DUKE REALTY CORP
Form 10-Q
May 08, 2009
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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 March 31, 2009

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	**35-1740409**
(State or Other Jurisdiction	**(I.R.S. Employer**
of Incorporation or Organization)	**Identification Number)**

600 East 96th Street, Suite 100

Indianapolis, Indiana	**46240**
(Address of Principal Executive Offices)	**(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 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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.

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

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 May 1, 2009**
Common Stock, $.01 par value per share	223,827,840 shares

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DUKE REALTY CORPORATION

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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, 2009 (Unaudited)	December 31, 2008 (Revised)
ASSETS		
Real estate investments:		
Land and improvements	$ 1,085,898	$ 1,077,362
Buildings and tenant improvements	5,180,916	5,220,561
Construction in progress	199,899	159,330
Investments in and advances to unconsolidated companies	691,267	693,503
Undeveloped land	811,551	806,379
	7,969,531	7,957,135
Accumulated depreciation	(1,203,054)	(1,167,113)
Net real estate investments	6,766,477	6,790,022
Cash and cash equivalents	22,171	22,532
Accounts receivable, net of allowance of $3,262 and $1,777	23,684	28,026
Straight-line rent receivable, net of allowance of $4,794 and $4,086	126,410	123,863
Receivables on construction contracts, including retentions	70,747	75,100
Deferred financing costs, net of accumulated amortization of $39,056 and $38,046	45,258	47,907
Deferred leasing and other costs, net of accumulated amortization of $207,973 and $195,034	369,873	369,224
Escrow deposits and other assets	251,799	234,209
	$ 7,676,419	$ 7,690,883
LIABILITIES AND EQUITY		
Indebtedness:		
Secured debt	$ 660,621	$ 507,351
Unsecured notes	2,998,363	3,285,980
Unsecured lines of credit	673,926	483,659
	4,332,910	4,276,990
Construction payables and amounts due subcontractors, including retentions	100,361	105,227
Accrued real estate taxes	80,763	78,483
Accrued interest	39,925	56,376
Other accrued expenses	26,263	45,059
Other liabilities	168,720	187,425
Tenant security deposits and prepaid rents	35,381	41,348
Total liabilities	4,784,323	4,790,908
Shareholders equity:		
Preferred shares ($.01 par value); 5,000 shares authorized; 4,067 shares issued and outstanding	1,016,625	1,016,625

Common shares ($.01 par value); 250,000 shares authorized; 148,547 and 148,420 shares issued and outstanding	**1,485**	1,484
Additional paid-in capital	**2,705,660**	2,702,513
Accumulated other comprehensive income (loss)	**(8,036)**	(8,652)
Distributions in excess of net income	**(882,357)**	(867,951)
Total shareholders equity	**2,833,377**	2,844,019
Noncontrolling interests	**58,719**	55,956
Total equity	**2,892,096**	2,899,975
	$ 7,676,419	$ 7,690,883

See accompanying Notes to Consolidated Financial Statements.

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DUKE REALTY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations

For the Three Months Ended March 31,

(in thousands, except per share amounts)

(Unaudited)

	2009	2008 (Revised)
RENTAL OPERATIONS		
Revenues:		
Rental and related revenue	**$ 220,951**	$ 211,988
Operating expenses:		
Rental expenses	**54,270**	50,366
Real estate taxes	**29,176**	25,484
Depreciation and amortization	**80,016**	75,707
	163,462	151,557
Equity in earnings of unconsolidated companies	**2,527**	10,099
Earnings from rental operations	**60,016**	70,530
SERVICE OPERATIONS		
Revenues:		
General contractor gross revenue	**98,357**	76,759
General contractor costs	**(88,148)**	(70,104)
Net general contractor revenue	**10,209**	6,655
Service fee revenue	**6,542**	7,524
Gain on disposition of Build-for-Sale properties, net	**195**	372
Total service operations revenue	**16,946**	14,551
Operating expenses	**8,598**	10,138
Earnings from service operations	**8,348**	4,413
General and administrative expense	**(9,880)**	(12,163)
Earnings from sales of land, net	**357**	629
Undeveloped land carrying costs	**(2,365)**	(2,149)
Impairment charges	**(338)**	(808)
Operating income	**56,138**	60,452
OTHER INCOME (EXPENSE)		
Interest and other income	**123**	1,559
Interest expense	**(52,068)**	(48,101)
Gain on extinguishment of debt	**33,062**	
Income from continuing operations	**37,255**	13,910
Discontinued operations:		

