DCT Industrial Trust Inc.
Form 10-Q
August 05, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2010

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 001-33201

DCT INDUSTRIAL TRUST INC.

(Exact name of registrant as specified in its charter)

Maryland **(State or other jurisdiction of incorporation or organization)**	**82-0538520** **(I.R.S. Employer Identification No.)**
518 Seventeenth Street, Suite 800 **Denver, Colorado** **(Address of principal executive offices)**	**80202** **(Zip Code)**

(303) 597-2400

(Registrant s telephone number, including area code)

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 x 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). Yes x 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	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 x

As of July 30, 2010, 211,407,389 shares of common stock of DCT Industrial Trust Inc., par value $0.01 per share, were outstanding.

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DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES

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DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except share and per share information)

	June 30, 2010 (unaudited)	December 31, 2009
ASSETS		
Land	$ 532,126	$ 519,485
Buildings and improvements	2,265,276	2,219,826
Intangible lease assets	97,235	116,243
Construction in progress	32,532	60,860
Total investment in properties	**2,927,169**	**2,916,414**
Less accumulated depreciation and amortization	(488,643)	(451,242)
Net investment in properties	**2,438,526**	**2,465,172**
Investments in and advances to unconsolidated joint ventures	109,541	111,238
Net investment in real estate	**2,548,067**	**2,576,410**
Cash and cash equivalents	20,229	19,120
Notes receivable	17,443	19,084
Deferred loan costs, net	3,457	4,919
Straight-line rent and other receivables, net of allowance for doubtful accounts of $1,846 and $2,226, respectively	30,616	31,607
Other assets, net	10,985	13,152
Total assets	**$ 2,630,797**	**$ 2,664,292**
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable and accrued expenses	$ 27,171	$ 36,261
Distributions payable	16,669	16,527
Tenant prepaids and security deposits	19,161	19,451
Other liabilities	14,027	5,759
Intangible lease liability, net	5,077	5,946
Senior unsecured notes	735,000	625,000
Mortgage notes	419,608	511,715
Total liabilities	**1,236,713**	**1,220,659**
Equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, none outstanding		
Shares-in-trust, $0.01 par value, 100,000,000 shares authorized, none outstanding		
Common stock, $0.01 par value, 350,000,000 shares authorized, 211,317,497 and 208,046,167 shares issued and outstanding as of June 30, 2010 and December 31, 2009, respectively	2,113	2,080
Additional paid-in capital	1,840,272	1,817,654
Distributions in excess of earnings	(638,580)	(591,087)
Accumulated other comprehensive loss	(16,875)	(11,012)

Total stockholders equity	**1,186,930**	**1,217,635**
Noncontrolling interests	207,154	225,998
Total equity	**1,394,084**	**1,443,633**
Total liabilities and equity	**$ 2,630,797**	**$ 2,664,292**

The accompanying notes are an integral part of these Consolidated Financial Statements.

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DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES

Consolidated Statements of Operations

(unaudited, in thousands, except per share information)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
REVENUES:				
Rental revenues	$ 58,440	$ 58,631	$ 116,430	$ 120,868
Institutional capital management and other fees	721	680	1,361	1,347
Total revenues	**59,161**	**59,311**	**117,791**	**122,215**
OPERATING EXPENSES:				
Rental expenses	7,552	7,212	16,330	15,864
Real estate taxes	9,849	8,752	19,127	17,423
Real estate related depreciation and amortization	29,180	27,702	57,768	53,851
General and administrative	5,994	6,454	11,646	11,922
Impairment losses	4,556		4,556	
Total operating expenses	**57,131**	**50,120**	**109,427**	**99,060**
Operating income	**2,030**	**9,191**	**8,364**	**23,155**
OTHER INCOME AND EXPENSE:				
Equity in income (loss) of unconsolidated joint ventures, net	(400)	(1,615)	(1,011)	2,565
Interest expense	(13,248)	(13,327)	(26,036)	(26,668)
Interest and other income (expense)	353	767	(510)	901
Income and other taxes	(582)	(661)	(820)	(1,553)
Loss from continuing operations	**(11,847)**	**(5,645)**	**(20,013)**	**(1,600)**
Income (loss) from discontinued operations	(271)	891	(341)	1,295
Loss before gain on dispositions of real estate interests	**(12,118)**	**(4,754)**	**(20,354)**	**(305)**
Gain on dispositions of real estate interests			16	37
Consolidated net loss of DCT Industrial Trust Inc.	**(12,118)**	**(4,754)**	**(20,338)**	**(268)**
Net loss attributable to noncontrolling interests	1,387	760	2,383	101
Net loss attributable to common stockholders	**$ (10,731)**	**$ (3,994)**	**$ (17,955)**	**$ (167)**
EARNINGS PER COMMON SHARE BASIC:				
Loss from continuing operations	$ (0.05)	$ (0.02)	$ (0.09)	$ (0.01)
Income (loss) from discontinued operations	0.00	0.00	0.00	0.01
Gain on dispositions of real estate interests	0.00	0.00	0.00	0.00
Net loss attributable to common stockholders	$ (0.05)	$ (0.02)	$ (0.09)	$ 0.00
EARNINGS PER COMMON SHARE DILUTED:				
Loss from continuing operations	$ (0.05)	$ (0.02)	$ (0.09)	$ (0.01)
Income (loss) from discontinued operations	0.00	0.00	0.00	0.01

Gain on dispositions of real estate interests	0.00	0.00	0.00	0.00
Net loss attributable to common stockholders	$ (0.05)	$ (0.02)	$ (0.09)	$ 0.00
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic and diluted	210,841	183,783	209,602	179,745
AMOUNTS ATTRIBUTABLE TO COMMON STOCKHOLDERS:				
Loss from continuing operations	$ (10,491)	$ (4,753)	$ (17,667)	$ (1,299)
Income (loss) from discontinued operations	(240)	759	(302)	1,100
Gain on dispositions of real estate interests			14	32
Net loss attributable to common stockholders	$ (10,731)	$ (3,994)	$ (17,955)	$ (167)
Distributions declared per common share	$ 0.07	$ 0.08	$ 0.14	$ 0.16

The accompanying notes are an integral part of these Consolidated Financial Statements.

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DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders Equity,

Comprehensive Income (Loss) and Noncontrolling Interests

For the Six Months Ended June 30, 2010

(unaudited, in thousands)

		DCT Industrial Trust Inc. and Subsidiaries					
		Common Stock					
	Total Equity	Shares	Amount	Additional Paid-in Capital	Distributions In Excess of Earnings	Accumulated Other Compre-hensive Loss	Non-controlling Interests
Balance at December 31, 2009	**$ 1,443,633**	**208,046**	**$ 2,080**	**$ 1,817,654**	**$ (591,087)**	**$ (11,012)**	**$ 225,998**
Comprehensive income (loss):							
Net loss	(20,338)				(17,955)		(2,383)
Net unrealized loss on cash flow hedging derivatives	(8,610)					(7,632)	(978)
Realized losses related to hedging activities	1,678					1,487	191
Amortization of cash flow hedging derivatives	444					394	50
Allocation of interests						(112)	112
Comprehensive loss	(26,826)				(17,955)	(5,863)	(3,008)
Issuance of common stock, net of offering costs	8,562	1,665	17	8,545			
Issuance of common stock, stock based compensation plans	4	94	1	3			
Amortization of stock-based compensation	2,347			755			1,592
Distributions to common stockholders and noncontrolling interests	(33,425)				(29,538)		(3,887)
Partner contributions to noncontrolling interests	196						196
Purchase of subsidiary shares from noncontrolling interests				281			(281)
Redemptions of noncontrolling interests	(407)	1,512	15	13,034			(13,456)
Balance at June 30, 2010	**$ 1,394,084**	**211,317**	**$ 2,113**	**$ 1,840,272**	**$ (638,580)**	**$ (16,875)**	**$ 207,154**

The accompanying notes are an integral part of these Consolidated Financial Statements.

