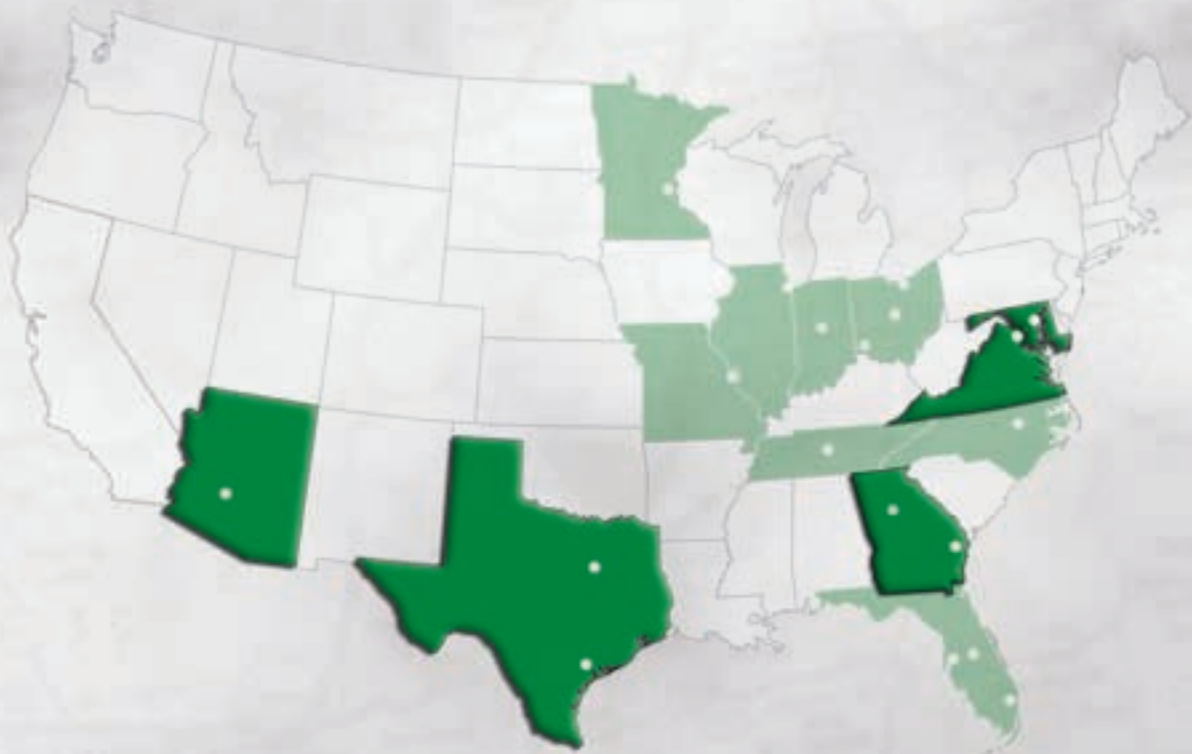




2006 Annual Report



# EXPANSION INTO NEW MARKETS



**Phoenix**  
265 acres of undeveloped land that can support over 4 million square feet

**Savannah**  
5.1 million square feet of bulk industrial that is 100% occupied

**Baltimore**  
Providing 2.8 million square feet and hundreds of jobs when completed

**Houston**  
159,000 square foot office building and 33 acres of undeveloped land with a potential to support 552,000 square feet

