DCT Industrial Trust Inc.
Form 10-Q
August 03, 2012

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, 2012

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	**82-0538520**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
518 Seventeenth Street, Suite 800	
Denver, Colorado	**80202**
(Address of principal executive offices)	**(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 27, 2012, 249,924,606 shares of common stock of DCT Industrial Trust Inc., par value $0.01 per share, were outstanding.

DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES

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DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except share information)

	June 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Land	$ 661,270	$ 647,552
Buildings and improvements	2,365,590	2,393,346
Intangible lease assets	78,434	84,779
Construction in progress	40,258	35,386
Total investment in properties	3,145,552	3,161,063
Less accumulated depreciation and amortization	(595,015)	(589,314)
Net investment in properties	2,550,537	2,571,749
Investments in and advances to unconsolidated joint ventures	136,795	139,278
Net investment in real estate	2,687,332	2,711,027
Cash and cash equivalents	3,407	12,834
Notes receivable	359	1,053
Deferred loan costs, net	7,592	8,567
Straight-line rent and other receivables, net of allowance for doubtful accounts of $1,317 and $1,256, respectively	44,102	42,349
Other assets, net	16,495	17,468
Assets held for sale	35,031	
Total assets	$ 2,794,318	$ 2,793,298
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable and accrued expenses	$ 35,726	$ 45,785
Distributions payable	19,130	19,057
Tenant prepaids and security deposits	20,945	22,864
Other liabilities	34,410	29,797
Intangible lease liability, net	17,978	18,897
Line of credit	105,000	
Senior unsecured notes	935,000	935,000
Mortgage notes	287,867	317,783
Liabilities related to assets held for sale	1,073	
Total liabilities	1,457,129	1,389,183
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 249,280,068 and 245,943,100 shares issued and outstanding as of June 30, 2012 and December 31, 2011, respectively	2,493	2,459
Additional paid-in capital	2,044,062	2,018,075
Distributions in excess of earnings	(839,860)	(783,229)
Accumulated other comprehensive loss	(32,539)	(29,336)

Total stockholders equity	1,174,156	1,207,969
Noncontrolling interests	163,033	196,146
Total equity	1,337,189	1,404,115
Total liabilities and equity	$ 2,794,318	$ 2,793,298

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, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
REVENUES:				
Rental revenues	$ 63,784	$ 58,772	$ 127,768	$ 116,812
Institutional capital management and other fees	1,151	1,129	2,206	2,148
Total revenues	64,935	59,901	129,974	118,960
OPERATING EXPENSES:				
Rental expenses	7,811	8,246	15,628	16,345
Real estate taxes	9,337	8,450	19,304	17,318
Real estate related depreciation and amortization	30,747	29,615	61,596	58,103
General and administrative	6,513	7,063	12,299	14,119
Casualty gains	(57)		(212)	
Total operating expenses	54,351	53,374	108,615	105,885
Operating income	10,584	6,527	21,359	13,075
OTHER INCOME AND EXPENSE:				
Equity in earnings (loss) of unconsolidated joint ventures, net	430	(1,126)	(424)	(2,483)
Impairment losses on investments in unconsolidated joint ventures		(1,934)		(1,934)
Interest expense	(17,540)	(13,955)	(34,470)	(29,367)
Interest and other income (expense)	(37)	13	160	99
Income tax expense and other taxes	(287)	(121)	(555)	(161)
Loss from continuing operations	(6,850)	(10,596)	(13,930)	(20,771)
Income (loss) from discontinued operations	(10,691)	1,061	(10,442)	1,391
Consolidated net loss of DCT Industrial Trust Inc.	(17,541)	(9,535)	(24,372)	(19,380)
Net loss attributable to noncontrolling interests	1,756	1,060	2,583	2,369
Net loss attributable to common stockholders	(15,785)	(8,475)	(21,789)	(17,011)
Distributed and undistributed earnings allocated to participating securities	(137)	(127)	(266)	(244)
Adjusted net loss attributable to common stockholders	$ (15,922)	$ (8,602)	$ (22,055)	$ (17,255)
EARNINGS PER COMMON SHARE BASIC AND DILUTED:				
Loss from continuing operations	$ (0.02)	$ (0.04)	$ (0.05)	$ (0.08)
Income (loss) from discontinued operations	(0.04)	0.00	(0.04)	0.01
Net loss attributable to common stockholders	$ (0.06)	$ (0.04)	$ (0.09)	$ (0.07)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic and diluted	248,107	245,413	247,227	239,261