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DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(unaudited, in thousands)

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
OPERATING ACTIVITIES:		
Consolidated net loss	**$ (20,338)**	**$ (268)**
Adjustments to reconcile consolidated net loss to net cash provided by operating activities:		
Real estate related depreciation and amortization	57,776	54,442
Gain on dispositions of real estate interests	(26)	(655)
Gain on dispositions of non-depreciated real estate	(6)	(113)
Distributions of earnings from unconsolidated joint ventures	1,439	2,257
Equity in (income) loss of unconsolidated joint ventures, net	1,011	(2,565)
Impairment losses	4,743	
Stock-based compensation and other	3,643	3,390
Changes in operating assets and liabilities:		
Other receivables and other assets	2,786	7,153
Accounts payable, accrued expenses and other liabilities	(7,169)	(10,192)
Net cash provided by operating activities	**43,859**	**53,449**
INVESTING ACTIVITIES:		
Real estate acquisitions	(7,242)	(589)
Capital expenditures and development activities	(23,951)	(20,273)
Increase of deferred acquisition costs and deposits	(212)	(391)
Proceeds from dispositions of real estate investments, net	571	4,882
Investments in unconsolidated joint ventures	(662)	(1,869)
Distributions from investments in unconsolidated joint ventures		7,161
Repayment of notes receivable	1,641	31
Other investing activities	3,168	(512)
Net cash used in investing activities	**(26,687)**	**(11,560)**
FINANCING ACTIVITIES:		
Proceeds from senior unsecured revolving line of credit	223,000	
Repayments of senior unsecured revolving line of credit	(223,000)	
Proceeds from senior unsecured debt	210,000	
Principal payments of senior unsecured debt	(100,000)	
Proceeds from mortgage notes	123,000	
Principal payments of mortgage notes	(223,375)	(6,182)
Increase of deferred loan costs	(760)	
Issuance of common stock	9,071	117,300
Offering costs for issuance of common stock and OP Units	(505)	(5,833)
Redemption of OP Units	(407)	(572)
Distributions to common stockholders	(29,298)	(28,129)
Distributions to noncontrolling interests	(3,985)	(5,324)
Contributions from noncontrolling interests	196	73
Net cash provided by (used in) financing activities	**(16,063)**	**71,333**

NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,109**		**113,222**
CASH AND CASH EQUIVALENTS, beginning of period		**19,120**		**19,681**
CASH AND CASH EQUIVALENTS, end of period	**$**	**20,229**	**$**	**132,903**
Supplemental Disclosures of Cash Flow Information				
Cash paid for interest, net of capitalized interest	$	24,675	$	25,233
Supplemental Disclosures of Non-Cash Activities				
Retirement of fully amortized intangible lease assets, net	$	17,756	$	
Redemptions of OP Units settled in shares of common stock	$	13,331	$	9,233
Assumption of secured debt in connection with real estate acquired	$	8,786	$	

The accompanying notes are an integral part of these Consolidated Financial Statements.

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DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 Organization and Summary of Significant Accounting Policies

Organization

DCT Industrial Trust Inc. is a leading industrial real estate company that owns, operates and develops high-quality bulk distribution and light industrial properties in high-volume distribution markets in the U.S. and Mexico. We were formed as a Maryland corporation in April 2002 and have elected to be treated as a real estate investment trust (REIT) for United States (U.S.) federal income tax purposes commencing with our taxable year ended December 31, 2003. We are structured as an umbrella partnership REIT under which substantially all of our current and future business is, and will be, conducted through a majority owned and controlled subsidiary, DCT Industrial Operating Partnership LP (the operating partnership), a Delaware limited partnership, for which DCT Industrial Trust Inc. is the sole general partner. As used herein, DCT Industrial Trust, DCT, the Company, we, our and us refer to DCT Industrial Trust Inc. and its consolidated subsidiaries and partnerships ex where the context otherwise requires.

As of June 30, 2010, the Company owned interests in, managed or had under development 450 industrial real estate buildings comprised of approximately 75.5 million square feet of properties leased to more than 800 customers, including:

53.3 million consolidated square feet comprising 378 properties owned and in our operating portfolio which was 85.9% occupied;

14.6 million unconsolidated square feet comprising 46 properties managed on behalf of three institutional capital management joint venture partners;

3.6 million consolidated square feet comprising 13 properties under development and three properties in redevelopment

3.2 million unconsolidated square feet comprising seven properties under development, and

0.8 million square feet comprising three operating properties in one of our unconsolidated joint ventures.