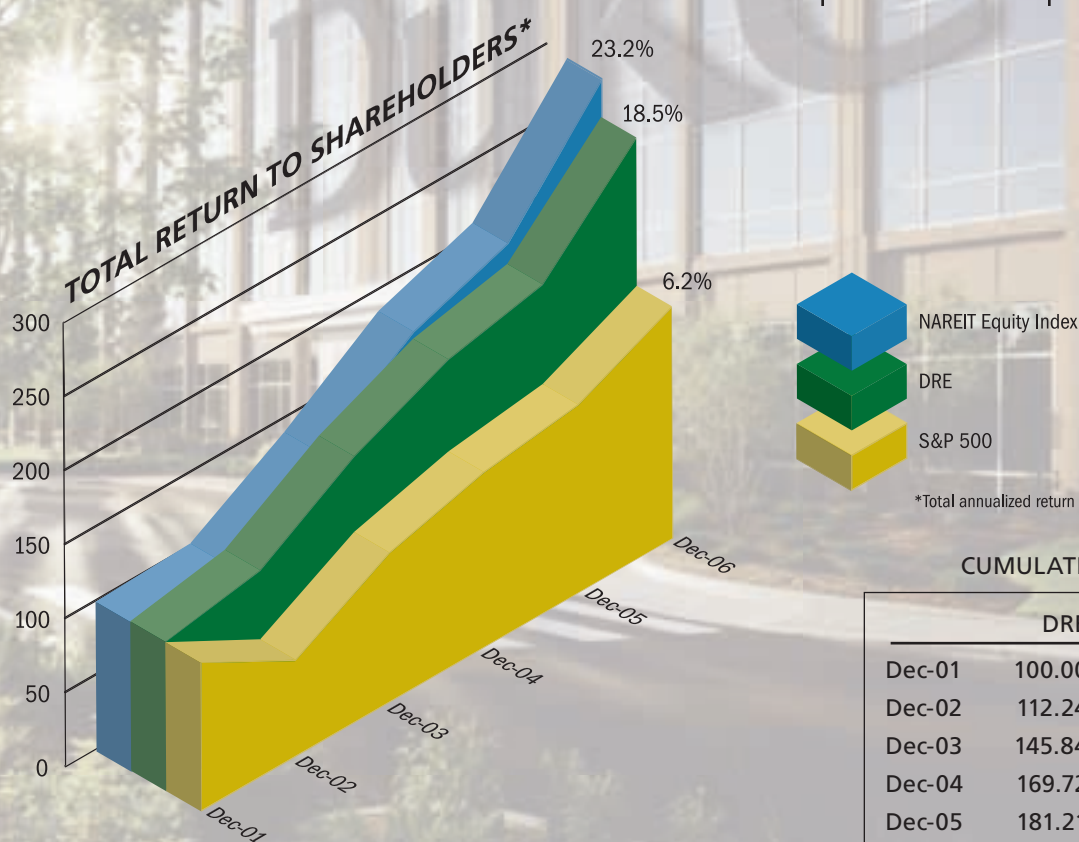
**Suburban Washington, DC**  
3.1 million square feet plus 151 acres of undeveloped land supporting 3.5 million square feet

## Corporate Profile

Duke Realty Corporation is the largest office/industrial real estate investment trust in the United States, with offices in 19 markets, including Atlanta, Chicago, Dallas, Phoenix, and Washington, DC. Duke owns or manages approximately 114 million rentable square feet leased by more than 3,600 tenants. Duke controls more than 6,400 acres of undeveloped land that can support approximately 93 million square feet of future development. Duke's common stock is listed on the New York Stock Exchange under the symbol DRE.

# FINANCIAL HIGHLIGHTS

(in thousands, except per share amounts)	2006	2005	2004
Total revenues from continuing operations	\$ 908,800	\$ 750,548	\$ 674,624
Net income available for common shareholders	145,095	309,183	151,279
Funds from operations – diluted	371,104	373,903	387,258
<b>Per share:</b>			
Diluted net income	\$ 1.07	\$ 2.17	\$ 1.06
Diluted FFO	2.48	2.40	2.47
Dividends paid	1.89	1.87	1.85
FFO Payout Ratio	76.4%	78.1%	75.1%
<b>At year end:</b>			
Total assets	\$ 7,238,595	\$ 5,647,560	\$ 5,896,643
Total shareholders' equity	2,503,583	2,452,798	2,852,869
<b>Senior unsecured debt ratings</b>			
Standard & Poor's	BBB+	BBB+	BBB+
Moody's	Baal	Baal	Baal
Fitch	BBB+	BBB+	BBB+