Distributions declared per common share	$	0.07	$	0.07	$	0.07	$	0.07

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 Comprehensive Income

(unaudited, in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Consolidated net loss of DCT Industrial Trust Inc.	$ (17,541)	$ (9,535)	$ (24,372)	$ (19,380)
Other Comprehensive income:				
Net unrealized loss on cash flow hedging derivatives	(5,778)	(3,698)	(4,212)	(3,128)
Realized loss related to hedging activities	655		655	129
Amortization of cash flow hedging derivatives	251	246	502	468
Other Comprehensive loss	(4,872)	(3,452)	(3,055)	(2,531)
Comprehensive loss	(22,413)	(12,987)	(27,427)	(21,911)
Comprehensive loss attributable to noncontrolling interests	1,902	1,361	2,435	2,437
Comprehensive loss attributable to common stockholders	$ (20,511)	$ (11,626)	$ (24,992)	$ (19,474)

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

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DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES

Consolidated Statement of Changes in Equity

(unaudited, in thousands)

	Total Equity	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Distributions in Excess of Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests
Balance at December 31, 2011	$ 1,404,115	245,943	$ 2,459	$ 2,018,075	$ (783,229)	$ (29,336)	$ 196,146
Net loss	(24,372)				(21,789)		(2,583)
Other Comprehensive loss	(3,055)					(3,203)	148
Issuance of common stock, net of offering costs	(51)			(51)			
Issuance of common stock, stock-based compensation plans	(62)	157	2	(64)			
Amortization of stock-based compensation	2,013			830			1,183
Distributions to common stockholders and noncontrolling interests	(38,538)				(34,842)		(3,696)
Issuance of noncontrolling interests	(61)						(61)
Partner contributions from noncontrolling interests	30						30
Redemptions of noncontrolling interests	(2,830)	3,180	32	25,272			(28,134)
Balance at June 30, 2012	$ 1,337,189	249,280	$ 2,493	$ 2,044,062	$ (839,860)	$ (32,539)	$ 163,033

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, 2012	Six Months Ended June 30, 2011
OPERATING ACTIVITIES:		
Consolidated net loss of DCT Industrial Trust Inc.	**$ (24,372)**	**$ (19,380)**
Adjustments to reconcile consolidated net loss of DCT Industrial Trust Inc. to net cash provided by operating activities:		
Real estate related depreciation and amortization	63,742	63,441
Gain on dispositions of real estate interests	(120)	
Distributions of earnings from unconsolidated joint ventures	1,798	1,528
Equity in loss of unconsolidated joint ventures, net	424	2,483
Stock-based compensation	2,015	2,664
Casualty gains	(212)	(1,244)
Impairment losses	11,422	1,934
Straight-line rent	(3,143)	(5,253)
Other	(85)	90
Changes in operating assets and liabilities:		
Other receivables and other assets	4,256	1,716
Accounts payable, accrued expenses and other liabilities	(7,259)	(260)
Net cash provided by operating activities	**48,466**	**47,719**
INVESTING ACTIVITIES:		
Real estate acquisitions	(74,509)	(64,148)
Capital expenditures and development activities	(37,565)	(30,916)
Proceeds from dispositions of real estate investments	26,115	
Investments in unconsolidated joint ventures	(2,402)	(4,946)
Distributions of investments in unconsolidated joint ventures	2,344	
Repayment of notes receivable	694	84
Casualty and insurance proceeds	681	3,760
Other investing activities	(315)	(573)
Net cash used in investing activities	**(84,957)**	**(96,739)**
FINANCING ACTIVITIES:		
Proceeds from senior unsecured revolving line of credit	165,000	150,000
Repayments of senior unsecured revolving line of credit	(60,000)	(105,000)
Repayments of senior unsecured notes		(25,000)
Principal payments on mortgage notes	(36,613)	(51,762)
Increase in deferred loan costs	(114)	(3,454)
Issuance of common stock		111,931
Offering costs for issuance of common stock and OP Units	(112)	(343)
Redemption of noncontrolling interests	(2,830)	(87)
Dividends to common stockholders	(34,585)	(32,832)
Distributions to noncontrolling interests	(3,712)	(3,739)
Contributions from noncontrolling interests	30	56
Net cash provided by financing activities	**27,064**	**39,770**