Income from discontinued operations before gain on sales	**213**	2,705
Gain on sale of depreciable properties	**5,119**	1,110
Income from discontinued operations	**5,332**	3,815
Net income	**42,587**	17,725
Dividends on preferred shares	**(18,363)**	(15,306)
Net (income) loss attributable to noncontrolling interests	**(977)**	114
Net income attributable to common shareholders	**$ 23,247**	$ 2,533
Basic net income (loss) per Common Share:		
Continuing operations attributable to common shareholders	**$ .12**	$ (.01)
Discontinued operations attributable to common shareholders	**.03**	.03
Total	**$ .15**	$ .02
Diluted net income (loss) per Common Share:		
Continuing operations attributable to common shareholders	**$ .12**	$ (.01)
Discontinued operations attributable to common shareholders	**.03**	.03
Total	**$ .15**	$ .02
Weighted average number of Common Shares outstanding	**148,488**	146,331
Weighted average number of Common Shares and potential dilutive securities	**155,747**	154,596

See accompanying Notes to Consolidated Financial Statements

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DUKE REALTY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three months ended March 31,

(in thousands)

(Unaudited)

	2009	2008 (Revised)
Cash flows from operating activities:		
Net income	**$ 42,587**	$ 17,725
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of buildings and tenant improvements	**63,724**	60,850
Amortization of deferred leasing and other costs	**16,484**	18,271
Amortization of deferred financing costs	**3,407**	3,399
Straight-line rent adjustment	**(6,108)**	(4,638)
Gain on debt extinguishment	**(33,062)**	
Earnings from land and depreciated property sales	**(5,476)**	(1,739)
Build-for-Sale operations, net	**(11,470)**	(41,775)
Construction contracts, net	**(652)**	(14,418)
Other accrued revenues and expenses, net	**(28,441)**	(33,410)
Operating distributions received in excess of (less than) equity in earnings from unconsolidated companies	**7,435**	(2,042)
Net cash provided by operating activities	**48,428**	2,223
Cash flows from investing activities:		
Development of real estate investments	**(85,210)**	(151,872)
Acquisition of real estate investments and related intangible assets		(8,701)
Acquisition of undeveloped land	**(5,474)**	(14,741)
Recurring tenant improvements, leasing costs and building improvements	**(16,208)**	(17,868)
Other deferred leasing costs	**(6,208)**	(5,939)
Other deferred costs and other assets	**(26,769)**	(298)
Proceeds from land and depreciated property sales, net	**61,203**	26,684
Capital distributions from unconsolidated companies		38,753
Capital contributions and advances to unconsolidated companies, net	**(3,863)**	(20,296)
Net cash used for investing activities	**(82,529)**	(154,278)
Cash flows from financing activities:		
Proceeds from issuance of common shares	**26**	5,913
Proceeds from issuance of preferred shares, net		290,445
Payments on unsecured debt	**(254,455)**	(125,000)
Proceeds from issuance of secured debt	**156,000**	
Payments on secured indebtedness including principal amortization	**(2,584)**	(36,532)
Borrowings on lines of credit, net	**190,267**	89,001
Distributions to common shareholders	**(37,125)**	(70,211)
Distributions to preferred shareholders	**(18,363)**	(15,306)
Contributions from (distributions to) noncontrolling interests, net	**1,871**	(3,828)
Cash settlement of interest rate swaps		(14,625)
Deferred financing costs	**(1,897)**	(285)

Net cash provided by financing activities		**33,740**		119,572
Net decrease in cash and cash equivalents		**(361)**		(32,483)
Cash and cash equivalents at beginning of period		**22,532**		48,012
Cash and cash equivalents at end of period	**$**	**22,171**	$	15,529
Non-cash investing and financing activities:				
Conversion of Limited Partner Units to common shares	**$**	**85**	$	4,376
Assumption of secured debt for real estate acquisitions	**$**		$	18,465
Contribution of property to, net of debt assumed by, unconsolidated companies	**$**		$	77,158