CUMULATIVE TOTAL RETURN

	DRE	NAREIT	S&P 500
Dec-01	100.00	100.00	100.00
Dec-02	112.24	103.82	77.90
Dec-03	145.84	142.37	100.25
Dec-04	169.72	187.33	111.16
Dec-05	181.21	210.12	116.61
Dec-06	233.36	283.78	135.03



**D**uring 2006, we continued to execute on our strategies, which are designed to drive long-term growth in our funds from operations ("FFO") per share and return on shareholders' equity. These strategies begin with being a full-service developer, our core strength. The next strategy is diversifying our risk by expanding geographically and into additional product types. We also focus on leveraging joint venture relationships from both a development and a property ownership perspective. A final complementary strategy is maintaining our strong balance sheet. These four strategies combine to set us apart from our competitors throughout the country and drive FFO growth in a unique way.

### Financial Performance

Funds from operations for 2006 were \$2.48 per share, compared to \$2.40 per share in 2005, an increase of 3.3%. In addition, return on common shareholders' equity rose from 11.9 % to 13.3% in 2006. We achieved a 28.8% total return for our shareholders and our stock price increased 22.5% from \$33.40 at year-end 2005 to \$40.90 on December 31, 2006.

### Operating Results

Our dedicated leasing team and complete customer satisfaction focus produced great results in 2006. Stabilized in-service properties completed the year at 95.4% occupancy, the highest since the end of 1995. At 96.9% occupancy on 67 million square feet of properties, Duke's bulk industrial portfolio continued to be a strong performer. In addition, our 32 million square foot suburban office portfolio was 92.7% leased at year-end, an increase of 2.9% from December 31, 2005. Overall, we recorded an outstanding 7% increase in same property net operating income for 2006 over 2005 and achieved a 3% growth in net effective rents on our renewals.

With the strong performance in the core portfolio during 2006, we feel confident about continued solid same-property performance, rental rate improvement, and FFO per share growth in 2007.

### Development

Duke has been in the development business since 1972. Our in-house construction management personnel handle the actual construction of our projects. This is unique in our industry and allows us to optimally deliver our properties on time, on budget and at the lowest possible cost. This is particularly important in the times of rapidly rising construction pricing that we have been recently experiencing.

We have significantly increased our development volume over the last two years. During 2005, we started an all-time record of \$740 million of new projects. In 2006 we exceeded that number by more than 35% with over \$1 billion of new development. This development is spread across the country and diversified by product type: 37% suburban office, 32% bulk industrial, 23% retail and 8% healthcare.

The selling of some of our newly developed properties is also a profitable piece of our business. During 2006 we sold \$189 million of the properties and generated an excellent 34% pre-tax profit margin. The properties we choose to sell are generally outside of our core markets or carry yields that do not meet our long-term targets.



**Bob Chapman,**  
Sr. EVP; Head of  
Real Estate Operations

**Denny Oklak,**  
Chairman & CEO

**Matt Cohoat**  
EVP & CFO



## Market/Product Expansion

In 2006, we continued our expansion into other regions of the country in keeping with our strategic plan. Early in the year, we acquired 5.1 million square feet of fully leased bulk distribution properties adjacent to the Port of Savannah in Savannah, Georgia. In addition, we acquired a site consisting of over 180 acres at the Port of Baltimore. When fully redeveloped, this site will support nearly 3 million square feet of bulk industrial property. In February, we expanded into suburban Washington D.C. by acquiring the properties, undeveloped land, and operating companies of the Mark Winkler Company, which consists of nearly three million square feet of suburban office and industrial properties in Northern Virginia. Finally, we opened offices in Houston, Texas and Phoenix, Arizona, two of the largest and fastest growing areas of the country.

Including these new cities, we now have significant operations in eighteen major cities across the country and plan to continue our expansion into other major cities over the next several years. Our goal is to be diversified geographically throughout the U.S. This will allow us to spread our risk across different regions of the country and become less subject to economic variations between regions. It also allows us to provide real estate solutions to our existing national customers in more areas throughout the country.

