

DCT Industrial Trust Inc.  
Form 10-Q  
August 07, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**Form 10-Q**

(Mark One)

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended June 30, 2008

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

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(State or other jurisdiction of

(I.R.S. Employer

incorporation or organization)

Identification No.)

**518 Seventeenth Street, Suite 1700**

**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 ☒ 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 ☒

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 ☒

As of July 31, 2008, 172,883,248 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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**Table of Contents****DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES****Consolidated Balance Sheets**

(in thousands, except share and per share information)

	<b>June 30, 2008</b> (unaudited)	<b>December 31, 2007</b>
<b>ASSETS</b>		
Land	\$ 509,319	\$ 519,584
Buildings and improvements	2,119,216	2,139,961
Intangible lease assets	182,012	188,079
Construction in progress	54,143	35,282
<b>Total Investment in Properties</b>	2,864,690	2,882,906
Less accumulated depreciation and amortization	(359,512)	(310,691)
<b>Net Investment in Properties</b>	2,505,178	2,572,215
Investments in and advances to unconsolidated joint ventures	122,173	102,750
<b>Net Investment in Real Estate</b>	2,627,351	2,674,965
Cash and cash equivalents	23,697	30,481
Notes receivable	20,467	27,398
Deferred loan costs, net	5,793	4,828
Deferred loan costs financing obligations, net		1,345
Straight-line rent and other receivables	27,860	26,879
Other assets, net	9,453	13,096
Assets held for sale	8,912	
<b>Total Assets</b>	\$ 2,723,533	\$ 2,778,992
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 38,667	\$ 31,267
Distributions payable	33,245	32,994
Tenant prepaids and security deposits	15,753	13,896
Other liabilities	6,663	8,117
Intangible lease liability, net	8,066	9,022
Line of credit	103,000	82,000
Senior unsecured notes	425,000	425,000
Mortgage notes	615,526	649,568
Financing obligations		14,674
Liabilities related to assets held for sale	343	
<b>Total Liabilities</b>	1,246,263	1,266,538
Minority interests	318,088	349,782
Stockholders' 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, 172,136,070 and 168,379,863 shares issued and outstanding as of June 30, 2008 and December 31, 2007, respectively	1,721	1,684

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Additional paid-in capital	1,629,288	1,593,165
Distributions in excess of earnings	(464,864)	(426,210)
Accumulated other comprehensive loss	(6,963)	(5,967)
<b>Total Stockholders' Equity</b>	<b>1,159,182</b>	<b>1,162,672</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 2,723,533</b>	<b>\$ 2,778,992</b>

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

**Table of Contents****DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES****Consolidated Statements of Operations****(unaudited, in thousands, except per share information)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>REVENUES:</b>				
Rental revenues	\$ 62,393	\$ 60,868	\$ 125,897	\$ 123,997
Institutional capital management and other fees	614	572	1,474	1,318
<b>Total Revenues</b>	<b>63,007</b>	<b>61,440</b>	<b>127,371</b>	<b>125,315</b>
<b>OPERATING EXPENSES:</b>				
Rental expenses	7,327	7,243	15,845	14,836
Real estate taxes	8,551	7,974	16,935	16,210
Real estate related depreciation and amortization	28,893	27,510	57,148	55,404
General and administrative	5,083	5,677	10,965	9,733
<b>Total Operating Expenses</b>	<b>49,854</b>	<b>48,404</b>	<b>100,893</b>	<b>96,183</b>
<b>Operating Income</b>	<b>13,153</b>	<b>13,036</b>	<b>26,478</b>	<b>29,132</b>
<b>OTHER INCOME AND EXPENSE:</b>				
Equity in income (loss) of unconsolidated joint ventures, net	439	(31)	726	43
Interest expense	(11,136)	(15,020)	(25,566)	(31,703)
Interest income and other	567	2,157	1,001	3,139
Income taxes	(360)	(502)	(897)	(962)
<b>Income (Loss) Before Minority Interests</b>	<b>2,663</b>	<b>(360)</b>	<b>1,742</b>	<b>(351)</b>
Minority interests	(431)	102	(220)	187
<b>Income (Loss) From Continuing Operations</b>	<b>2,232</b>	<b>(258)</b>	<b>1,522</b>	<b>(164)</b>
Income from discontinued operations	13,296	358	14,028	8,870
<b>Income Before Gain (Loss) On Dispositions Of Real Estate Interests</b>	<b>15,528</b>	<b>100</b>	<b>15,550</b>	<b>8,706</b>
Gain (loss) on dispositions of real estate interests, net of minority interest	(32)	7,737	330	14,486
<b>NET INCOME</b>	<b>\$ 15,496</b>	<b>\$ 7,837</b>	<b>\$ 15,880</b>	<b>\$ 23,192</b>
<b>INCOME PER COMMON SHARE BASIC:</b>				
Income (Loss) From Continuing Operations	\$ 0.01	\$ (0.00)	\$ 0.01	\$ (0.00)
Income from discontinued operations	0.08	0.00	0.08	0.05
Gain (loss) on dispositions of real estate interests, net of minority interest	(0.00)	0.05	0.00	0.09
<b>Net Income</b>	<b>\$ 0.09</b>	<b>\$ 0.05</b>	<b>\$ 0.09</b>	<b>\$ 0.14</b>

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## INCOME PER COMMON SHARE DILUTED:

Income (Loss) From Continuing Operations	\$ 0.01	\$ (0.00)	\$ 0.01	\$ (0.00)
Income from discontinued operations	0.08	0.00	0.08	0.05
Gain (loss) on dispositions of real estate interests, net of minority interest	(0.00)	0.05	0.00	0.09
Net Income	\$ 0.09	\$ 0.05	\$ 0.09	\$ 0.14

## WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:

Basic	171,429	168,355	169,908	168,355
Diluted	207,654	198,703	207,448	197,711

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

**Table of Contents****DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES****Consolidated Statement of Stockholders' Equity****And Other Comprehensive Income****For the Six Months Ended June 30, 2008****(unaudited, in thousands)**

	<b>Common Stock</b>		<b>Additional</b>	<b>Distributions</b>	<b>Accumulated</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Paid-in</b>	<b>in Excess of</b>	<b>Other</b>	<b>Stockholders</b>
			<b>Capital</b>	<b>Earnings</b>	<b>Comprehensive</b>	<b>Equity</b>
					<b>Loss</b>	
<b>Balance at December 31, 2007</b>	168,380	\$ 1,684	\$ 1,593,165	\$ (426,210)	\$ (5,967)	\$ 1,162,672
Comprehensive income:						
Net income				15,880		15,880
Net unrealized loss on cash flow hedging derivatives					(1,430)	(1,430)
Realized loss related to hedging activities					112	112
Amortization of cash flow hedging derivatives					322	322
<b>Total comprehensive income</b>						<b>14,884</b>
Issuance of common stock, net of offering costs	3,756	37	36,525			36,562
Amortization of stock-based compensation			580			580
Premium related to redemptions of OP Units			(982)			(982)
Distributions on common stock				(54,534)		(54,534)
<b>Balance at June 30, 2008</b>	172,136	\$ 1,721	\$ 1,629,288	\$ (464,864)	\$ (6,963)	\$ 1,159,182

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



**Table of Contents****DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows****(unaudited, in thousands)**

	<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 15,880	\$ 23,192
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interests	3,269	3,857
Real estate related depreciation and amortization	58,409	57,172
Gain on dispositions of real estate interests	(17,323)	(13,853)
Gain on dispositions of non-depreciated real estate	(207)	(12,725)
(Gain) Loss on hedging activities	157	(1,458)
Impairment losses on real estate assets held for sale	1,232	
Equity in (income) losses of unconsolidated joint ventures, net, and other	(397)	(1,140)
Distributions of earnings from unconsolidated joint ventures	1,711	520
Changes in operating assets and liabilities:		
Other receivables and other assets	3,258	3,231
Accounts payable, accrued expenses and other liabilities	10,837	5,658
<b>Net cash provided by operating activities</b>	<b>76,826</b>	<b>64,454</b>
<b>INVESTING ACTIVITIES:</b>		
Real estate acquisitions	(24,079)	(108,613)
Capital expenditures and development activities	(43,757)	(21,862)
Decrease in deferred acquisition costs and deposits	581	11,783
Proceeds from dispositions of real estate investments, net	81,252	197,473
Investment in and contributions to unconsolidated joint ventures	(24,183)	(48,895)
Distributions from unconsolidated joint ventures	4,138	32,308
Originations of notes receivable	(500)	(16,042)
Proceeds from repayments of notes receivable	7,431	25
Other investing activities	1,899	(3,208)
<b>Net cash provided by investing activities</b>	<b>2,782</b>	<b>42,969</b>
<b>FINANCING ACTIVITIES:</b>		
Net proceeds from (payments on) lines of credit	21,000	(7,278)
Proceeds from unsecured debt	100,000	
Principal payments on mortgage notes	(33,070)	(4,811)
Principal payments on unsecured debt	(100,000)	
Principal payments on financing obligations	(5)	(5,947)
Increase in deferred loan costs	(1,719)	(387)
Offering costs for issuance of common stock and OP Units	(114)	(2,793)
Redemption of OP Units	(1,363)	(2,840)
Proceeds (payments) related to settlement of cash flow hedging derivative	(4,584)	1,544
Distributions to common stockholders	(54,283)	(53,890)
Distributions to minority interests	(12,388)	(8,800)
Contributions from minority interests	134	103

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Net cash used in financing activities	(86,392)	(85,099)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(6,784)</b>	<b>22,324</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>30,481</b>	<b>23,310</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 23,697</b>	<b>\$ 45,634</b>

**Supplemental Disclosures of Cash Flow Information**

Cash paid for interest, net of capitalized interest	\$ 26,440	\$ 35,068
Debt assumed in connection with purchase of TIC Interests (see Note 5)	\$	\$ 14,886
Redemption of OP Units settled in shares of common stock	\$ 35,620	
Reduction of financing obligation and issuance of OP Units in connection with purchase of TIC Interests (see Note 5)	\$ 14,669	\$ 75,601

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 (our 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 except where the context otherwise requires.