See accompanying Notes to Consolidated Financial Statements

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DUKE REALTY CORPORATION AND SUBSIDIARIES

Consolidated Statement of Changes in Equity

For the three months ended March 31, 2009

(in thousands, except per share data)

(Unaudited)

		Common Shareholders					
	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Net Income	Non-controlling Interests	Total
Balance at December 31, 2008 (Revised)	**$ 1,016,625**	**$ 1,484**	**$ 2,702,513**	**$ (8,652)**	**$ (867,951)**	**$ 55,956**	**$ 2,899,975**
Comprehensive Income:							
Net income					41,610	977	42,587
Derivative instrument activity				616			616
Comprehensive income							$ 43,203
Stock based compensation plan activity		1	3,062		(528)		2,535
Acquisition of noncontrolling interests			85			(85)	
Distributions to preferred shareholders					(18,363)		(18,363)
Distributions to common shareholders ($0.25 per share)					(37,125)		(37,125)
Contributions from noncontrolling interests, net						1,871	1,871
Balance at March 31, 2009	**$ 1,016,625**	**$ 1,485**	**$ 2,705,660**	**$ (8,036)**	**$ (882,357)**	**$ 58,719**	**$ 2,892,096**

See accompanying Notes to Consolidated Financial Statements

DUKE REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. General Basis of Presentation

The interim consolidated financial statements included herein have been prepared by Duke Realty Corporation (the Company) without audit. The 2008 year-end consolidated balance sheet data included in this Quarterly Report on Form 10-Q (this Report) was derived from the audited financial statements in our Annual Report on Form 10-K for the year ended December 31, 2008, and has been revised as the result of the adoption of new accounting principles (see Note 2), but does not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP). The financial statements have been prepared in accordance with GAAP for interim financial information and in accordance with Rule 10-01 of Regulation S-X of the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenue and expenses during the reporting period. Our actual results could differ from those estimates and assumptions. These financial statements should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations included herein and the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2008.

We believe we qualify as a real estate investment trust (REIT) under the provisions of the Internal Revenue Code of 1986, as amended. Substantially all of our Rental Operations (see Note 7) are conducted through Duke Realty Limited Partnership (DRLP). We owned approximately 95.7% of the common partnership interests of DRLP (Units) at March 31, 2009. At the option of the holders, subject to certain restrictions, the remaining Units are redeemable for shares of our common stock on a one-to-one basis and earn dividends at the same rate as shares of our common stock. At our sole option, we may elect to purchase the Units for an equivalent amount of cash rather than issuing shares of common stock upon redemption. We conduct our Service Operations (see Note 7) through Duke Realty Services LLC, Duke Realty Services Limited Partnership and Duke Construction Limited Partnership. The consolidated financial statements include our accounts and the accounts of our majority-owned or controlled subsidiaries. In this Report, unless the context indicates otherwise, the terms we, us and our refer to the Company and those entities owned or controlled by the Company.

2. Adoption of New Accounting Pronouncements

Statement of Financial Accounting Standard No. 157 and related literature

Based on the guidance provided by Financial Accounting Standards Board (FASB) Staff Position (FSP) No. 157-2, *Effective Date of FASB Statement No. 157* (FSP No. 157-2), we only implemented the guidance promulgated under Statement of Financial Accounting Standard (SFAS) No. 157, *Fair Value Measurements* (SFAS 157), as of January 1, 2008, for financial instruments. SFAS 157 was adopted on January 1, 2009 for nonfinancial long-lived asset groups that may be measured for an impairment assessment, reporting units measured at fair value in the first step of the goodwill impairment test, and nonfinancial assets and nonfinancial liabilities initially measured at fair value in a business combination. FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, which is effective for us on April 1, 2009, provides additional criteria to enable a determination to be made as to whether or not a market is active. If markets are determined to be inactive, then an analysis is required as to whether an individual market transaction is not indicative of fair value, potentially requiring fair value to be estimated utilizing inputs other than market transactions.