## Joint Ventures

In order to maximize our development capabilities and our balance sheet capacity, we continued to make strategic use of joint ventures in 2006. We formed joint ventures in Indianapolis, Indiana and Columbus, Ohio with two different partners to develop approximately 20 million square feet of bulk distribution facilities in each city. We also teamed up with other developers to enhance our product mix capabilities. In December, we announced the acquisition of our partner, Bremner Healthcare Real Estate in order to expand our healthcare development opportunities. Additionally, we are in the process of developing two lifestyle centers in our retail joint venture. Finally, in late 2006 we formed a long-term venture with Eaton Vance on our suburban Washington, D.C. portfolio that allowed us to free up capital to invest in new

development while continuing to manage and lease the properties.

## Financial Strength

We pride ourselves on maintaining a capital structure that is conservative enough to provide the long-term stability of our company yet aggressive enough to maximize our return on shareholders equity. We maintain investment grade debt ratings of BBB+ / Baa1. This allows us quick access to capital to fund the growth of our business. During 2006, we completed over \$4 billion of debt and equity transactions and continued to lower our cost of capital.

## Conclusion

Our strategic initiatives in 2006 have placed us in a position to allow for the long-term growth in our earnings. We are pleased with the progress we made last year. In 2007, we will continue to expand geographically, expand our development pipeline, and pursue new initiatives to continue our growth.

I would like to take this opportunity to thank our outstanding associates for all of their hard work in executing on our strategies. I also thank our Board of Directors for their continued support and guidance. I particularly want to recognize John Nelley, who stepped down from our Board of Directors and as Managing Director of our Nashville Operations during 2006. Thank you, John, for all you have done for Duke Realty Corporation.

I also thank you as shareholders for all of your confidence in our team. We look forward to a successful and rewarding 2007.



Dennis D. Oklak  
Chairman & CEO

Indianapolis, IN  
March 7, 2007



Four key strategies combined in 2006 to move Duke Realty Corporation ahead of the competition and enhance shareholder value. We capitalized on our strength as a full-service, vertically integrated developer with a record \$1 billion in development starts in dynamic markets across the United States. We executed key growth strategies that will capitalize on two rapidly growing sectors of the U.S. economy; healthcare and port activity. We maximized opportunities with joint venture partners to free up capital for further investment. And, we actively managed our balance sheet to reduce funding costs and increase flexibility.

### Development Starts Fuel Expansion

Duke's strength as a full-service, vertically integrated developer helped us build strong relationships with customers in all 18 of our core markets in 2006. Our approach leads the customer on a seamless path from site selection through construction, leasing, property management, and renewal. The customer works with one team to complete the project, not numerous unrelated people across unrelated companies, creating efficiency and peace of mind for the customer. For Duke, owning both the land and the in-house construction company generates greater returns on our investment in the project. We are also able to use this platform to develop properties that we intend to lease and hold, adding to our rental income.

**\$1 billion in  
development  
starts: a record**

### Phoenix, Houston, Baltimore: Exciting Expansion into New Markets

Our growth in 2006 was particularly exciting because it highlighted our entry into three strong new markets: Phoenix, Houston, and Baltimore. Our approach to these markets is to have in-house local expertise that

understands the market, locate the best land positions and build relationships with the best local contacts: we support the

local offices with Duke's systems and capital resources. Although we are a national developer, we believe that real estate is a local business that is best directed by persons with experience in the markets in which they operate.