As of June 30, 2008, we owned, managed or had under development 452 industrial real estate buildings comprised of approximately 75.7 million square feet. Our portfolio of consolidated operating properties included 378 industrial real estate buildings, which consisted of 222 bulk distribution properties, 114 light industrial properties and 42 service center properties comprised of approximately 53.0 million square feet. Our portfolio of 378 consolidated operating properties was 91.8% occupied as of June 30, 2008. As of June 30, 2008, we also consolidated 14 development properties, three redevelopment properties and three properties classified as held for sale. In addition, as of June 30, 2008, we had ownership interests ranging from approximately 1% to 20% in 38 unconsolidated operating properties in institutional joint ventures, or funds, comprised of approximately 12.6 million square feet, and investments in two unconsolidated operating properties and 11 unconsolidated development joint venture properties. We managed three properties where we had no ownership interests.

***Summary of Significant Accounting Policies***

***Interim Financial Information***

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with United States 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 footnotes required by GAAP for complete financial statements. In the opinion of management, the accompanying unaudited Consolidated Financial Statements include all adjustments, consisting only 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, 2007 and related notes thereto as filed on Form 10-K, as amended, on March 28, 2008.

***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.

***Reclassifications***

Certain items in the Consolidated Statement of Operations for six months ended June 30, 2007 have been reclassified to conform to 2008 classifications.

**Table of Contents***Investment in Real Estate, Valuation and Allocation of Real Estate Acquisitions*

We capitalize direct costs associated with, and incremental to, the acquisition, development, redevelopment or improvement of real estate, including asset acquisition costs and leasing costs as well as direct internal costs, if appropriate. Costs associated with acquisition or development pursuits are capitalized as incurred and, if the pursuit is abandoned, these costs are expensed during the period in which the pursuit is abandoned. Such costs considered for capitalization include construction costs, interest, real estate taxes, insurance and other such costs if appropriate. Interest is capitalized based on actual capital expenditures from the period when development or redevelopment commences until the asset is substantially complete based on our current, weighted-average borrowing rates. Costs incurred for maintaining and making repairs to our real estate, which do not extend the life of our assets, are expensed as incurred.

Upon acquisition, the total cost of a property is allocated to land, building, building and land improvements, tenant improvements and intangible lease assets and liabilities pursuant to Statement of Financial Accounting Standards ( SFAS ) No. 141, *Business Combinations* ( SFAS No. 141 ). 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 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. Pursuant to SFAS No. 141, 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 allocation of the total cost of a property to an intangible lease asset includes the value associated with customer relationships and in-place leases that may include leasing commissions, legal and other costs. In addition, the allocation of the total cost of a property requires allocating costs to 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 will be amortized over the life of the remaining in-place leases as an adjustment to Rental revenues.

We have certain properties which we have acquired or removed from service with the intention to redevelop the building. 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 through the date that the redevelopment properties are stabilized or the properties are contributed. Pre-development costs to prepare land for its intended use prior to significant construction activities are capitalized and classified as Construction in progress.

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. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the related assets or liabilities as follows:

Description	Standard Depreciable Life
Land	Not depreciated
Building	40 years
Building and land improvements	20 years
Tenant improvements	Lease term
Lease costs	Lease term
Intangible lease assets and liabilities	Average term of leases for property
Above/below market rent assets/liabilities	Lease term

The table above 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 cost of assets sold or retired and the related accumulated depreciation and/or amortization is removed from the accounts and the resulting gain or loss, if necessary, is reflected in our Consolidated Statements of Operations during the period in which such sale or retirement occurs.

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### *Depreciation and Useful Lives of Real Estate Assets*

We estimate the depreciable portion of our real estate assets and their related useful lives in order to record depreciation expense. Our ability to accurately estimate the depreciable portions of our real estate assets and their useful lives is critical to the determination of the appropriate amount of depreciation 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 expense we recognize. Depreciation is not recorded on buildings currently held for contribution, in pre-development, 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 Long-Lived Assets*

Long-lived assets held and used are carried at cost and evaluated for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, ( SFAS No. 144). SFAS No. 144 provides that such an evaluation should be performed when events or changes in circumstances indicate that the carrying amounts of these assets may not be fully recoverable. Examples of trigger events include the point at which we deem the long-lived asset to be held for sale, a building remains vacant longer than expected, etc. For operating buildings that we intend to hold long-term, the recoverability is based on the future undiscounted cash flows. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. Long lived assets classified as held for sale are measured at the lower of their carrying amount or fair value less costs to sell. Impairment of long-lived assets is considered a critical accounting estimate because the evaluation of impairment and the determination of fair values involve a number of management assumptions relating to future economic events that could materially affect the determination of the ultimate value, and therefore, the carrying amounts of our real estate. Such assumptions include, but are not limited to, projecting vacancy rates, rental rates, property operating expenses, capital expenditures and debt financing rates, among other things. The capitalization rate is also a significant driving factor in determining the property valuation which requires management's judgment of factors such as market knowledge, historical experience, lease terms, tenant financial strength, economy, demographics, environment, property location, visibility, age, physical condition and investor return requirements, among other things. All of the aforementioned factors are taken as a whole by management in determining the valuation of investment property. The valuation is sensitive to the actual results of any of these uncertain factors, either individually or taken as a whole. Should the actual results differ from management's judgment, the valuation could be negatively affected and may result in a negative impact to our Consolidated Financial Statements. For the three and six months ended June 30, 2008, we recorded an impairment loss of \$1.2 million. No impairment was recorded during the same periods in 2007.

### *Principles of Consolidation*

Our Consolidated Financial Statements include the accounts of our company and our consolidated subsidiaries and partnerships that we control either through ownership of a majority voting interest, as the primary beneficiary, or otherwise. All significant intercompany accounts and transactions have been eliminated in consolidation. Investments in entities in which we do not own a majority voting interest but over which we have the ability to exercise significant influence over operating and financial policies are presented under the equity method. Investments in entities in which we do not own a majority voting interest and over which we do not have the ability to exercise significant influence are carried at the lower of cost or fair value, as appropriate. Our judgments with respect to our level of influence or control of an entity and whether we are the primary beneficiary of a variable interest entity as defined by Financial Accounting Standards Board ( FASB ) Interpretation No. 46(R), *Consolidation of Variable Interest Entities* ( FIN No. 46(R) ), involve 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 policy making decisions. Our ability to correctly assess our influence or control over an entity affects the presentation of these investments in our Consolidated Financial Statements and, consequently, our financial position and specific items in our results of operations that are used by our stockholders, lenders and others in their evaluation of us.

Generally, we consolidate real estate partnerships and other entities that are not variable interest entities (as defined in FIN No. 46(R)) when we own, directly or indirectly, a majority voting interest in the entity. Emerging Issues Task Force ( EITF ) Issue No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* ( EITF 04-5 ), provides an accounting model to be used by a general partner, or

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group of general partners, to determine whether the general partner(s) controls a limited partnership or similar entity in light of certain rights held by the limited partners and provides additional guidance on what constitutes substantive kick-out rights and substantive participating rights.

### *Revenue Recognition*

We record rental revenues on a straight-line basis under which contractual rent increases are recognized evenly over the full lease term. Certain properties have leases that provide for tenant occupancy during periods where no rent is due or where minimum rent payments increase during the term of the lease. Accordingly, we record receivables from tenants that we expect to collect over the remaining lease term rather than currently, which are recorded as straight-line rents receivable. When we acquire a property, the terms of existing leases are considered to commence as of the acquisition date for the purposes of this calculation. For the three and six months ended June 30, 2008, the total increase to Rental revenues due to straight-line rent adjustments, including amounts reported from discontinued operations, was approximately \$1.0 million and \$2.1 million, respectively. The total increase to Rental revenues due to straight-line rent adjustments, including amounts reported from discontinued operations, for the same periods in 2007 was approximately \$1.2 million and \$2.8 million, respectively.

Tenant recovery income includes payments and amounts due from tenants pursuant to their leases for real estate taxes, insurance and other recoverable property operating expenses and is recognized as Rental revenues during the same period the related expenses are incurred. Tenant recovery income recognized as Rental revenues for the three and six months ended June 30, 2008 was \$11.9 million and \$24.6 million, respectively. For the three and six months ended June 30, 2007, tenant recovery income recognized as rental revenues was approximately \$11.6 million and \$24.1 million, respectively.