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FASB Staff Position No. 14-1

On January 1, 2009 we adopted FSP APB No. 14-1, *Accounting for Convertible Debt Instruments that may be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (FSP APB 14-1). FSP APB 14-1 requires separate accounting for the debt and equity components of certain convertible instruments. Our 3.75% Exchangeable Senior Notes (Exchangeable Notes), issued in November 2006, have an exchange rate of 20.02 common shares per $1,000 principal amount of the notes, representing an exchange price of $49.94 per share of our common stock. The Exchangeable Notes are subject to the accounting changes required by FSP APB 14-1. FSP APB 14-1 requires that the value assigned to the debt component equal the estimated fair value of debt with similar contractual cash flows, but without the conversion feature, which results in the debt being recorded at a discount. The resulting debt discount will be amortized over the period from its issuance through November 2011, the first optional redemption date, as additional non-cash interest expense. FSP APB 14-1 requires the new accounting treatment to be retroactively applied to prior periods. The implementation of FSP APB 14-1 had the following effect on the Consolidated Balance Sheets as of December 31, 2008 (in thousands):

	Previously Reported	Revised	Change
Unsecured notes	$ 3,307,468	$ 3,285,980	$ (21,488)
Additional paid-in capital	$ 2,667,842	$ 2,702,513	$ 34,671
Distributions in excess of net income	$ (855,541)	$ (867,951)	$ (12,410)
Noncontrolling interest	$ 56,729	$ 55,956	$ (773)

At March 31, 2009, the Exchangeable Notes had $452.2 million of principal outstanding, an unamortized discount of $15.6 million and a net carrying amount of $436.6 million. The carrying amount of the equity component was $34.7 million at March 31, 2009. Subsequent to the implementation of FSP APB 14-1, interest expense is recognized on the Exchangeable Notes at an effective rate of 5.6%. Interest expense (in thousands) for the periods ended March 31, 2009 and 2008 is summarized as follows:

	2009	2008
Interest expense, excluding effect of FSP APB 14-1	**$ 4,907**	$ 5,391
Effect of FSP ABP 14-1	**1,619**	1,597
Total interest expense on Exchangeable Notes	**$ 6,526**	$ 6,988

SFAS No. 141(R)

On January 1, 2009 we adopted SFAS No. 141R, *Business Combinations* (SFAS 141R). SFAS 141R requires acquisition related costs to be immediately expensed as period costs. SFAS 141R also requires that 100% of the assets and liabilities of an acquired entity, as opposed to the amount proportional to the portion acquired, must be recorded at fair value upon an acquisition and that a gain or loss must be recognized for the difference between the fair value and the carrying value of any existing ownership interests in acquired entities. Finally, SFAS 141R, as interpreted by FSP FAS 141R-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*, requires that contingencies arising from a business combination be recorded at fair value if the acquisition date fair value can be determined during the measurement period. There were no acquisitions during the three-month period ended March 31, 2009.

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SFAS 160

On January 1, 2009 we adopted SFAS No. 160, *Noncontrolling Interests in the Consolidated Financial Statements an amendment to ARB No. 51* (SFAS 160). SFAS 160 requires noncontrolling interests (previously referred to as minority interests) to be reported as a component of total equity, which changes the presentation of the noncontrolling interests in the consolidated balance sheets and statements of operations as well as changing the accounting for changes in the level of ownership in consolidated subsidiaries. The change in the classification of noncontrolling interests on the consolidated statements of operations caused a decrease of $114,000, inclusive of the noncontrolling interest share of the effect of FSP APB 14-1, to previously reported net income for the three-month period ended March 31, 2008.

FSP on Emerging Issues Task Force issue 03-6-1

During the first quarter of 2009, we adopted FSP Emerging Issues Task Force (EITF) 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1), which we have applied retrospectively to prior period calculations of basic and diluted earnings per common share. Pursuant to FSP EITF 03-6-1, certain of our share-based awards are considered participating securities because they earn dividend equivalents that are not forfeited even if the underlying award does not vest.

3. Reclassifications

Certain amounts in the accompanying consolidated financial statements for 2008 have been reclassified to conform to the 2009 consolidated financial statement presentation.