***This 755,000 square foot warehouse is the largest speculative development ever built in the Dallas market.***

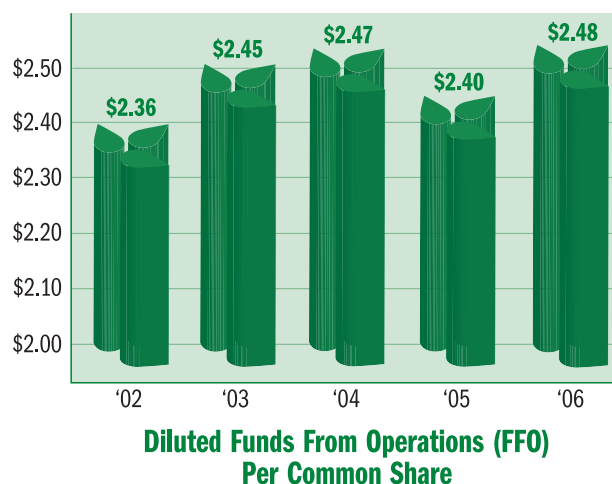
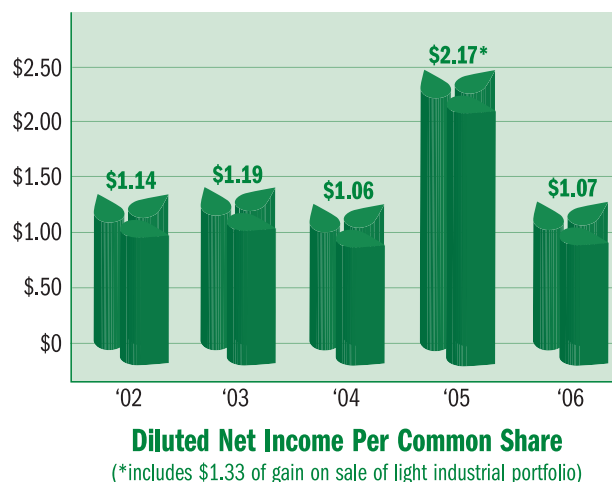
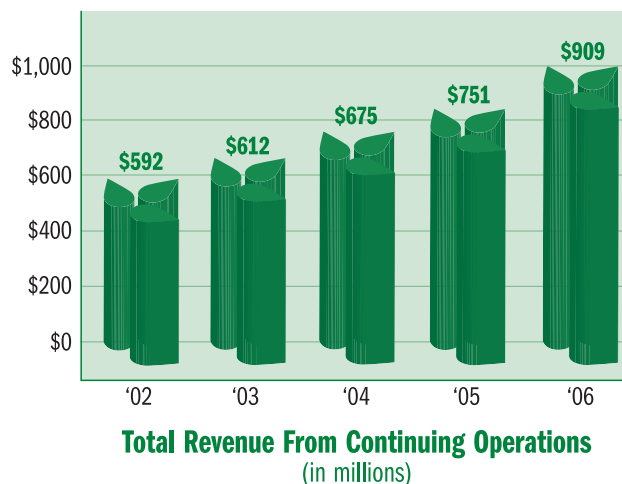
*Grand Lakes Distribution Facility, Dallas*



In Phoenix, we acquired 265 acres of land in a key location southwest of downtown Phoenix that can support over 4 million square feet of future bulk industrial development. Our plans for 2007 include commencing the first development on this land as well as acquiring other key land positions suitable for office development.

In Houston, we began construction of Sam Houston Crossing, a 159,000 square foot office building, the first development in this office park. This park will support the future development of approximately 552,000 square feet of office product. We also obtained industrial park land positions that have the potential to support nearly 1.5 million square feet of future development. We began our first bulk industrial project at this park, a 263,000 square foot building.

Our acquisition of the former General Motors factory in Baltimore proceeded as planned in 2006. Demolition of the nearly 3 million square foot complex is near completion, and work is under way to transform this mainstay of the community into a symbol of urban rebirth. When fully redeveloped, this new portside logistics facility will provide 2.8 million square feet of bulk industrial development and hundreds of jobs.





### Established Markets: Strategic Growth for National Tenants

Development in our established markets also served as a catalyst for growth in 2006. We began new development projects in all of our established markets, across all product lines. We were also able to increase our held-for-sale developments, which are properties developed with the intent to sell upon completion and stabilization. These buildings are typically 100 percent pre-leased to a single tenant with high-grade credit and a long-term lease in place. With lower development risk and the ability to create significant value upon disposal, we will continue to pursue these building opportunities as part of our value creation strategy.

