

DCT Industrial Trust Inc.
 Form 10-Q
 August 05, 2016

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, 2016

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.) 333-195185 (DCT Industrial Operating Partnership LP)

DCT INDUSTRIAL TRUST INC.
 DCT INDUSTRIAL OPERATING PARTNERSHIP LP
 (Exact name of registrant as specified in its charter)

Maryland (DCT Industrial Trust Inc.)	82-0538520
Delaware (DCT Industrial Operating Partnership LP)	82-0538522
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
518 Seventeenth Street, Suite 800	80202
Denver, Colorado	(Zip Code)
(Address of principal executive offices)	
(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.

DCT Industrial Trust Inc. Yes No DCT Industrial Operating Partnership LP Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

DCT Industrial Trust Inc. Yes No DCT Industrial Operating Partnership LP 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.

DCT Industrial Trust Inc.:

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
(Do not check if a smaller reporting company)			
DCT Industrial Operating Partnership LP:			
Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
(Do not check if a smaller reporting company)			

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Edgar Filing: DCT Industrial Trust Inc. - Form 10-Q

DCT Industrial Trust Inc. Yes No DCT Industrial Operating Partnership LP Yes No
As of July 29, 2016, 90,149,506 shares of common stock of DCT Industrial Trust Inc., par value \$0.01 per share, were outstanding.

EXPLANATORY NOTE

This report combines the Quarterly Reports on Form 10-Q for the period ended June 30, 2016 of DCT Industrial Trust Inc., a Maryland corporation, and DCT Industrial Operating Partnership LP, a Delaware limited partnership. Except as otherwise indicated herein, the terms “Company,” “we,” “our” and “us” refer to DCT Industrial Trust Inc. and its subsidiaries, including its operating partnership, DCT Industrial Operating Partnership LP. When we use the term “DCT” or “DCT Industrial,” we are referring to DCT Industrial Trust Inc. by itself, and not including any of its subsidiaries, and when we use the term the “Operating Partnership,” we are referring to DCT Industrial Operating Partnership LP by itself, and not including any of its subsidiaries.

We are a leading industrial real estate company specializing in the acquisition, development, leasing and management of bulk distribution and light industrial properties located in high-volume distribution markets in the United States. DCT has elected to be treated as a real estate investment trust, or REIT, for U.S. federal income tax purposes. We are structured as an umbrella partnership REIT under which substantially all of our current and future business is, and will be, conducted through a majority owned and controlled subsidiary, DCT Industrial Operating Partnership LP, a Delaware limited partnership, for which DCT is the sole general partner. We own our properties through the Operating Partnership and its subsidiaries. As of June 30, 2016, DCT owned approximately 95.8% of the outstanding equity interests in the Operating Partnership.

We operate DCT and the Operating Partnership as one enterprise. The management of DCT consists of the same members as the management of the Operating Partnership. As general partner with control of the Operating Partnership, DCT consolidates the Operating Partnership for financial reporting purposes. DCT does not have significant assets other than its investment in the Operating Partnership. Therefore, the assets and liabilities of DCT and the Operating Partnership are the same on their respective financial statements.

We believe combining the quarterly reports on Form 10-Q of DCT and the Operating Partnership into this single report results in the following benefits:

- enhances investors’ understanding of DCT and the Operating Partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;
- eliminates duplicative disclosures and provides a more streamlined and readable presentation as a substantial portion of the Company’s disclosures apply to both DCT and the Operating Partnership; and
- creates time and cost efficiencies through the preparation of one combined report instead of two separate reports.

We believe it is important to understand the few differences between DCT and the Operating Partnership in the context of how we operate as an interrelated consolidated company. DCT’s only material asset is its ownership of partnership interests in the Operating Partnership. As a result, DCT does not conduct business itself, other than acting as the sole general partner of the Operating Partnership and issuing public equity. DCT itself has not issued any debt, but guarantees the unsecured debt of the Operating Partnership. The Operating Partnership holds substantially all the assets of the business and conducts the operations of the business. Except for net proceeds from equity issuances by DCT, which are contributed to the Operating Partnership, the Operating Partnership generates capital through its operations, its borrowings and the issuance of partnership units to third parties.

Stockholders’ equity, partners’ capital and noncontrolling interests are the main areas of difference between the consolidated financial statements of DCT and those of the Operating Partnership. Equity interests in the Operating Partnership held by entities other than DCT are classified within partners’ capital in the Operating Partnership’s financial statements and as noncontrolling interests in DCT’s financial statements. Equity interests of 4.2% of the Operating Partnership were owned by executives and non-affiliated limited partners as of June 30, 2016.

