.

(H) Represents the share of Revenue in Excess of Certain Expenses and Pro-Forma adjustments attributable to the minority interest of the 9% of the units of Duke Realty Limited Partnership (the Partnership) not held by the Company. The majority of the Company's rental operations are conducted through the Partnership.