In connection with property acquisitions, we may acquire leases with rental rates above or below the market rental rates. Such differences are recorded as an intangible asset or liability pursuant to SFAS No. 141, and amortized to Rental revenues over the life of the related leases. Additionally, the unamortized balances of SFAS No. 141 assets and liabilities associated with the early termination of leases are fully amortized to their respective revenue and expense line items in our Consolidated Statements of Operations over the shorter of the expected life of such assets and liabilities or the remaining lease term. For the three and six months ended June 30, 2008, the total net decrease to Rental revenues due to the amortization of above and below market rents, including amounts reported from discontinued operations and accelerated amortization due to early terminations, was approximately \$0.3 million. The total net decrease to rental revenues due to the amortization of above and below market rents, including amounts reported from discontinued operations, for the same periods of 2007 were approximately \$0.2 million and \$0.7 million, respectively.

Early lease termination fees are recorded in Rental revenues when such amounts are earned. During the three and six months ended June 30, 2008, early termination fees increased revenue by \$0.2 million and \$0.3 million, respectively. Additionally, accelerated amortization associated with early lease terminations for SFAS No. 141 intangible assets and liabilities, including amounts reported as discontinued operations, increased revenue by \$0.2 million for the three and six months ended June 30, 2008, and increased amortization expense by \$0.5 million and \$0.6 million for the same periods, respectively.

During the three and six months ended June 30, 2007, the early termination of leases, including amounts reported as discontinued operations, resulted in a decrease in revenues associated with SFAS No. 141 intangible assets and liabilities of \$0.1 million and \$0.4 million, respectively, and additional amortization expense of \$62,000 and \$0.1 million, respectively.

We earn revenues from asset management fees, acquisition fees and fees for other services pursuant to joint venture and other agreements. These may include acquisition fees based on the sale or contribution of assets and are included in our Consolidated Statements of Operations in Institutional capital management and other fees. We recognize revenues from asset management fees, acquisition fees and fees for other services when the related fees are earned and are realized or realizable.

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### *New Accounting Pronouncements*

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ( SFAS No. 161 ). SFAS No. 161 requires companies with derivative instruments to disclose information that would enable financial statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133,

Accounting for Derivative Instruments and Hedging Activities, ( SFAS No. 133 ) and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. The new requirements apply to derivative instruments and nonderivative instruments that are designated and qualify as hedging instruments and related hedged items accounted for under SFAS No. 133. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008; however, early application is encouraged. We intend to adopt SFAS No. 161 on January 1, 2009.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160 ( SFAS No. 160 ), *Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51*. SFAS No. 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008, and early adoption is not permitted. We are currently evaluating the application of SFAS No. 160 and its effect on our Consolidated Financial Statements.

In December 2007, the FASB issued SFAS No. 141, *Business Combinations (revised 2007)* ( SFAS No. 141(R) ). SFAS No. 141(R) requires the acquiring entity in a business combination to record all assets acquired and liabilities assumed at their respective acquisition-date fair values, changes the recognition of assets acquired and liabilities assumed arising from contingencies, changes the recognition and measurement of contingent consideration, and requires the expensing of acquisition-related costs as incurred. SFAS No. 141(R) also requires additional disclosure of information surrounding a business combination, such that users of the entity's financial statements can fully understand the nature and financial impact of the business combination. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply the provisions of SFAS No. 141(R) prior to that date. We are currently evaluating the application of SFAS No. 141(R) and its effect on our Consolidated Financial Statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( SFAS No. 159 ) which expands the use of the fair value measurement to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Upon adoption of this Statement, we did not elect the SFAS No. 159 option for our existing financial assets and liabilities and therefore adoption of SFAS No. 159 did not have any impact on our Consolidated Financial Statements.

On January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* ( SFAS No. 157 ), which defines fair-value, establishes a framework for measuring fair-value, and expands disclosures about fair-value measurements. SFAS No. 157 applies to reported balances that are required or permitted to be measured at fair-value under existing accounting pronouncements; accordingly, the standard does not require any new fair-value measurements of reported balances.

We have deferred the adoption of SFAS No. 157 with respect to nonfinancial assets and liabilities in accordance with the provisions of FSP FAS 157-2, *Effective Date of FASB Statement No. 157*. Items in this classification include intangible assets and liabilities.

SFAS No. 157 emphasizes that fair-value is a market-based measurement, not an entity-specific measurement. Therefore, a fair-value measurement should be 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, SFAS No. 157 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 (unobservable inputs classified within Level 3 of the hierarchy).

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Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. 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. Level 3 inputs are unobservable inputs for the asset or liability, that are typically based on an entity's own assumptions, as there is little, if any, related 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. The Company's 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.

Currently, the Company uses forward starting and interest rate swaps to manage certain interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The fair-values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. To comply with the provisions of SFAS No. 157, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair-value measurements. In adjusting the fair-value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair-value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. The Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair-value hierarchy.

On a recurring basis, we measure our derivatives at fair value, which was a net liability of \$1.3 million as of June 30, 2008. The fair value of these derivatives was determined using Level 2 inputs, as described in SFAS No. 157.

**Note 2 Real Estate**

Our consolidated real estate assets consist of operating properties, redevelopment properties, operating properties held for contribution, properties under development and properties in pre-development including land held for future development or other purposes. Our real estate assets, presented at historical cost, include the following as of June 30, 2008 and December 31, 2007 (in thousands):

	June 30, 2008	December 31, 2007
Operating properties	\$ 2,593,077	\$ 2,623,927
Properties under redevelopment	20,661	37,086
Operating properties held for contribution	115,502	120,188
Properties under development	118,592	76,680
Properties in pre-development including land held	16,858	25,025
 Total Investment in Properties	 2,864,690	 2,882,906
Less accumulated depreciation and amortization	(359,512)	(310,691)
 Net Investment in Properties	 \$ 2,505,178	 \$ 2,572,215



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### ***Acquisition Activity***

During the six months ended June 30, 2008, we acquired three shell-complete development properties located in Monterrey, Mexico, comprised of approximately 0.5 million square feet for a total cost of approximately \$20.7 million, which includes acquisition costs. These properties were acquired from unrelated third parties using existing cash balances and short-term borrowings.

During the three months ended June 30, 2007, we acquired seven operating properties located in three markets, comprised of approximately 1.5 million square feet for a total cost of approximately \$68.0 million, which includes acquisition costs. During the six months ended June 30, 2007, we acquired 12 operating properties located in six markets, comprised of approximately 2.5 million square feet for a total cost of approximately \$107.9 million, which includes acquisition costs. These properties were acquired from unrelated third parties using existing cash balances and short-term borrowings. For all properties acquired and consolidated, the results of operations for such properties are included in our Consolidated Statements of Operations from the dates of acquisition.

### ***Disposition Activity***

During the three months ended June 30, 2008, we disposed of four operating properties comprised of approximately 1.2 million square feet to unrelated third parties for total gross proceeds of approximately \$71.1 million, which resulted in a gain of approximately \$16.7 million.

During the six months ended June 30, 2008, we disposed of five operating properties comprised of approximately 1.3 million square feet to unrelated third parties for total gross proceeds of approximately \$77.2 million, which resulted in a gain of approximately \$17.1 million. Additionally, we contributed approximately 47 acres of land in Atlanta to the IDI/DCT Buford, LLC joint venture. See additional discussion below. As of June 30, 2008, three properties were classified as held for sale in accordance with SFAS No. 144.

During the three months ended June 30, 2007, we disposed of three operating properties comprised of approximately 0.9 million square feet located in three markets, which were contributed to institutional joint ventures in which we retain ownership interests for a total contribution value of approximately \$46.5 million (see discussion below). During the six months ended June 30, 2007, we disposed of 12 operating properties comprised of approximately 3.1 million square feet located in ten markets. We sold three properties comprised of approximately 0.3 million square feet to unrelated third parties for total gross proceeds of approximately \$54.4 million, which resulted in a gain of approximately \$9.6 million. The remaining nine properties comprised of approximately 2.8 million square feet were contributed to institutional joint ventures in which we retain ownership interests for a total contribution value of approximately \$151.4 million (see discussion below).

## **Contribution of Properties to Institutional Capital Management Joint Ventures**

### ***TRT-DCT Industrial Joint Venture I***

We entered into our first joint venture agreement, TRT-DCT Industrial Joint Venture I, G.P., TRT-DCT Venture I, on September 1, 2006 with Dividend Capital Total Realty Trust Inc., DCTRT. As of June 30, 2008, TRT-DCT Venture I owned approximately \$202.3 million in real estate assets. No further assets are planned to be acquired by the joint venture, except that DCTRT has the option, subject to our consent, to contribute certain additional real estate assets with an aggregate current value of approximately \$10.0 million. TRT-DCT Venture I is funded as follows: (i) an equity contribution from DCTRT to the joint venture (which we estimate to be not less than approximately 90% of the joint venture's required equity capitalization); (ii) an equity contribution from us to the joint venture (which we estimate to be approximately 10% of the joint venture's required equity capitalization); and (iii) secured debt financing to be obtained by the joint venture with a targeted loan-to-value of no less than 55.0% and no more than 75.0%. In June 2007, we issued a secured \$16.0 million, 6.0% interest note, maturing on July 1, 2014 to TRT-DCT Venture I. Our actual ownership percentage may vary depending on amounts of capital contributed and the timing of contributions and distributions.

We did not contribute property into TRT-DCT Venture I during the three and six months ended June 30, 2008. However, during those periods, DCTRT contributed three and five properties to TRT-DCT Venture I comprised of approximately 0.5 million and 1.0 million square feet with combined contribution values of approximately \$30.6 million and \$55.4 million into the venture, respectively. During the three and six months ended June 30, 2008, we contributed cash of \$0.3 million and \$0.7 million, respectively, which represented one percent of the fair value of these contributed assets.