To help investors understand the differences between DCT and the Operating Partnership, this report provides separate consolidated financial statements for DCT and the Operating Partnership; a single set of consolidated notes to such financial statements that includes separate discussions of each entity’s stockholders’ equity or partners’ capital, as applicable; and a combined Management’s Discussion and Analysis of Financial Condition and Results of Operations section that includes distinct information related to each entity.

This report also includes separate Part I, Item 4. Controls and Procedures sections and separate Exhibits 31 and 32 certifications for DCT and the Operating Partnership in order to establish that the requisite certifications have been

made and that DCT and the Operating Partnership are both compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350.

1

DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES
DCT INDUSTRIAL OPERATING PARTNERSHIP LP AND SUBSIDIARIES
Index to Form 10-Q

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Consolidated Financial Statements:	
DCT Industrial Trust Inc.	
<u>Consolidated Balance Sheets as of June 30, 2016 (unaudited) and December 31, 2015</u>	<u>3</u>
<u>Consolidated Statements of Operations for the three and six months ended June 30, 2016 and 2015 (unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2016 and 2015 (unaudited)</u>	<u>5</u>
<u>Consolidated Statement of Changes in Equity for the six months ended June 30, 2016 (unaudited)</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015 (unaudited)</u>	<u>7</u>
DCT Industrial Operating Partnership LP	
<u>Consolidated Balance Sheets as of June 30, 2016 (unaudited) and December 31, 2015</u>	<u>8</u>
<u>Consolidated Statements of Operations for the three and six months ended June 30, 2016 and 2015 (unaudited)</u>	<u>9</u>
<u>Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2016 and 2015 (unaudited)</u>	<u>10</u>
<u>Consolidated Statement of Changes in Capital for the six months ended June 30, 2016 (unaudited)</u>	<u>11</u>
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015 (unaudited)</u>	<u>12</u>
DCT Industrial Trust Inc. and DCT Industrial Operating Partnership LP	
<u>Notes to Consolidated Financial Statements (unaudited)</u>	<u>13</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>27</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>48</u>
Item 4. <u>Controls and Procedures</u>	<u>49</u>
PART II. <u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>50</u>
Item 1A. <u>Risk Factors</u>	<u>50</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>50</u>
Item 3. <u>Defaults upon Senior Securities</u>	<u>50</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>50</u>
Item 5. <u>Other Information</u>	<u>50</u>
Item 6. <u>Exhibits</u>	<u>51</u>
<u>SIGNATURES</u>	<u>52</u>

DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except share information)

	June 30, 2016	December 31, 2015
ASSETS	(unaudited)	
Land	\$1,011,875	\$1,009,905
Buildings and improvements	3,032,314	2,886,859
Intangible lease assets	78,369	84,420
Construction in progress	100,180	159,397
Total investment in properties	4,222,738	4,140,581
Less accumulated depreciation and amortization	(783,879)	(742,980)
Net investment in properties	3,438,859	3,397,601
Investments in and advances to unconsolidated joint ventures	88,175	82,635
Net investment in real estate	3,527,034	3,480,236
Cash and cash equivalents	33,403	18,412
Restricted cash	50,470	31,187
Straight-line rent and other receivables, net of allowance for doubtful accounts of \$416 and \$335, respectively	71,992	60,357
Other assets, net	15,207	15,964
Assets held for sale	—	26,199
Total assets	\$3,698,106	\$3,632,355
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable and accrued expenses	\$96,201	\$108,788
Distributions payable	27,381	26,938
Tenant prepaids and security deposits	30,890	29,663
Other liabilities	38,556	18,398
Intangible lease liabilities, net	20,230	22,070
Line of credit	133,000	70,000
Senior unsecured notes	1,226,874	1,276,097
Mortgage notes	206,219	210,375
Liabilities related to assets held for sale	—	869
Total liabilities	1,779,351	1,763,198
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, 500,000,000 shares authorized 89,921,284 and 88,313,891 shares issued and outstanding as of June 30, 2016 and December 31, 2015, respectively	899	883
Additional paid-in capital	2,822,705	2,766,193
Distributions in excess of earnings	(986,185)	(992,010)
Accumulated other comprehensive loss	(29,172)	(23,082)

Edgar Filing: DCT Industrial Trust Inc. - Form 10-Q

Total stockholders' equity	1,808,247	1,751,984
Noncontrolling interests	110,508	117,173
Total equity	1,918,755	1,869,157
Total liabilities and equity	\$3,698,106	\$3,632,355

