

DCT Industrial Trust Inc.  
Form 10-Q  
May 06, 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 March 31, 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

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Denver, Colorado

(Address of principal executive offices)

(Zip Code)

(303) 597-2400

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

DCT Industrial Operating Partnership LP:

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).

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

As of April 29, 2016, 89,934,880 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 March 31, 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 March 31, 2016, DCT owned approximately 95.6% 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 4.4% of the Operating Partnership were owned by executives and non-affiliated limited partners as of March 31, 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.

DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES

DCT INDUSTRIAL OPERATING PARTNERSHIP LP AND SUBSIDIARIES

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## DCT INDUSTRIAL TRUST INC. AND SUBSIDIARIES

## Consolidated Balance Sheets

(in thousands, except share information)

	March 31, 2016	December 31, 2015
<b>ASSETS</b>	(unaudited)	
Land	\$1,011,483	\$1,009,905
Buildings and improvements	2,991,005	2,886,859
Intangible lease assets	80,921	84,420
Construction in progress	128,700	159,397
Total investment in properties	4,212,109	4,140,581
Less accumulated depreciation and amortization	(775,342 )	(742,980 )
Net investment in properties	3,436,767	3,397,601
Investments in and advances to unconsolidated joint ventures	83,232	82,635
Net investment in real estate	3,519,999	3,480,236
Cash and cash equivalents	14,230	18,412
Restricted cash	63,598	31,187
Straight-line rent and other receivables, net of allowance for doubtful accounts of \$438 and \$335, respectively	67,111	60,357
Other assets, net	15,507	15,964
Assets held for sale	-	26,199
<b>Total assets</b>	<b>\$3,680,445</b>	<b>\$3,632,355</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$96,714	\$108,788
Distributions payable	27,185	26,938
Tenant prepaids and security deposits	28,882	29,663
Other liabilities	31,082	18,398
Intangible lease liabilities, net	21,170	22,070
Line of credit	161,000	70,000
Senior unsecured notes	1,226,498	1,276,097
Mortgage notes	208,776	210,375
Liabilities related to assets held for sale	-	869
<b>Total liabilities</b>	<b>1,801,307</b>	<b>1,763,198</b>
<b>Equity:</b>		
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 88,591,953	886	883



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and 88,313,891 shares issued and outstanding as of March 31, 2016

and December 31, 2015, respectively

Additional paid-in capital	2,773,106	2,766,193
Distributions in excess of earnings	(981,489 )	(992,010 )
Accumulated other comprehensive loss	(27,452 )	(23,082 )
Total stockholders' equity	1,765,051	1,751,984
Noncontrolling interests	114,087	117,173
Total equity	1,879,138	1,869,157
Total liabilities and equity	\$3,680,445	\$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 March 31,	
	2016	2015
<b>REVENUES:</b>		
Rental revenues	\$93,977	\$88,062
Institutional capital management and other fees	393	378
Total revenues	94,370	88,440
<b>OPERATING EXPENSES:</b>		
Rental expenses	10,049	10,148
Real estate taxes	14,601	14,505
Real estate related depreciation and amortization	40,070	38,996
General and administrative	6,262	7,336
Total operating expenses	70,982	70,985
Operating income	23,388	17,455
<b>OTHER INCOME (EXPENSE):</b>		
Equity in earnings of unconsolidated joint ventures, net	884	807
Gain on dispositions of real estate interests	30,097	26,154
Interest expense	(16,422)	(13,904)
Interest and other income (expense)	515	(18)
Income tax expense and other taxes	(116)	(193)
Consolidated net income of DCT Industrial Trust Inc.	38,346	30,301
Net income attributable to noncontrolling interests	(1,955)	(1,556)
Net income attributable to common stockholders	36,391	28,745
Distributed and undistributed earnings allocated to participating securities	(228)	(143)
Adjusted net income attributable to common stockholders	\$36,163	\$28,602
<b>EARNINGS PER COMMON SHARE:</b>		
Basic	\$0.41	\$0.32
Diluted	\$0.41	\$0.32
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:</b>		
Basic	88,384	88,090
Diluted	88,750	88,419
Distributions declared per common share	\$0.29	\$0.28

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 March 31,	
	2016	2015
Consolidated net income of DCT Industrial Trust Inc.	\$38,346	\$30,301
Other comprehensive income (loss):		
Net derivative loss on cash flow hedging instruments	(6,429 )	(513 )
Net reclassification adjustment on cash flow hedging instruments	1,742	1,153
Other comprehensive income (loss)	(4,687 )	640
Comprehensive income	33,659	30,941
Comprehensive income attributable to noncontrolling interests	(1,638 )	(1,511 )
Comprehensive income attributable to common stockholders	\$32,021	\$29,430

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 Shares	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	38,346	-	-	-	36,391	-	1,955
Other comprehensive loss	(4,687 )	-	-	-	-	(4,370 )	(317 )
Issuance of common stock, net of offering costs	2,832	75	1	2,831	-	-	-
Issuance of common stock, stock-based							
compensation plans	(270 )	40	-	(270 )	-	-	-
Amortization of stock-based compensation	1,630	-	-	410	-	-	1,220
Distributions to common stockholders							
and noncontrolling interests	(27,379 )	-	-	-	(25,870 )	-	(1,509 )
Capital contributions from noncontrolling interests	39	-	-	-	-	-	39
Redemptions of noncontrolling interests	(530 )	163	2	3,942	-	-	(4,474 )
Balance at March 31, 2016	\$1,879,138	88,592	\$ 886	\$2,773,106	\$ (981,489 )	\$ (27,452 )	