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During the three months ended June 30, 2007, we contributed one property to TRT-DCT Venture I comprised of approximately 0.6 million square feet with a contribution value of approximately \$31.2 million. The contribution of the one property into TRT-DCT Venture I during the second quarter resulted in a total gain of approximately \$7.8 million, of which approximately \$7.0 million was recognized in our earnings for the three months ended June 30, 2007. The remaining gain of approximately \$0.8 million reduces our basis in the investment and is recognized into earnings over the weighted average life of the property's real estate assets. During the six months ended June 30, 2007, we contributed four properties to TRT-DCT Venture I comprised of approximately 1.4 million square feet with a combined gross contribution value of approximately \$84.2 million. The contribution of the four properties into TRT-DCT Venture I during 2007 resulted in a gain of approximately \$12.1 million, of which approximately \$10.9 million was recognized in our earnings during the six months ended June 30, 2007. The remaining gain of approximately \$1.2 million reduces our basis in the investment and is recognized into earnings over the weighted average life of each property's real estate assets.

### **TRT-DCT Industrial Joint Venture II**

We formed our second joint venture agreement, TRT-DCT Industrial Joint Venture II, G.P., ( TRT-DCT Venture II ), on March 27, 2007 with DCTRT. As of June 30, 2008, TRT-DCT Venture II owned approximately \$68.6 million of real estate assets. TRT-DCT Venture II is structured and funded in a manner similar to TRT-DCT Venture I. No properties were contributed to the fund during the six months ended June 30, 2008.

During the three months ended June 30, 2007, we contributed two properties to TRT-DCT Venture II comprised of approximately 0.3 million square feet with a combined contribution value of \$15.3 million. The contribution of the two properties into TRT-DCT Venture II resulted in a total gain of approximately \$2.3 million, of which approximately \$2.0 million was recognized in our earnings during the three months ended June 30, 2007. The remaining gain of approximately \$0.3 million reduces our basis in the investment and is recognized into earnings over the weighted average life of each property's real estate assets. During the six months ended June 30, 2007, we contributed five properties to TRT-DCT Venture II comprised of approximately 1.4 million square feet with a combined gross contribution value of approximately \$67.2 million. The contribution of the five properties into TRT-DCT Venture II resulted in a total gain of approximately \$6.7 million, of which approximately \$6.0 million was recognized in our earnings during the six months ended June 30, 2007. The remaining gain of approximately \$0.7 million reduces our basis in the investment and is recognized into earnings over the weighted average life of each property's real estate assets.

### **DCT/SPF Industrial Operating LLC**

On August 30, 2007, we entered into a joint venture agreement with Industrial Acquisition LLC ( JP Morgan ), an entity advised by JPMorgan Asset Management, to form DCT/SPF Industrial Operating LLC ( JP Morgan Venture ). As of June 30, 2008, this joint venture owned approximately \$285.2 million of real estate assets. This joint venture was funded with an equity contribution from JP Morgan to the joint venture (approximately 80% of the joint venture's equity capitalization) and an equity contribution from us to the joint venture (approximately 20% of the joint venture's equity capitalization). Our actual ownership percentage may vary depending on amounts of capital contributed and the timing of contributions and distributions.

During the six months ended June 30, 2008, the JP Morgan Venture acquired one property comprised of approximately 0.3 million square feet from an unrelated third party.

**Table of Contents****Development Joint Ventures****IDI/DCT Buford, LLC**

On March 10, 2008, we entered into a joint venture agreement with Industrial Developments International, Inc., an unrelated third-party developer, to form IDI/DCT Buford, LLC. This joint venture was funded for the purpose of developing four distribution buildings comprised of approximately 0.6 million square feet in Atlanta, Georgia on approximately 47 acres contributed to the joint venture. We received cash proceeds of approximately \$1.5 million, equity in the venture and recognized a gain on the contribution of the land of approximately \$0.3 million and a deferred gain of approximately \$0.8 million which reduces our basis in the investment and is recognized into earnings over the weighted average life of the related property's real estate assets. As of June 30, 2008, this joint venture owned approximately \$6.1 million of real estate assets.

**Stonefield Industrial, LLC**

On May 22, 2008, we entered into a joint venture agreement with Panattoni Development Company, an unrelated third-party developer, to form Stonefield Industrial, LLC and develop approximately 49 acres in Reno, Nevada. As of June 30, 2008, the joint venture owned total assets of approximately \$8.2 million.

**Discontinued Operations**

As of June 30, 2008, we determined that the potential sale of three properties to a third party was considered probable and classified those properties as held for sale in accordance with SFAS No. 144. Additionally, the five properties that were sold during the six months ended June 30, 2008 and the five properties that were sold and during the year ended December 31, 2007, were sold to unrelated third parties and were classified as discontinued operations. See Note 12 for additional information.

**Intangible Assets**

Aggregate net amortization for intangible assets recognized pursuant to SFAS No. 141 in connection with property acquisitions (excluding assets and liabilities related to above and below market rents; see Note 1 for additional information) was approximately \$6.7 million and \$13.5 million for the three and six months ended June 30, 2008, respectively, and \$7.4 million and \$15.1 million for the three and six months ended June 30, 2007, respectively. Our intangible assets and liabilities included the following as of June 30, 2008 and December 31, 2007 (in thousands):

	June 30, 2008			December 31, 2007		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Intangible lease assets	\$ 155,759	\$ (92,545)	\$ 63,214	\$ 160,865	\$ (81,622)	\$ 79,243
Above market rent	26,253	(17,260)	8,993	27,214	(15,657)	11,557
Below market rent	(17,940)	9,874	(8,066)	(18,565)	9,543	(9,022)

In June 2008, we revised our valuation of intangible lease liabilities related to acquired leases with below market rents and fixed price options to include below market fixed price renewal options. As of June 30, 2008, the cumulative impact of the correcting adjustment was an increase of approximately \$1.1 million to our intangible lease liability, a \$1.1 million increase to the historical cost of our buildings and improvements, a decrease of rental revenues of approximately \$0.2 million of intangible lease liability amortization, and approximately \$0.1 million of depreciation. Management believes that the effect of this correction is not material either quantitatively or qualitatively to our previously issued financial statements.

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The following table describes the estimated net amortization of such intangible assets and liabilities for the next five years. In addition, the table describes the net increase (decrease) to rental revenues due to the amortization of above and below market rents for the next 5 years and thereafter (in thousands):

For the Year Ended December 31,	Estimated Net Amortization of Lease Intangible Assets	Estimated Net Increase (Decrease) to Rental Revenues Related to Above and Below Market Rents
Remainder of 2008	\$ 10,769	\$ (453)
2009	15,799	(1,035)
2010	10,388	(868)
2011	6,970	(168)
2012	4,754	152
Thereafter	14,534	1,445
<b>Total</b>	<b>\$ 63,214</b>	<b>\$ (927)</b>

**Note 3 Investments in and Advances to Unconsolidated Joint Ventures**

We enter into joint ventures primarily for purposes of developing industrial real estate and to establish funds or other commingled investment vehicles with institutional partners. The following describes our unconsolidated joint ventures as of June 30, 2008 and December 31, 2007:

Unconsolidated Joint Ventures	DCT Ownership Percentage		Net Equity Investment as of	
	as of June 30, 2008	Number of Buildings	June 30, 2008 (in thousands)	December 31, 2007
<b>Institutional Funds:</b>				
DCT/SPF Industrial Operating LLC	20%	14	\$ 51,398	\$ 46,924
DCT Fund I LLC	20%	6	2,224	2,580
TRT-DCT Venture II	12.5%	5	1,689	1,750
TRT-DCT Venture I	4.9%	13	1,477	2,496
<b>Developments:</b>				
Stirling Capital Investments (SCLA) <sup>(1)</sup>	50%	6	38,040	29,827
IDI/DCT	50%	4	8,627	9,165
Sycamore Canyon	90%	2	7,641	5,282
DCT/IDI Buford	75%		3,779	
Logistics Way	95%	1	3,582	3,540
Stonefield	90%		2,718	
Whitestown	90%		998	935
Panattoni Investments	N/A			251
<b>Total</b>		<b>51</b>	<b>\$ 122,173</b>	<b>\$ 102,750</b>

<sup>(1)</sup> Although we contributed 100% of the initial cash equity capital required by the venture, our partners retain certain participation rights in the venture's available cash flows.



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As of December 31, 2007, the Company's investments in DCT/SPF Industrial Operating LLC and TRT-DCT Venture I were considered significant subsidiaries pursuant to Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. Condensed combined financial information for DCT/SPF Industrial Operating LLC and TRT-DCT Venture I is as follows (in thousands):

	June 30, 2008	December 31, 2007
Balance sheet:		
Total investment in properties	\$ 487,447	\$ 403,290
Accumulated depreciation	(20,832)	(7,435)
Net investment in properties	466,615	395,855
Cash and cash equivalents	2,777	2,409
Other assets	3,651	2,318
Total assets	\$ 473,043	\$ 400,582
Secured debt	\$ 129,282	\$ 101,042
Other liabilities	9,242	10,874
Total liabilities	138,524	111,916
Partners' capital	334,519	288,666
Total liabilities and partners' capital	\$ 473,043	\$ 400,582

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007 <sup>(1)</sup>	2008	2007 <sup>(1)</sup>
Statement of operations:				
Revenues:				
Rental revenues	\$ 9,877	\$ 2,622	\$ 19,057	\$ 3,895
Other income	10	10	24	20
Total revenues	9,887	2,632	19,081	3,915
Expenses:				
Real estate taxes	(1,110)	(349)	(2,181)	(375)
Rental expenses	(637)	(162)	(1,369)	(309)
Depreciation and amortization	(4,781)	(1,171)	(9,146)	(1,839)
General and administrative	(217)	(40)	(451)	(45)
Total expenses	(6,745)	(1,722)	(13,147)	(2,568)
Interest expense	(1,502)	(794)	(2,980)	(794)
Net income	\$ 1,640	\$ 116	\$ 2,954	\$ 553

<sup>(1)</sup> Date of inception for DCT/SPF Industrial Operating LLC was August 22, 2007.