4. Indebtedness

Our unsecured lines of credit as of March 31, 2009 are described as follows (in thousands):

Description	Borrowing Capacity	Maturity Date	Outstanding Balance at March 31, 2009
Unsecured Line of Credit - DRLP	$ 1,300,000	January 2010	$ 660,000
Unsecured Line of Credit - Consolidated Subsidiary	$ 30,000	July 2011	$ 13,926

We use the DRLP unsecured line of credit to fund development activities, acquire additional rental properties and provide working capital. This line of credit provides us with an option to obtain borrowings from financial institutions that participate in the line, at rates that may be lower than the stated interest rate, subject to certain restrictions. The stated rate on the amounts outstanding on the DRLP unsecured line of credit as of March 31, 2009 was LIBOR plus .65% (ranging from 1.17% to 1.22% as of March 31, 2009). We may, at our sole discretion, exercise an option to extend the maturity date of the DRLP line of credit to January 2011. This line of credit also contains various financial covenants that require us to meet financial ratios and defined levels of performance, including those related to fixed charge, variable rate indebtedness, consolidated net worth and debt-to-asset value (with asset value being defined in the DRLP line of credit agreement). As of March 31, 2009, we were in compliance with all covenants under this line of credit.

The consolidated subsidiary s unsecured line of credit allows for borrowings up to $30.0 million at a rate of LIBOR plus .85% (equal to 1.371% for outstanding borrowings as of March 31, 2009). This unsecured line of credit is used to fund development activities within the consolidated subsidiary and matures in July 2011 with a 12-month extension option.

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In February 2009, we repaid $124.0 million of 6.83% corporate unsecured debt at its scheduled maturity date. Also, during the three-month period ended March 31, 2009, we repurchased portions of various series of senior unsecured notes, on the open market, having a total face value of $169.5 million for $130.5 million. We recognized a gain of $33.1 million on the repurchases, after writing off applicable issuance costs.

In February and March 2009, we received net proceeds of $156.0 million from 10-year secured debt financings that are secured by 22 existing rental properties. The secured debt bears interest at a weighted average rate of 7.6% and matures in 2019.

5. Related Party Transactions

We provide property management, leasing, construction and other tenant related services to unconsolidated companies in which we have equity interests. For the three months ended March 31, 2009 and 2008, respectively, we earned management fees of $2.1 million and $1.6 million, leasing fees of $331,000 and $657,000 and construction and development fees of $2.6 million and $2.8 million from these companies. We recorded these fees based on contractual terms that approximate market rates for these types of services and we have eliminated our ownership percentage of these fees in the consolidated financial statements.

6. Net Income Per Common Share

Basic net income per common share is computed by dividing net income attributable to common shareholders, less dividends on share-based awards expected to vest, by the weighted average number of common shares outstanding for the period. Diluted net income per common share is computed by dividing the sum of basic net income attributable to common shareholders and the noncontrolling interest in earnings allocable to Units not owned by us, by the sum of the weighted average number of common shares outstanding and limited partnership Units outstanding, including any potential dilutive securities for the period.

The following table reconciles the components of basic and diluted net income per common share for the three months ended March 31, 2009 and 2008, respectively (in thousands):

	Three Months Ended March 31,	
	2009	2008
Net income attributable to common shareholders	**$ 23,247**	$ 2,533
Less: Dividends on share-based awards expected to vest	**(515)**	(330)
Basic net income attributable to common shareholders	**22,732**	2,203
Common unitholder share of income attributable to noncontrolling interests	**1,060**	138
Diluted net income attributable to common shareholders	**$ 23,792**	$ 2,341
Weighted average number of common shares outstanding	**148,488**	146,331
Weighted average partnership Units outstanding	**6,766**	7,858
Dilutive potential shares (1)	**493**	407
Weighted average number of common shares and potential dilutive securities	**155,747**	154,596

(1) Excludes (in thousands of shares) 7,259 and 6,575 of anti-dilutive potential shares from outstanding stock option awards for the three month periods ended March 31, 2009 and 2008, respectively. Also excludes the Exchangeable Notes that have 9,053 and 11,754 anti-dilutive potential shares for the three month periods ended March 31, 2009 and 2008.

7. Segment Reporting

We have three reportable operating segments, the first two of which consist of the ownership and rental of office and industrial real estate investments. The operations of our office and industrial properties, along with our healthcare and retail properties, are collectively referred to as "Rental Operations." Our healthcare and retail properties, which do not meet the quantitative thresholds defined in SFAS No. 131, *Disclosures about*

Segments of an Enterprise and Related Information, are not separately presented as a reportable segment. The third reportable segment consists of our Build-for-Sale operations (defined below) and providing various real estate services such as property management, maintenance, leasing, development and construction management to third-party property owners and joint ventures (and is collectively referred to as Service Operations). Our reportable segments offer different products or services and are managed separately because each segment requires different operating strategies and management expertise.