NET DECREASE IN CASH AND CASH EQUIVALENTS		**(9,427)**		**(9,250)**
CASH AND CASH EQUIVALENTS, beginning of period		**12,834**		**17,330**
CASH AND CASH EQUIVALENTS, end of period	**$**	**3,407**	**$**	**8,080**
Supplemental Disclosures of Cash Flow Information				
Cash paid for interest, net of capitalized interest	$	33,578	$	29,960
Supplemental Disclosures of Non-Cash Activities				
Retirement of fully depreciated and amortized assets, net	$	28,417	$	6,292
Redemptions of OP Units settled in shares of common stock	$	25,304	$	4,598
Assumption of mortgage notes in connection with real estate acquired	$	6,990	$	3,875
Contributions of real estate from noncontrolling interests	$		$	4,401

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

DCT Industrial Trust Inc. is a leading industrial real estate company specializing in the acquisition, development, leasing and management of bulk distribution and light industrial properties located in high-volume distribution markets in the United States and Mexico. As used herein, DCT Industrial Trust, DCT, the Company, we, our and us refer to DCT Industrial Trust Inc. and its consolidated subsidiaries and partners except where the context otherwise requires. 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. 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. We own our properties through our operating partnership and its subsidiaries. As of June 30, 2012, we owned approximately 92% of the outstanding equity interests in our operating partnership.

As of June 30, 2012, the Company owned interests in approximately 76.0 million square feet of properties leased to approximately 900 customers, including:

- 57.9 million square feet comprising 388 consolidated properties owned in our operating portfolio which were 90.2% occupied;
- 17.0 million square feet comprising 52 unconsolidated properties which were 87.6% occupied and operated on behalf of five institutional capital management partners;
- 0.1 million square feet comprising one consolidated property under redevelopment; and
- 1.0 million square feet comprising 13 properties held for sale.

The Company also has five buildings under construction totaling approximately 1.2 million square feet and several projects in predevelopment. See Note 3 Investment in Properties for further detail related to our development activity.

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, 2011 and related notes thereto as filed on Form 10-K on February 29, 2012.

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.

Principles of Consolidation

We hold interests in both consolidated and unconsolidated joint ventures. All joint ventures over which we have

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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 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 loss.

We analyze our joint ventures in accordance with GAAP 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 our Consolidated Financial Statements for 2011 have been reclassified to conform to the 2012 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 investment in real estate, referred to as capital projects and other activities included within this paragraph. Costs associated with our capital 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 and insurance, if appropriate. We capitalize indirect costs such as personnel, office and administrative expenses that are directly related to our development projects based on an estimate of the time spent on the construction and development activities. These costs are capitalized only during the period in which activities necessary to ready an asset for its intended use are in progress and such costs are incremental and identifiable to a specific activity to get the asset ready for its intended use. We determine when the capitalization period begins and ends through communication with project and other managers responsible for the tracking and oversight of individual projects. In the event that the activities to ready the asset for its intended use are suspended, the capitalization period will cease until such activities are resumed. In addition, we capitalize initial direct costs incurred for successful origination of new leases. Costs incurred for maintaining and repairing our properties, which do not extend their useful lives, are expensed as incurred.

Interest is capitalized based on actual capital expenditures from the period when development or redevelopment commences until the asset is ready for its intended use, at the weighted average borrowing rate during the period. We also capitalize interest on our qualifying investments in unconsolidated joint ventures based on the average capital invested in a venture during the period when the venture has activities in progress necessary to commence its planned principle operations, at our weighted average borrowing rate during the period. A qualifying investment is an investment in an unconsolidated joint venture provided that our investee s activities include the use of funds to acquire qualifying assets, such as development or predevelopment activities, and planned principle operations have not commenced.

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. We include liabilities related to assets held for sale that will be transferred in the transaction in Liabilities related to assets held for sale. 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;

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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 to price 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 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 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 over the lease term on the date of the acquisition. Intangible lease assets or liabilities are amortized over the reasonably assured lease term 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. We generally do not depreciate properties classified as redevelopment until the date that the redevelopment properties are ready for their intended use.

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

Depreciation and Useful Lives of Real Estate Assets

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	