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

DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES

Consolidated Statements of Operations

(unaudited, in thousands, except per share information)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
REVENUES:				
Rental revenues	\$95,597	\$88,115	\$189,574	\$176,177
Institutional capital management and other fees	305	423	698	801
Total revenues	95,902	88,538	190,272	176,978
OPERATING EXPENSES:				
Rental expenses	8,986	8,408	19,035	18,556
Real estate taxes	15,054	13,521	29,655	28,026
Real estate related depreciation and amortization	39,901	38,449	79,971	77,445
General and administrative	7,358	9,856	13,620	17,192
Casualty loss	162	—	162	—
Total operating expenses	71,461	70,234	142,443	141,219
Operating income	24,441	18,304	47,829	35,759
OTHER INCOME (EXPENSE):				
Development profit, net of taxes	—	2,627	—	2,627
Equity in earnings of unconsolidated joint ventures, net	935	1,036	1,819	1,843
Gain on dispositions of real estate interests	12,955	14,932	43,052	41,086
Interest expense	(15,635)	(13,609)	(32,057)	(27,513)
Interest and other income (expense)	48	(11)	563	(29)
Income tax expense and other taxes	(172)	(278)	(288)	(471)
Consolidated net income of DCT Industrial Trust Inc.	22,572	23,001	60,918	53,302
Net income attributable to noncontrolling interests	(1,154)	(4,704)	(3,109)	(6,260)
Net income attributable to common stockholders	21,418	18,297	57,809	47,042
Distributed and undistributed earnings allocated to participating securities	(106)	(201)	(334)	(344)
Adjusted net income attributable to common stockholders	\$21,312	\$18,096	\$57,475	\$46,698
NET EARNINGS PER COMMON SHARE:				
Basic	\$0.24	\$0.21	\$0.65	\$0.53
Diluted	\$0.24	\$0.20	\$0.64	\$0.53
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	89,748	88,187	89,066	88,139
Diluted	90,184	88,486	89,490	88,453

Edgar Filing: DCT Industrial Trust Inc. - Form 10-Q

Distributions declared per common share	\$0.29	\$0.28	\$0.58	\$0.56
---	--------	--------	--------	--------

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

DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(unaudited, in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Consolidated net income of DCT Industrial Trust Inc.	\$22,572	\$23,001	\$60,918	\$53,302
Other comprehensive income (loss):				
Net derivative gain (loss) on cash flow hedging instruments	(3,437)	58	(9,866)	(455)
Net reclassification adjustment on cash flow hedging instruments	1,670	1,158	3,412	2,311
Other comprehensive income (loss)	(1,767)	1,216	(6,454)	1,856
Comprehensive income	20,805	24,217	54,464	55,158
Comprehensive income attributable to noncontrolling interests	(1,107)	(4,843)	(2,745)	(6,354)
Comprehensive income attributable to common stockholders	\$19,698	\$19,374	\$51,719	\$48,804

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

DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES

Consolidated Statement of Changes in Equity

(unaudited, in thousands)

	Total Equity	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Distributions in Excess of Earnings	Accumulated Other Comprehen- sive Loss	Non-controlling Interests
Balance at December 31, 2015	\$1,869,157	88,314	\$ 883	\$2,766,193	\$ (992,010)	\$ (23,082)	\$ 117,173
Net income	60,918	—	—	—	57,809	—	3,109
Other comprehensive loss	(6,454)	—	—	—	—	(6,090)	(364)
Issuance of common stock, net of offering costs	48,451	1,233	12	48,439	—	—	—
Issuance of common stock, stock-based compensation plans	(482)	53	1	(483)	—	—	—
Amortization of stock-based compensation	3,364	—	—	830	—	—	2,534
Distributions to common stockholders and noncontrolling interests	(55,161)	—	—	—	(51,984)	—	(3,177)
Capital contributions from noncontrolling interests	99	—	—	—	—	—	99
Redemptions of noncontrolling interests	(1,137)	321	3	7,726	—	—	(8,866)
Balance at June 30, 2016	\$1,918,755	89,921	\$ 899	\$2,822,705	\$ (986,185)	\$ (29,172)	\$ 110,508

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

DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(unaudited, in thousands)