**Note 4 Hedging Activities**

To manage interest rate risk for variable rate debt and issuances of fixed rate debt, we primarily use treasury locks and forward-starting swaps as part of our cash flow hedging strategy. These derivatives are designed to mitigate the risk of future interest rate fluctuations by providing a fixed

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interest rate for a limited, pre-determined period of time. During the three months ended June 30, 2008, we entered into a two-year, LIBOR-based interest rate swap to mitigate the effect on cash outflows attributable to changes in LIBOR related to \$100.0 million variable rate, unsecured notes maturing in June 2010 issued in June 2008.

Net unrealized gains of approximately \$2.1 million and net unrealized losses of \$1.4 million were recorded during the three and six months ended June 30, 2008, respectively. During the three and six months ended June 30, 2007 net unrealized gains of approximately \$5.2 million and \$5.3 million, respectively, were recorded to stockholders' equity and accumulated comprehensive loss as a result of the change in fair value of the outstanding hedges.

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Gains and losses resulting from hedging ineffectiveness and hedge settlements are recorded as increases and decreases, respectively, to Interest income and other in our Consolidated Statements of Operations. No gains or losses related to ineffectiveness were recorded during the three months ended June 30, 2008. During the six months ended June 30, 2008, we recorded a loss of approximately \$46,000 related to the ineffectiveness due to the change in estimated timing of anticipated debt issuances. Additionally, during the three months ended March 31, 2008, two forward swaps no longer qualified for hedge accounting and a loss of \$1.4 million was recorded to Interest expense related to their change in fair value. These swaps were settled on April 29, 2008, at which time we recorded a realized gain of approximately \$1.4 million.

During the three and six months ended June 30, 2007, we recorded a realized gain of approximately \$1.8 million, offset by approximately \$0.3 million related to the ineffectiveness due to the change in estimated timing of the anticipated debt issuance of the \$275.0 million forward-starting swap.

As of June 30, 2008 and December 31, 2007, the Accumulated other comprehensive loss balance pertaining to the hedges were losses of approximately \$7.0 million and \$6.0 million, respectively. Amounts reported in Accumulated other comprehensive loss related to derivatives will be amortized to Interest expense as interest payments are made on our current fixed-rate debt and anticipated debt issuances. During the next 12 months, we estimate that approximately \$1.0 million will be amortized from Accumulated other comprehensive loss to Interest expense resulting in an increase in such expense.

### **Note 5 Our Operating Partnership's Private Placement**

Prior to October 10, 2006, our operating partnership offered undivided tenancy-in-common interests ( TIC Interests ) in certain of our properties to accredited investors in a private placement exempt from registration under the Securities Act of 1933, as amended. In October 2006, we discontinued the private placement of TIC Interests. During the six months ended June 30, 2008, our operating partnership purchased all remaining TIC Interests in the one remaining property for an aggregate of 1.6 million units of limited partnership interest in our operating partnership ( OP Units ) valued at approximately \$14.8 million.

The amount of gross proceeds associated with the sales of TIC Interests are recorded in Financing obligations in our Consolidated Balance Sheets pursuant to SFAS No. 98 *Accounting for Leases* ( SFAS No. 98 ). We had leased back the portion of the building sold to the unrelated third-party investors and, in accordance with SFAS No. 98, a portion of the rental payments made to such investors under the lease agreements were recognized as Interest expense using the interest method.

During the six months ended June 30, 2008, we incurred approximately \$0.1 million of rental payments under various lease agreements with certain of the third-party investors. During the three and six months ended June 30, 2007, we incurred approximately \$1.5 million and \$3.6 million, respectively, of rental payments under various lease agreements with certain of the third-party investors. A portion of such amounts was accounted for as a reduction of the outstanding principal balance of the financing obligations and a portion was accounted for as Interest expense in our Consolidated Statements of Operations. Included in Interest expense was approximately \$0.1 million for the six months ended June 30, 2008, and approximately \$1.3 million and \$3.2 million during the three and six months ended June 30, 2007, respectively, of interest expense related to the financing obligation.

During the six months ended June 30, 2007, our operating partnership exercised purchase options to acquire certain TIC Interests it had previously sold in 14 industrial properties located in Tennessee and Texas. In connection with the exercise of these options, our operating partnership issued an aggregate of approximately 6.8 million OP Units valued at approximately \$76.9 million to acquire such TIC Interests. Related to the purchase of one of these buildings, we assumed \$14.9 million of a secured note with an interest rate of 5.0% that was previously reflected in financing obligations.



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**Note 6 Senior Unsecured Notes**

During the six months ended June 30, 2008, we entered into an agreement, which was effective June 9, 2008, to extend the maturity date of \$175.0 million of the then outstanding \$275.0 million senior unsecured note from June 9, 2008 to June 9, 2013, bearing interest at a fixed rate of 6.11%. The remaining \$100 million was repaid with the proceeds of our Initial Loan, as mentioned below.

On June 6, 2008, we entered into a term loan agreement (the "Agreement") with a syndicate of 10 banks, led by Bank of America, N.A. and Wells Fargo, N.A., pursuant to which the Company may borrow up to \$300 million in senior unsecured term loans. Loans under the Agreement will have a variable interest rate based on either the base rate under the Agreement or LIBOR, at the Company's option, plus a margin that is based on the Company's leverage ratio, as defined by the Agreement. The margins on base rate loans may range from 0% to 0.90%, and the margins on LIBOR-based loans may range from 1.25% to 1.85%. The initial margins based on the Company's current leverage ratio is 0% for base rate loans and 1.50% for LIBOR-based loans. The base rate under the Agreement is defined as the higher of the overnight Federal funds rate plus 0.50% or Bank of America's prime rate. All loans under the Agreement are scheduled to mature on June 6, 2010, but they can be extended at the Company's option for an additional year. The Company may prepay loans under the Agreement, in whole or in part, subject to the payment of a prepayment penalty of 0.50% on the prepaid amount, if such prepayment is made prior to March 6, 2009. Additionally, the Company must pay a fee of 0.15% quarterly in arrears on the average daily unused portion of the loan during such period.

Loans under the Agreement will be funded in two tranches. The first \$100 million was drawn by the Company on June 9, 2008 (the "Initial Loan") and used to repay maturing unsecured notes. The remaining \$200 million can be funded anytime up to December 31, 2008 at the Company's discretion. The Initial Loan has an interest rate based on LIBOR, and the Company has entered into a swap to fix the LIBOR on the Initial Loan for two years at 3.23% per annum resulting in an effective interest rate of 4.73% per annum based on the Company's current leverage ratio. The Company is required to pay interest on the Initial Loan monthly until maturity at which time the outstanding balance is due.

The Agreement contains various customary covenants (including, among others, financial covenants with respect to tangible net worth, debt service coverage and unsecured and secured consolidated leverage and covenants relating to dividends and other restricted payments, liens, certain investments and transaction with affiliates) and if the Company breaches any of these covenants, or fails to pay interest or principal on the loans when due, the holders of the loans could accelerate the due date of the entire amount borrowed. The Agreement also contains other customary events of default, which would entitle the holders of the loans to accelerate the due date of the entire amount borrowed, including, among others, change of control events, defaults under certain other obligations of the Company and insolvency or bankruptcy events.

**Table of Contents****Note 7 Minority Interests**

Minority interests consisted of the following as of June 30, 2008 and December 31, 2007 (in thousands):

	June 30, 2008	December 31, 2007
<b>OP Units:</b>		
Net investment	\$ 366,465	\$ 389,174
Distributions	(39,569)	(27,286)
Share of cumulative net loss	(10,525)	(13,882)
<b>Sub-total</b>	<b>316,371</b>	<b>348,006</b>
<b>Cabot non-voting common stock:</b>		
Net investment	63	63
Distributions	(8)	(8)
Share of cumulative net loss	(2)	(2)
<b>Sub-total</b>	<b>53</b>	<b>53</b>
<b>Joint venture partner interest:</b>		
Net investment	2,012	1,983
Distributions	(1)	(1)
Share of cumulative net loss	(347)	(259)
<b>Sub-total</b>	<b>1,664</b>	<b>1,723</b>
<b>Total</b>	<b>\$ 318,088</b>	<b>\$ 349,782</b>

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
<b>Minority interests share of operations:</b>				
Minority interests share of Income (Loss) From Continuing Operations	\$ (431)	\$ 102	\$ (220)	\$ 187
Minority interest s share of income from discontinued operations	(2,803)	(78)	(2,972)	(1,513)
Minority interest s share of gain (loss) on dispositions of real estate interests	7	(1,395)	(77)	(2,531)
<b>Total minority interests share of operations</b>	<b>\$ (3,227)</b>	<b>\$ (1,371)</b>	<b>\$ (3,269)</b>	<b>\$ (3,857)</b>

**OP Units**

As of June 30, 2008 and December 31, 2007, we owned approximately 83% and 82%, respectively, of the outstanding equity interests of our operating partnership, with the remaining equity interest in our operating partnership owned by third-party investors and Dividend Capital Advisors Group LLC ( DCAG ). Subject to certain agreements, OP Units are redeemable at the option of the unitholder after a fixed period. We have the option of redeeming the OP Units with cash or with shares of our common stock on a one-for-one basis, subject to adjustment. During the three months ended June 30, 2008, 3.8 million OP Units were redeemed for approximately \$0.2 million in cash and 3.7 million shares of common stock. During the six months ended June 30, 2008, 3.9 million OP Units were redeemed for approximately \$1.4 million in cash and 3.7 million shares of common stock. During the three and six months ended June 30, 2007, approximately 0.2 million OP Units were redeemed for approximately \$2.8 million in cash.