Note 2 Summary of Significant Accounting Policies

Interim Financial Information

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and with the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial information. Accordingly, these statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, the accompanying unaudited Consolidated Financial Statements include all adjustments, consisting of normal recurring items, necessary for their fair presentation in conformity with GAAP. Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with our audited Consolidated Financial Statements as of December 31, 2009 and related notes thereto as filed on Form 10-K on February 26, 2010.

Basis of Presentation

The accompanying Consolidated Financial Statements include the financial position, results of operations and cash flows of the Company, its wholly-owned qualified REIT and taxable REIT subsidiaries, the operating partnership and its consolidated joint ventures, in which it has a controlling interest. Third-party equity interests in the operating partnership and consolidated joint ventures are reflected as noncontrolling interests in the Consolidated Financial Statements. We also have noncontrolling partnership interests in unconsolidated institutional capital management and other joint ventures, which are accounted for under the equity method. All significant intercompany amounts have been eliminated.

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Principles of Consolidation

We hold interests in both consolidated and unconsolidated joint ventures. All joint ventures over which we have financial and operating control and variable interest entities (VIE s) in which we have determined that we are the primary beneficiary are included in the Consolidated Financial Statements. We use the equity method of accounting for all joint ventures over which we do not have a controlling interest or where we do not exercise significant control over major operating and management decisions but where we exercise significant influence and include our share of earnings or losses of these joint ventures in our consolidated net income (loss).

We analyze our joint ventures in accordance with new accounting standards (as discussed in more detail later in this Note) to determine whether they are VIE s and, if so, whether we are the primary beneficiary. Our judgment with respect to our level of influence or control over an entity and whether we are the primary beneficiary of a VIE involves consideration of various factors including the form of our ownership interest, our representation on the entity s board of directors, the size of our investment (including loans) and our ability to participate in major decisions. Our ability to correctly assess our influence or control over an entity affects the presentation of these investments in the Consolidated Financial Statements and, consequently, our financial position and results of operations.

Reclassifications

Certain items in the Consolidated Financial Statements for 2009 have been reclassified to conform to the 2010 presentation.

Use of Estimates

The preparation of the Consolidated Financial Statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Capitalization of Costs

We capitalize costs directly related to the development, predevelopment, redevelopment or improvement of our investments in properties. Costs associated with our development projects are capitalized as incurred. If the project is abandoned, these costs are expensed during the period in which the project is abandoned. Costs considered for capitalization include, but are not limited to, construction costs, interest, real estate taxes, insurance and leasing costs, if appropriate. We capitalize indirect costs such as personnel, office, and administrative expenses that are directly related to our development projects based on time spent on the development activities. Interest is capitalized based on actual capital expenditures from the period when development or redevelopment commences until the asset is substantially complete, at the weighted average borrowing rates during the period. Costs incurred for maintaining and repairing our properties, which do not extend their useful lives, are expensed as incurred.

We also capitalize interest on our investments in unconsolidated joint ventures. Interest is capitalized based on the average capital invested in a venture during the period when development or predevelopment begins until planned principle operations commence, at the weighted average borrowing rates during the period.

Discontinued Operations

We classify certain properties and related assets and liabilities as held for sale when certain criteria are met. At such time, the respective assets and liabilities are presented separately on our Consolidated Balance Sheets. Assets held for sale are reported at the lower of carrying value or estimated fair value less estimated costs to sell. The operating results of such properties are presented in Income (loss) from discontinued operations in current periods and all comparable periods presented. Depreciation is not recorded on properties held for sale; however, depreciation expense recorded prior to classification as held for sale is included in Income (loss) from discontinued operations. Gains on sales of real estate assets are recognized if the specific transaction terms and any continuing involvement in the form of management or financial assistance meet the various sale recognition criteria as defined by GAAP. If the criteria are not met, we defer the gain until such time that the criteria for sale recognition have been met. Net gains on sales and any impairment losses associated with assets held for sale are presented in Income (loss) from discontinued operations when recognized.