	Six Months Ended June 30,	
	2016	2015
OPERATING ACTIVITIES:		
Consolidated net income of DCT Industrial Trust Inc.	\$60,918	\$53,302
Adjustments to reconcile consolidated net income of DCT Industrial Trust Inc. to net cash provided by operating activities:		
Real estate related depreciation and amortization	79,971	77,445
Gain on dispositions of real estate interests	(43,052)	(41,086)
Distributions of earnings from unconsolidated joint ventures	2,775	2,827
Equity in earnings of unconsolidated joint ventures, net	(1,819)	(1,843)
Stock-based compensation	2,740	2,540
Casualty loss	162	—
Straight-line rent	(11,158)	(3,402)
Other	2,910	(1)
Changes in operating assets and liabilities:		
Other receivables and other assets	(2,039)	10,668
Accounts payable, accrued expenses and other liabilities	5,720	(316)
Net cash provided by operating activities	97,128	100,134
INVESTING ACTIVITIES:		
Real estate acquisitions	(8,698)	(143,465)
Capital expenditures and development activities	(152,111)	(97,639)
Proceeds from dispositions of real estate investments	106,144	136,188
Investments in unconsolidated joint ventures	(7,942)	(840)
Proceeds from casualties and involuntary conversion	600	—
Distributions of investments in unconsolidated joint ventures	653	1,014
Change in restricted cash	(19,788)	(2,501)
Other investing activities	(2,973)	(940)
Net cash used in investing activities	(84,115)	(108,183)
FINANCING ACTIVITIES:		
Proceeds from senior unsecured revolving line of credit	113,000	166,000
Repayments of senior unsecured revolving line of credit	(50,000)	(54,000)
Repayments of senior unsecured notes	(50,000)	(40,000)
Principal payments on mortgage notes	(3,309)	(4,112)
Net settlement on issuance of stock-based compensation awards	(482)	(425)
Proceeds from issuance of common stock	49,223	—
Offering costs for issuance of common stock and OP Units	(772)	—
Redemption of noncontrolling interests	(1,137)	(941)
Dividends to common stockholders	(51,497)	(49,387)
Distributions to noncontrolling interests	(3,221)	(2,985)
Contributions from noncontrolling interests	99	—
Other financing activity	74	(2,818)
Net cash provided by financing activities	1,978	11,332
NET CHANGE IN CASH AND CASH EQUIVALENTS	14,991	3,283
CASH AND CASH EQUIVALENTS, beginning of period	18,412	19,631
CASH AND CASH EQUIVALENTS, end of period	\$33,403	\$22,914

Supplemental Disclosures of Cash Flow Information

Cash paid for interest, net of capitalized interest	\$28,783	\$25,848
---	----------	----------

Supplemental Disclosures of Non-Cash Activities

Retirement of fully depreciated and amortized assets	\$18,131	\$13,159
--	----------	----------

Redemptions of OP Units settled in shares of common stock	\$7,729	\$2,350
---	---------	---------

Assumption of mortgage notes in connection with real estate acquired	\$—	\$22,958
--	-----	----------

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

DCT INDUSTRIAL OPERATING PARTNERSHIP LP AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except unit information)

	June 30, 2016	December 31, 2015
ASSETS	(unaudited)	
Land	\$1,011,875	\$ 1,009,905
Buildings and improvements	3,032,314	2,886,859
Intangible lease assets	78,369	84,420
Construction in progress	100,180	159,397
Total investment in properties	4,222,738	4,140,581
Less accumulated depreciation and amortization	(783,879)	(742,980)
Net investment in properties	3,438,859	3,397,601
Investments in and advances to unconsolidated joint ventures	88,175	82,635
Net investment in real estate	3,527,034	3,480,236
Cash and cash equivalents	33,403	18,412
Restricted cash	50,470	31,187
Straight-line rent and other receivables, net of allowance for doubtful accounts of \$416 and \$335, respectively	71,992	60,357
Other assets, net	15,207	15,964
Assets held for sale	—	26,199
Total assets	\$3,698,106	\$ 3,632,355
LIABILITIES AND CAPITAL		
Liabilities:		
Accounts payable and accrued expenses	\$96,201	\$ 108,788
Distributions payable	27,381	26,938
Tenant prepaids and security deposits	30,890	29,663
Other liabilities	38,556	18,398
Intangible lease liabilities, net	20,230	22,070
Line of credit	133,000	70,000
Senior unsecured notes	1,226,874	1,276,097
Mortgage notes	206,219	210,375
Liabilities related to assets held for sale	—	869
Total liabilities	1,779,351	1,763,198
Partners' Capital:		
General Partner:		
OP Units, 938,789 and 923,532 issued and outstanding as of June 30, 2016 and December 31, 2015, respectively	19,367	18,806
Limited Partners:		
OP Units, 92,940,110 and 91,429,694 issued and outstanding as of June 30, 2016 and December 31, 2015, respectively	1,917,345	1,861,809
Accumulated other comprehensive loss	(30,455)	(24,137)
Total partners' capital	1,906,257	1,856,478
Noncontrolling interests	12,498	12,679
Total capital	1,918,755	1,869,157
Total liabilities and capital	\$3,698,106	\$ 3,632,355

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

DCT INDUSTRIAL OPERATING PARTNERSHIP LP AND SUBSIDIARIES
Consolidated Statements of Operations
(unaudited, in thousands, except per unit information)

	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
REVENUES:				