Gains on sale of properties developed or acquired with the intent to sell (Build-for-Sale property) are classified as part of the income of the Service Operations business segment. The periods of operation for Build-for-Sale properties prior to sale are of short duration.

Other revenue consists of other operating revenues not identified with one of our operating segments. Interest expense and other non-property specific revenues and expenses are not allocated to individual segments in determining our performance measure.

We assess and measure segment operating results based upon an industry performance measure referred to as Funds From Operations (FFO), which management believes is a useful indicator of our operating performance. FFO is used by industry analysts and investors as a supplemental operating performance measure of a REIT. FFO is calculated in accordance with the definition that was adopted by the Board of Governors of the National Association of Real Estate Investment Trusts (NAREIT). NAREIT created FFO as a supplemental measure of REIT operating performance that excludes historical cost depreciation, among other items, from net income determined in accordance with GAAP. FFO is a non-GAAP financial measure. The most comparable GAAP measure is net income (loss). FFO should not be considered as a substitute for net income or any other measures derived in accordance with GAAP and may not be comparable to other similarly titled measures of other companies.

Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry analysts and investors have considered presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. FFO, as defined by NAREIT, represents GAAP net income (loss), excluding extraordinary items as defined under GAAP and gains or losses from sales of previously depreciated real estate assets, plus certain non-cash items such as real estate asset depreciation and amortization, and after similar adjustments for unconsolidated partnerships and joint ventures.

Management believes that the use of FFO, combined with net income (which remains the primary measure of performance), improves the understanding of operating results of REITs among the investing public and makes comparisons of REIT operating results more meaningful. Management believes that, by excluding gains or losses related to sales of previously depreciated real estate assets and excluding real estate asset depreciation and amortization, investors and analysts are able to readily identify the operating results of the long-term assets that form the core of a REIT s activity and assist in comparing these operating results between periods or as compared to different companies.

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The following table shows (i) the revenues for each of the reportable segments and (ii) a reconciliation of net income attributable to common shareholders to the calculation of FFO for the three months ended March 31, 2009 and 2008, respectively (in thousands):

	Three Months Ended March 31, 2009	2008
Revenues		
Rental Operations:		
Office	**$ 143,326**	$ 140,014
Industrial	**65,178**	61,052
Non-reportable Rental Operations segments	**8,897**	6,229
Service Operations	**16,946**	14,551
Total Segment Revenues	**234,347**	221,846
Other Revenue	**3,550**	4,693
Consolidated Revenue from continuing operations	**237,897**	226,539
Discontinued Operations	**1,854**	9,469
Consolidated Revenue	**$ 239,751**	$ 236,008
Funds From Operations		
Rental Operations:		
Office	**$ 81,246**	$ 83,112
Industrial	**47,989**	45,190
Non-reportable Rental Operations segments	**5,503**	3,683
Service Operations	**8,348**	4,413
	143,086	136,398
Non-Segment Items:		
Interest expense	**(52,068)**	(48,101)
Impairment charges	**(338)**	(808)
Interest and other income	**123**	1,559
General and administrative expenses	**(9,880)**	(12,163)
Gain on land sales	**357**	629
Undeveloped land carrying costs	**(2,365)**	(2,149)
Gain on extinguishment of debt	**33,062**	
Other non-segment income (expense)	**2,767**	4,153
Net income attributable to noncontrolling interests	**(977)**	114
Noncontrolling interest share of FFO adjustments	**(3,761)**	(4,326)
Joint venture items	**13,745**	17,008
Dividends on preferred shares	**(18,363)**	(15,306)
Discontinued operations	**405**	6,119
Consolidated basic FFO attributable to common shareholders	**$ 105,793**	$ 83,127
Depreciation and amortization on continuing operations	**(80,016)**	(75,707)
Depreciation and amortization on discontinued operations	**(192)**	(3,414)
Company s share of joint venture adjustments	**(11,218)**	(6,928)
Earnings from depreciated property sales on discontinued operations	**5,119**	