Additionally, during the six months ended June 30, 2008, our operating partnership purchased all remaining TIC Interests in the one remaining property for an aggregate of 1.6 million OP Units valued at approximately \$14.8 million. As of June 30, 2008, there was a total of 35.5 million OP Units outstanding with a redemption value of approximately \$293.5 million based on the closing price of our common stock on June 30,

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2008. As of December 31, 2007, there were 37.7 million OP Units outstanding with a redemption value of approximately \$351.3 million based on the closing price of our common stock on December 31, 2007. As of June 30, 2008, 23.9 million OP Units were redeemable.

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### **Note 8 Stockholders Equity**

#### ***Common Stock***

As of June 30, 2008, approximately 172.1 million shares of common stock were issued and outstanding. The net proceeds from the prior sales of these securities were transferred to our operating partnership for a number of OP Units equal to the shares of common stock sold in our public and private offerings. Our operating partnership has used these proceeds to fund the acquisition and development of our properties. During the six months ended June 30, 2008, we issued shares of common stock related to the redemption of OP Units. See additional information in Note 7 above.

#### ***Dividend Reinvestment and Stock Purchase Plan***

In April 2007, we began offering shares of our common stock through our new Dividend Reinvestment and Stock Purchase Plan (the Plan). The Plan permits stockholders to acquire additional shares with quarterly dividends and to make additional cash investments to buy shares directly. Shares of common stock may be purchased in the open market, through privately negotiated transactions, or directly from us as newly issued shares of common stock. All shares issued under the Plan were acquired in the open market.

#### ***Stock Based Compensation***

##### **Restricted Stock**

During the three and six months ended June 30, 2008, we granted approximately 2,000 shares and 0.1 million shares, respectively, of restricted stock to certain officers and employees at the weighted-average fair market value of \$8.28 and \$8.64 per share, respectively. During the three and six months ended June 30, 2007, we granted approximately 6,000 shares and 68,000 shares, respectively, of restricted stock to certain officers and employees at the weighted-average fair market value of \$11.04 and \$11.52 per share, respectively. The restricted stock was recorded at the fair market value of our common stock on the date of issuance. These shares of restricted common stock may not be sold, assigned, transferred, pledged or otherwise disposed of and are subject to a risk of forfeiture prior to the expiration of the applicable vesting period. These shares of restricted common stock have voting rights and rights to receive dividends.

##### **Stock Options**

During the three and six months ended June 30, 2008, we granted approximately 7,000 stock options and 1.6 million stock options, respectively, at the weighted-average exercise price of \$8.28 and \$8.66 per share, respectively. The fair value of the aforementioned grants adjusted for estimated forfeitures totaled \$5,000 and \$0.9 million, respectively, and are amortized over their respective vesting periods.

During the three and six months ended June 30, 2007, we granted approximately 15,000 stock options and 0.6 million stock options, respectively, at the weighted-average exercise price of \$9.61 and \$10.43 per share, respectively. The fair value of the aforementioned grants totaled \$16,000 and \$0.6 million, respectively, and are amortized over their respective vesting periods.

### **Note 9 Related Party Transactions**

#### ***Transition services agreement with DCAG***

In October 2006, we entered into a transitional services agreement with DC Services, LLC, (DC Services), an affiliate of DCAG, whereby we received enumerated transitional services, including IT services, human resources, payroll and accounts payable services, necessary to operate our business for a one-year period for a monthly fee of approximately \$72,000. Upon the expiration of the one-year period, we renewed this agreement through December 31, 2007. During 2007, we paid approximately \$0.9 million to DC Services pursuant to this agreement. DC Services has continued to provide us shared services in 2008 and on March 24, 2008, we entered into a shared services agreement with DC Services whereby DC Services is to provide us shared services during 2008 for a monthly fee of approximately \$60,000, from January 2008 to April 2008 then increasing to approximately \$65,000.

**Table of Contents****Note 10 Earnings per Share**

We determine basic earnings per common share by dividing net income attributable to common stockholders by the weighted average number of shares of common stock and common stock equivalents outstanding during the period. We determine diluted earnings per common share by taking into account the effects of potentially issuable common stock, but only if the issuance of stock would be dilutive, including the presumed exchange of OP Units for shares of common stock. The following table sets forth the computation of our basic and diluted earnings per common share for the three and six months ended June 30, 2008 and 2007 (in thousands except per share information):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
<b>Numerator</b>				
Income (Loss) From Continuing Operations	\$ 2,232	\$ (258)	\$ 1,522	\$ (164)
Minority interests' share of net income related to potentially dilutive shares	464		305	
Numerator for diluted earnings per share - adjusted income (loss) from continuing operations	\$ 2,696	\$ (258)	\$ 1,827	\$ (164)
Income from discontinued operations	\$ 13,296	\$ 358	\$ 14,028	\$ 8,870
Minority interest's share of net income related to potentially dilutive shares	2,805	61	2,981	1,507
Numerator for diluted earnings per share - adjusted income from discontinued operations	\$ 16,101	\$ 419	\$ 17,009	\$ 10,377
Gain (Loss) on dispositions of real estate interests, net of minority interest	\$ (32)	\$ 7,737	\$ 330	\$ 14,486
Minority interest's share of net income related to potentially dilutive shares		1,315	71	2,462
Numerator for diluted earnings per share - adjusted Gain (Loss) from dispositions of real estate interests	\$ (32)	\$ 9,052	\$ 401	\$ 16,948
Adjusted net income attributable to common stockholders	\$ 18,765	\$ 9,213	\$ 19,237	\$ 27,161
<b>Denominator</b>				
Weighted average common shares outstanding - basic	171,429	168,355	169,908	168,355
Potentially dilutive common shares	36,225	30,348	37,540	29,356
Weighted average common shares outstanding - diluted	207,654	198,703	207,448	197,711
<b>Income per Common Share - Basic</b>				
Income (Loss) From Continuing Operations	\$ 0.01	\$ (0.00)	\$ 0.01	\$ (0.00)
Income from discontinued operations	0.08	0.00	0.08	0.05
Gain (Loss) on dispositions of real estate interests, net of minority interest	(0.00)	0.05	0.00	0.09
Net Income	\$ 0.09	\$ 0.05	\$ 0.09	\$ 0.14
<b>Income per Common Share - Diluted</b>				
Income (Loss) From Continuing Operations	\$ 0.01	\$ (0.00)	\$ 0.01	\$ (0.00)
Income from discontinued operations	0.08	0.00	0.08	0.05
Gain (Loss) on dispositions of real estate interests, net of minority interest	(0.00)	0.05	0.00	0.09

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Net Income	\$	0.09	\$	0.05	\$	0.09	\$	0.14
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**Table of Contents****Potentially Dilutive Shares**

We have excluded from diluted earnings per share the weighted average common share equivalents related to approximately 1.5 million and 1.6 million stock options for the three and six months ended June 30, 2008 respectively, and approximately 0.4 million and 8,000 stock options for the three and six months ended June 30, 2007, respectively, because their effect would be anti-dilutive. For purposes of calculating diluted earnings per share in accordance with SFAS No. 128, *Earnings per Share*, we treat the dilutive impact of the unvested portion of restricted shares as common stock equivalents.

**Note 11 Segment Information**

We consider each operating property to be an individual operating segment that has similar economic characteristics to all our other operating properties, which excludes the results from discontinued operations and includes results from properties held for contribution. Our management considers rental revenues and property net operating income aggregated by property type to be the appropriate way to analyze performance. Certain reclassifications have been made to prior year results to conform to the current presentation, primarily related to discontinued operations (see Note 12 for additional information).

The following table sets forth the rental revenues and property net operating income of our property type segments in continuing operations for the three and six months ended June 30, 2008 and 2007 (in thousands):

	For the Three and Six Months Ended June 30,			
	2008		2007	
	Bulk Distribution	Light Industrial and Other	Bulk Distribution	Light Industrial and Other
Operating properties in continuing operations <sup>(1)</sup> :				
For the three months ended June 30:				
Rental revenues	\$ 48,211	\$ 13,528	\$ 48,421	\$ 12,672
Property net operating income <sup>(2)</sup>	\$ 36,627	\$ 9,470	\$ 37,238	\$ 8,816
For the six months ended June 30:				
Rental revenues	\$ 97,514	\$ 27,115	\$ 98,527	\$ 25,336
Property net operating income <sup>(2)</sup>	\$ 73,427	\$ 18,864	\$ 75,331	\$ 17,800

<sup>(1)</sup> Includes 17 operating properties held for contribution as of June 30, 2008, which are included in continuing operations as they do not meet the criteria to be classified as discontinued operations, in accordance with SFAS No. 144. As of June 30, 2007, three properties were classified as held for contribution.