Our National Group has several significant built-to-suit projects currently under construction for customers in cities where we do not have offices. Among these projects were corporate headquarters for HealthNow in Buffalo, New York. This landmark building incorporates healthier and environmentally

## Duke has the ability to build a wide variety of buildings across the entire country.

sensitive features while preserving the architectural character of Historic Buffalo, New York; a 500,000 square foot warehouse for Case New Holland near Kansas City, Missouri; and a 515,000 square foot distribution center for Procter & Gamble in West Branch, Iowa. These projects

illustrate Duke's ability to build a wide variety of buildings across the entire country.



***Strategically located in Park 55, this building consists of nearly 806,000 square feet and was 100% leased to Kimberly Clark upon completion.***

*Distribution Center, Park 55, Chicago*

Anson, our 1,700-acre live-work-play community under development in a rapidly growing area north of Indianapolis, is proceeding as planned. Major infrastructure improvements are complete. Outlots have been sold to major regional and national retail and service providers, bulk distribution development and multifamily housing projects are under construction and contracts





*Citicorp North America, Inc.  
The Landings, Cincinnati  
Citicorp secured over 194,000  
square feet in two buildings  
in Duke's new Landings office  
park in suburban  
Blue Ash.*



*BMW Financial Services, Columbus, OH  
This facility replaces an existing office building  
that Duke constructed for a longtime client after  
they outgrew their previous facility.*





*Adena Health Systems, Chillicothe, OH  
Part of the Adena campus, our BremnerDuke Healthcare Real  
Estate Division completed this 73,000 square foot medical office  
building in the spring of 2006.*



are executed for single-family residential development.

Look for Duke to expand into additional growing regions of the United States in 2007 and beyond. Plans are under way to broaden our presence in the West and Southwest, where logistics, transportation, and the businesses that support them are expanding rapidly.

### Sector Growth Strategy

During the past year, we capitalized on two rapidly growing sectors in the American economy to add further strength to our franchise.

### Bremner Healthcare Real Estate Acquired

By 2010, annual health care expenditures in the United States are expected to exceed

**By 2010, annual health care expenditures in the United States are expected to exceed \$33 billion, a 50% increase over 2002.**

\$33 billion, a 50% increase over 2002.

Almost 35% of these expenditures will be for outpatient facilities such as medical office buildings, surgery centers, and clinics.

To take advantage of this significant trend, we announced in December the acquisition of Bremner Healthcare Real Estate, a national healthcare development and management firm. We also announced the acquisition of Bremner's remaining 50% interest in the healthcare properties owned by a joint venture formed by Duke and

Bremner Healthcare in 2004. This new division will be known as BremnerDuke Healthcare Real Estate.

BremnerDuke Healthcare specializes in the development of medical office buildings with hospital-grade uses; specialty hospitals; and long-term, acute care rehabilitation facilities. Our client list includes the leading hospitals and



*Edward Medical Office Building, Chicago*  
**This 57,000 square foot medical office building developed by our BremnerDuke Division includes a cancer center, occupational and physical therapy services, and a multi-specialty group.**





university medical centers across the country, including the largest not-for-profit hospital system in the country. Bremner's expertise and national client network, coupled with Duke's strong capital base, will enhance our long-term growth. This acquisition will accelerate our growth in this rapidly growing arena.

#### **Port and Intermodal Strategy Enhanced**

The transformation of the logistics industry presented the second sector for growth in 2006. As Asian imports climb dramatically – from 48 million tons in 1994 to over 64 million tons in 2004 – and West Coast ports suffer from labor disputes and overcrowding, shippers are turning to Southern and Eastern ports and to inland ports, especially those with intermodal capabilities.

Recognizing these trends, we entered the Savannah market early in 2006 through the acquisition of 5.1 million square feet of bulk industrial warehouse space adjacent to the Port of Savannah. This space has remained 100% occupied throughout the year and provides Duke control of 25% of the bulk distribution market in this busy port city.