Fair Value

The Financial Accounting Standards Board (FASB) issued guidance related to accounting for fair value measurements which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is defined as the exit price or price at which an asset (in its highest and best use) would be sold or liability assumed by an informed market participant in a transaction that is not distressed and is executed in the most advantageous market. This guidance provides a framework of how to determine such measurements on reported balances which are required or permitted to be measured at fair value under existing accounting pronouncements and emphasizes that fair value is a market-based rather than an entity-specific measurement. Therefore, our fair value measurement is determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, this guidance establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity s own assumptions about market participant assumptions based on the best information available in the circumstances (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals, and the contracted sales price for assets held for sale. Level 3 inputs are unobservable inputs for the asset or liability that are typically based on management s own assumptions, as there is little, if any, related observable market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Investment in Properties

We record the assets, liabilities and noncontrolling interests associated with property acquisitions which qualify as business combinations at their respective acquisition-date fair values which are derived using a market, income or replacement cost approach, or a combination thereof. Acquisition-related costs associated with business combinations are expensed as incurred. As defined by GAAP, a business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants. We do not consider acquisitions of land or unoccupied development buildings to be business combinations. Rather, these transactions are treated as asset acquisitions and recorded at cost.

The fair value of identifiable tangible assets such as land, building, building and land improvements and tenant improvements is determined on an as-if-vacant basis. Management considers Level 3 inputs such as the replacement cost of such assets, appraisals, property condition reports, market data and other related information in determining the fair value of the tangible assets. The difference between the fair value and the face value of debt assumed in connection with an acquisition is recorded as a premium or discount and amortized to Interest expense over the life of the debt assumed. The valuation of assumed liabilities is based on the current market rate for similar liabilities. The recorded fair value of intangible lease assets includes Level 3 inputs and represents the value associated with in-place leases which may include leasing commissions, legal and other costs, as well as an intangible asset or liability resulting from in-place leases being above or below the market rental rates on the date of the acquisition. Intangible lease assets or liabilities are amortized over the life of the remaining in-place leases as an adjustment to Rental revenues or Real estate related depreciation and amortization depending on the nature of the intangible.

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We have certain properties which we have acquired or removed from service with the intention to redevelop the property. Buildings under redevelopment require significant construction activities prior to being placed back into service. Additionally, we may acquire, develop, or redevelop certain properties with the intention to contribute the property to an institutional capital management joint venture, in which we may retain ownership in or manage the assets of the joint venture. We refer to these properties as held for contribution. We generally do not depreciate properties classified as redevelopment or held for contribution until the date that the redevelopment properties are ready for their intended use or the property held for contribution no longer meets the GAAP criteria to be classified as held for sale.

Real estate, including land, building, building and land improvements, tenant improvements and leasing costs and intangible lease assets and liabilities are stated at historical cost less accumulated depreciation and amortization, unless circumstances indicate that cost cannot be recovered, in which case, the carrying value of the property is reduced to estimated fair value.

Depreciation and Useful Lives of Properties

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the related assets or liabilities. Our ability to assess the useful lives of our real estate assets accurately is critical to the determination of the appropriate amount of depreciation and amortization expense recorded and the carrying values of the underlying assets. Any change to the estimated depreciable lives of these assets would have an impact on the depreciation and amortization expense we recognize.

The following table reflects the standard depreciable lives typically used to compute depreciation and amortization. However, such depreciable lives may be different based on the estimated useful life of such assets or liabilities. The carrying value of assets sold or retired and the related accumulated depreciation and/or amortization is derecognized and the resulting gain or loss, if any, is recorded during the period in which such sale or retirement occurs.

Description	**Standard Depreciable Life**
Land	Not depreciated
Building	20 40 years
Building and land improvements	5 20 years
Tenant improvements	Shorter of lease term or useful life
Leasehold improvements	5 20 years
Leasing costs	Lease term
Other intangible lease assets	Average term of leases for property
Above/below market rent assets/liabilities	Lease term

Depreciation is not recorded on real estate assets currently held for sale or contribution, in pre-development, or being developed or redeveloped until the building is substantially completed and ready for its intended use, normally not later than one year from cessation of major construction activity.

Impairment of Properties

Investments in properties classified as held for use are carried at