<sup>(2)</sup> Property net operating income, or property NOI, is defined as rental revenues, including reimbursements, less rental expenses and real estate taxes, which excludes depreciation, amortization, general and administrative expenses and interest expense. We consider property NOI to be an appropriate supplemental performance measure because property NOI reflects the operating performance of our properties and excludes certain items that are not considered to be controllable in connection with the management of the property such as depreciation, amortization, general and administrative expenses and interest expense. However, property NOI should not be viewed as an alternative measure of our financial performance since it excludes expenses which could materially impact our results of operations. Further, our property NOI may not be comparable to that of other real estate companies, as they may use different methodologies for calculating property NOI. Therefore, we believe net income, as defined by GAAP, to be the most appropriate measure to evaluate our overall financial performance.

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The following table is a reconciliation of our property NOI to our reported Income (Loss) From Continuing Operations for the three and six months ended June 30, 2008 and 2007 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Property NOI	\$ 46,097	\$ 46,054	\$ 92,291	\$ 93,131
NOI from development and redevelopment properties	418	(403)	826	(180)
Institutional capital management and other fees	614	572	1,474	1,318
Real estate related depreciation and amortization	(28,893)	(27,510)	(57,148)	(55,404)
General and administrative expenses	(5,083)	(5,677)	(10,965)	(9,733)
Equity in income (losses) of unconsolidated joint ventures	439	(31)	726	43
Interest expense	(11,136)	(15,020)	(25,566)	(31,703)
Interest income and other	567	2,157	1,001	3,139
Income taxes	(360)	(502)	(897)	(962)
Minority interests	(431)	102	(220)	187
Income (Loss) from Continuing Operations	\$ 2,232	\$ (258)	\$ 1,522	\$ (164)

The following table reflects our total assets, net of accumulated depreciation and amortization, by property type segment (in thousands):

	June 30, 2008	December 31, 2007
Property type segments:		
Bulk distribution	\$ 1,878,296	\$ 1,943,128
Light industrial and other	524,529	553,072
Total segment net assets	2,402,825	2,496,200
Development and redevelopment assets	139,286	112,847
Assets held for sale	8,912	
Non-segment assets:		
Properties in pre-development including land held	16,858	25,025
Non-segment cash and cash equivalents	4,730	3,316
Other non-segment assets <sup>(1)</sup>	150,922	141,604
Total Assets	\$ 2,723,533	\$ 2,778,992

<sup>(1)</sup> Other non-segment assets primarily consists of corporate assets including investments in unconsolidated joint ventures, notes receivable, certain loan costs, including loan costs associated with our financing obligations, and deferred acquisition costs. Included in rental revenues and segment net assets as of and for the six months ended June 30, 2008 was approximately \$1.6 million and \$61.7 million, respectively, attributable to operations in Mexico which commenced during 2007.



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### Note 12 Discontinued Operations

In accordance with SFAS No. 144, we report results of operations from real estate assets that meet the definition of a component of an entity and have been sold, or meet the criteria to be classified as held for sale, as discontinued operations. During the three months ended June 30, 2008, we sold four operating properties, three in our bulk distribution segment and one in our light industrial segment, comprised of approximately 1.2 million square feet to third parties for a total gain of \$16.8 million. During the six months ended June 30, 2008, we sold five operating properties, four in our bulk distribution segment and one in our light industrial segment, comprised of approximately 1.3 million square feet to third parties for a total gain of \$17.1 million. During the year ended December 31, 2007, we sold one development property in our bulk distribution segment comprised of approximately 0.5 million square feet, and four operating properties in our light industrial and other segment comprised of approximately 0.3 million square feet to third parties for a total gain of \$12.1 million. Additionally, as of June 30, 2008, we had three properties comprised of approximately 0.1 million square feet classified as held for sale. For the three and six months ended June 30, 2008 and 2007, Income from discontinued operations includes the results of operations of these properties prior to the date of sale. This treatment resulted in certain reclassifications of financial statement amounts for the three and six months ended June 30, 2007.

The following is a summary of the components of Income from discontinued operations for the three and six months ended June 30, 2008 and 2007 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Rental revenues	\$ 1,361	\$ 2,140	\$ 3,396	\$ 4,241
Rental expenses and real estate taxes	(306)	(610)	(757)	(1,228)
Real estate related depreciation and amortization	(373)	(879)	(1,261)	(1,768)
Operating income	682	651	1,378	1,245
Interest expense, net	(109)	(184)	(253)	(381)
Income taxes	(5)	(31)	(17)	(42)
Income before minority interest and gain on dispositions of real estate	568	436	1,108	822
Gain on dispositions of real estate interests	16,763		17,124	9,561
Impairment losses on real estate assets held for sale	(1,232)		(1,232)	
Minority interest	(2,803)	(78)	(2,972)	(1,513)
Income from discontinued operations	\$ 13,296	\$ 358	\$ 14,028	\$ 8,870

Assets classified as held for sale of \$8.9 million at June 30, 2008 include real estate net book value of \$8.7 million and restricted cash and other assets of \$0.2 million. Liabilities related to our assets held for sale were \$0.3 million at June 30, 2008 and these properties had no related mortgage debt. As of December 31, 2007, none of our assets were classified as held for sale.

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### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

#### **FORWARD-LOOKING STATEMENTS**

We make statements in this report that are considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, which are usually identified by the use of words such as anticipates, believes, estimates, expects, intends, may, plans, projects, seeks, variations of such words or similar expressions. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and are including this statement for purposes of complying with those safe harbor provisions. These forward-looking statements reflect our current views about our plans, intentions, expectations, strategies and prospects, which are based on the information currently available to us and on assumptions we have made. Although we believe that our plans, intentions, expectations, strategies and prospects as reflected in or suggested by those forward-looking statements are reasonable, we can give no assurance that the plans, intentions, expectations or strategies will be attained or achieved. Furthermore, actual results may differ materially from those described in the forward-looking statements and will be affected by a variety of risks and factors that are beyond our control including, without limitation:

- the competitive environment in which we operate;
- real estate risks, including fluctuations in real estate values and the general economic climate in local markets and competition for tenants in such markets;
- decreased rental rates or increasing vacancy rates;
- defaults on or non-renewal of leases by tenants;
- acquisition and development risks, including failure of such acquisitions and development projects to perform in accordance with projections;
- the timing of acquisitions and dispositions;
- natural disasters such as fires, hurricanes and earthquakes;
- national, international, regional and local economic conditions, including, in particular, the recent softening of the U.S. economy;
- the general level of interest rates and the availability of debt financing, particularly in light of the recent disruption in the credit markets;
- energy costs;
- the terms of governmental regulations that affect us and interpretations of those regulations, including changes in real estate and zoning laws and increases in real property tax rates;
- financing risks, including the risk that our cash flows from operations may be insufficient to meet required payments of principal, and interest and other commitments;
- lack of or insufficient amounts of insurance;
- litigation, including costs associated with prosecuting or defending claims and any adverse outcomes;
- the consequences of future terrorist attacks;
- possible environmental liabilities, including costs, fines or penalties that may be incurred due to necessary remediation of contamination of properties presently owned or previously owned by us; and
- other risks and uncertainties detailed in the section entitled Risk Factors.

In addition, our current and continuing qualification as a real estate investment trust, or REIT, involves the application of highly technical and complex provisions of the Internal Revenue Code of 1986, or the Code, and depends on our ability to meet the various requirements imposed by the Code through actual operating results, distribution levels and diversity of stock ownership. We assume no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements included in this report.

Unless the context otherwise requires, the terms we, us and our refer to DCT Industrial Trust Inc. and DCT Industrial Operating Partnership LP, or our operating partnership, and their consolidated subsidiaries.

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### **Overview**

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. As of June 30, 2008, the Company owned, managed or had under development approximately 75.7 million square feet of assets leased to approximately 850 customers, including 12.6 million square feet managed on behalf of three institutional joint venture partners. Our portfolio primarily consists of high-quality, generic bulk distribution warehouses and light industrial properties. We own our properties through our operating partnership and its subsidiaries. DCT Industrial Trust Inc. is the sole general partner and owned approximately 83% of the outstanding equity interests of our operating partnership as of June 30, 2008. We acquired our first property in June 2003 and have grown our portfolio to 378 consolidated operating properties through June 30, 2008.

Our primary business objectives are to maximize sustainable long-term growth in earnings and Funds From Operations, or FFO, as defined on page 44, and to maximize total return to our stockholders. In our pursuit of these objectives, we will:

actively manage our existing portfolio to maximize operating cash flows;

acquire properties in selected markets, including Mexico, including through joint ventures;

pursue development opportunities;

expand our institutional capital management program; and

dispose of assets that no longer fit our investment criteria.

In order to achieve these objectives, we have raised capital through common stock issuances, our operating partnership's private placement (as more fully described below) and issued and assumed debt, while maintaining a conservative leverage ratio in relation to other industrial real estate investment trusts.

### **Outlook**

The primary source of our operating revenues and earnings is rents received from tenants under operating leases at our properties, including reimbursements from tenants for certain operating costs. We seek long-term earnings growth primarily through increasing rents and operating income at existing properties, acquiring and developing additional high-quality properties in major distribution markets, increasing fee revenues from our institutional capital management program, and generating profits from our development activities. In addition, we may recycle our capital by selling assets, contributing assets to joint ventures, funds or other commingled investment vehicles with institutional partners, and reinvesting the capital in target markets.

Although the national real estate credit market has experienced increased volatility and the U.S. economy is slowing, we believe that long-term demand for high-quality industrial warehouse space in major distribution markets will remain favorable. We expect near-term operating income from our existing properties to increase through rental rate growth on leases that are expiring and through steady average occupancy rates although occupancy could decline and operating earnings decrease if demand for warehouse space were to fall. Additionally, we may increase operating earnings through increased leasing at our development properties but expect only moderate activity in the near term due to the slowing economy. Increased operating earnings from operating and development activities may be offset by disposing or contributing properties.

The principal risks to our business plan include:

our ability to lease space to customers at rates which provide acceptable returns and credit risks;

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our ability to sell or contribute assets at prices we find acceptable which generates funding for our business plan;

our ability to locate development opportunities and to successfully develop and lease such properties on time and within budget and then to successfully lease such properties;

our ability to attract institutional partners in our institutional capital management program on terms that we find acceptable;

our ability to acquire properties that meet our quantitative and qualitative investment criteria; and

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our ability to retain and attract talented people.

We believe our investment focus on the largest and most active distribution markets in the United States and Mexico and our monitoring of market and submarket demand and supply imbalances helps mitigate some of these risks.

We also expect the following key trends to affect our industry positively:

the continued restructuring of corporate supply chains which may impact local demand for distribution space as companies relocate their operations consistent with their particular requirements or needs;

the continued growth in international trade which necessitates the increased import and export of products in the U.S. and Mexico;

the growth or continuing importance of industrial markets located near major transportation hubs including seaports, airports and major intermodal facilities; and

continuing advancements in technology and information systems which enhance companies' abilities to control their investment in inventories.

These key trends may gradually change the characteristics of the facilities needed by our tenants. However, we believe the buildings in our portfolio are designed to be reconfigured and can accommodate gradual changes that may occur.

Our financing needs will depend largely on our ability to acquire or develop properties as the majority of our cash generated from operations will be used for payment of distributions and to finance other activities. We expect the funding of additional cash needs to come from a combination of extending existing maturities of debt, borrowings under our line of credit, new borrowings and/or proceeds from the sale or contribution of properties.

## **Inflation**

Although the U.S. economy has been experiencing moderately higher inflation rates, and a wide variety of industries and sectors are all being affected differently by rising commodity prices, inflation has not had a significant impact on us in our markets of operation. Most of our leases require the tenants to pay their share of operating expenses, including common area maintenance, real estate taxes and insurance, thereby reducing our exposure to increases in costs and operating expenses resulting from inflation. In addition, many of the outstanding leases expire within five years which enables us to replace existing leases with new leases at the then-existing market rate.

## **Significant Transactions During 2008**

### *Summary of the six months ended June 30, 2008*

During the three months ended June 30, 2008, development activities continued on several properties in Mexico and several of our U.S. target markets. During the six months ended June 30, 2008, we expanded our presence in Mexico from eight buildings comprised of 0.6 million square feet to 11 buildings comprised of 1.2 million square feet. The following further describes certain significant transactions that occurred during the six months ended June 30, 2008.

### *Major Development Activities*

**Mexico** During the six months ended June 30, 2008, we acquired three buildings comprised of 0.5 million square feet from Nexxus Desarrollos Industriales (Nexxus) that were constructed under forward purchase commitments in Monterrey. As of June 30, 2008, 0.3 million square feet were leased. One additional shell-complete building is expected to be acquired in late 2008. During the six months ended June 30, 2008, we also entered into additional forward purchase commitments with Nexxus to purchase four additional buildings, comprised of 0.5 million square feet. Construction commenced on these four buildings during the first quarter 2008 and is expected to be completed in late 2008.

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**SCLA** During 2006, we entered into a joint venture agreement with Stirling Airports International, LLC, or Stirling, an unrelated third party, to be the master developer of up to 4,350 acres in Victorville, California, part of the Inland Empire submarket in Southern California. The development project is located at the former George Air Force Base which closed in 1992 and is now known as Southern California Logistics Airport, or SCLA. We refer to this joint venture as the SCLA

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joint venture. Stirling entered into two master development agreements which gave it certain rights to be the exclusive developer of the SCLA development project through 2019 (including extensions) and assigned these rights to the SCLA joint venture upon the closing of the venture. While our exact share of the equity interests in the SCLA joint venture will depend on the amount of capital we contribute and the timing of contributions and distributions, the SCLA joint venture contemplates an equal sharing between us and Stirling of residual profits and cash flows after all priority distributions.

During the six months ended June 30, 2008, the SCLA joint venture began construction on one building comprised of approximately 1.0 million square feet. Additionally, two buildings comprised of 0.2 million square feet were completed during the first quarter of 2008 and one building comprised of 0.3 million square feet was completed during the second quarter of 2008. Leasing activities commenced, with 49,000 square feet leased as of June 30, 2008.

**IDI/DCT Buford, LLC JV** - On March 10, 2008, we entered into a joint venture agreement with Industrial Developments International, Inc., an unrelated third-party developer whereby we contributed 47 acres in Atlanta, Georgia to the venture. We received cash proceeds of approximately \$1.5 million, equity in the venture and recognized a gain on the contribution of the land of approximately \$0.3 million. The venture may develop four distribution buildings comprised of approximately 0.6 million square feet. As of June 30, 2008, this joint venture owned approximately \$6.1 million of real estate assets.

**Stonefield Industrial, LLC** - On May 22, 2008, we entered into a joint venture agreement with Panattoni Development Company, an unrelated third-party developer, to form Stonefield Industrial, LLC and develop approximately 49 acres in Reno, Nevada. As of June 30, 2008, the joint venture owned total assets of approximately \$8.2 million.

### *Disposition Activity*

During the six months ended June 30, 2008, we disposed of five operating properties comprised of approximately 1.3 million square feet to unrelated third parties for total gross proceeds of approximately \$77.2 million, which resulted in total gains of approximately \$17.1 million. Additionally, we contributed approximately 47 acres of land in Atlanta to the IDI/DCT Buford, LLC joint venture. See additional discussion above. As of June 30, 2008, three properties were classified as held for sale due to the probable disposition of these properties.

Additionally, as of June 30, 2008, we determined that the potential sale of three properties to a third party was considered probable and classified those properties as held for sale in accordance with Statement of Financial Accounting Standards, or SFAS, No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, or SFAS144. For the three and six months ended June 30, 2008, we recorded an impairment loss of \$1.2 million related to these properties.

### *New Long-Term Borrowings*

On June 6, 2008, we entered into a term loan agreement (the Agreement) with a syndicate of 10 banks, led by Bank of America, N.A. and Wells Fargo, N.A., pursuant to which the Company may borrow up to \$300 million in senior unsecured term loans. Loans under the Agreement will have a variable interest rate based on either the base rate under the Agreement or LIBOR, at the Company's option, plus a margin that is based on the Company's leverage ratio, as defined by the Agreement. The margins on base rate loans may range from 0% to 0.90%, and the margins on LIBOR-based loans may range from 1.25% to 1.85%. The initial margins based on the Company's current leverage ratio is 0% for base rate loans and 1.50% for LIBOR-based loans. The base rate under the Agreement is defined as the higher of the overnight Federal funds rate plus 0.50% or Bank of America's prime rate. All loans under the Agreement are scheduled to mature on June 6, 2010, but they can be extended at the Company's option for an additional year. The Company may prepay loans under the Agreement, in whole or in part, subject to the payment of a prepayment penalty of 0.50% on the prepaid amount, if such prepayment is made prior to March 6, 2009. Additionally, the Company must pay a fee of 0.15% quarterly in arrears on the average daily unused portion of the loan during such period.

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Loans under the Agreement will be funded in two tranches. The first \$100 million was drawn by the Company on June 9, 2008 (the Initial Loan ) and used to repay maturing unsecured notes. The remaining \$200 million can be funded anytime up to December 31, 2008 at the Company's discretion. The Initial Loan has an interest rate based on LIBOR, and the Company has entered into a swap to fix the LIBOR on the Initial Loan for two years at 3.23% per annum resulting in an effective interest rate of 4.73% per annum based on the Company's current leverage ratio. The Company is required to pay interest on the Initial Loan monthly until maturity at which time the outstanding balance is due.

The Agreement contains various customary covenants (including, among others, financial covenants with respect to tangible net worth, debt service coverage and unsecured and secured consolidated leverage and covenants relating to dividends and other restricted payments, liens, certain investments and transaction with affiliates) and if the Company breaches any of these covenants, or fails to pay interest or principal on the loans when due, the holders of the loans could accelerate the due date of the entire amount borrowed. The Agreement also contains other customary events of default, which would entitle the holders of the loans to accelerate the due date of the entire amount borrowed, including, among others, change of control events, defaults under certain other obligations of the Company and insolvency or bankruptcy events.

During the six months ended June 30, 2008, we entered into an agreement, which was effective June 9, 2008, to extend the maturity date of \$175.0 mil