*Courtesy of Russ Bryant-Georgia Ports Authority*

*Port of Savannah*

*Our acquisition of 5.1 million square feet of bulk industrial warehouse space adjacent to the Port of Savannah gives us control of 25% of the warehouse distribution space in this busy international port.*

To further capitalize on the increased amount of inland port business, we have also acquired strategic land positions adjacent to new intermodal facilities. In Dallas, we completed a 625,000 square foot distribution center located within a half mile of a new Union Pacific railroad intermodal yard. In Columbus, we have 1,100 acres of land under control in and around a 300-acre intermodal yard that is being developed by the Norfolk Southern railway company. In 2007, we expect to continue to build on this area of our business by executing on opportunities in both our existing markets, as well as in new markets throughout the U.S.

**To capitalize on inland port trends, we have acquired strategic land positions adjacent to new intermodal facilities.**



*Millenia Lakes II, Orlando*

*Completed late in 2006 and nearly fully leased, Millenia Lakes II is part of a three-building complex located just south of Downtown Orlando and minutes from the airport.*





*Simon Property Group World Headquarters, Indianapolis*  
*This 14-story office building is the latest addition to Indianapolis' downtown skyline. The structure incorporates an existing urban landscape and preserves a downtown park. Duke acted as general construction contractor on this Simon owned property.*





*Mark Center in suburban Alexandria, VA includes this 12-story building, which offers attached parking and a 10-minute ride to Reagan National Airport.*



*2001 N. Beauregard, Washington, DC*

### **Joint Ventures Fortify Market Presence, Increase Flexibility**

Again in 2006, we used joint ventures to expand our footprint while freeing capital to redeploy in higher yielding investments. In 2006, we announced the acquisition of the

commercial operations of The Mark Winkler Company in the Northern Virginia suburbs of Washington, D.C. This portfolio consists of 2.9 million square feet of 32 suburban office and light industrial buildings, plus 166 acres of undeveloped land supporting 3.7 million square feet of additional development as well as an in-place operating team of nearly one hundred associates.

We achieved our goal of finding a joint venture partner for these assets in December 2006, when we announced an agreement with Eaton Vance Management, a wholly owned subsidiary of Eaton Vance Corporation. The joint venture consists of the existing properties we acquired from Winkler, with a valuation of \$680 million. The properties will be leveraged with debt equal to approximately 70% of their value. Duke retains 30% ownership of the joint venture for a 20-

year term, and will earn market-rate management, leasing, and asset-management fees. We retained ownership and control over undeveloped land and future developments, which provides further income opportunities.

*Our office park near Dulles Airport features this 80,000 square foot building and offers flexible zoning on remaining land for both office and R&D opportunities.*



*Liberty Center, Washington, DC*



Also in 2006, we formed joint ventures with entities in Indianapolis and Columbus, Ohio to develop strategically located logistics facilities. The joint venture in Indianapolis is developing AllPoints Midwest and AllPoints at Anson. Each project will serve as a single source for developing, constructing, owning, leasing and managing distribution and logistics facilities in two of the fastest-growing and most sought-after areas in Central Indiana. AllPoints at Anson and AllPoints Midwest have the potential to support combined future development of 20 million square feet, creating thousands of jobs and adding millions of dollars to the local economy.

Rickenbacker Global Logistics Park is a master-planned 1,100-acre logistics park capable of handling 20 million square feet of development. Its central location in Columbus gives companies a competitive advantage by providing access to the global marketplace.

## ...we used joint ventures to expand our footprint while freeing capital to redeploy in higher yielding investments

When completed, it will include an advanced international air cargo airport, a rail intermodal facility, U.S. Foreign Trade Zone status, and a distribution hub that ensures efficient movement of goods anywhere throughout the U.S.

Our joint venture partners helped us grow on the retail front as well in 2006.

Lifestyle centers in Scranton, Pennsylvania and Pembroke Pines, Florida, located in growing Broward County, are two key examples of our strategy in the retail development business. In this partnership, Duke contributes its construction services and capital availability, while our joint venture partner handles leasing and marketing.



***This custom-built facility in our Camp Creek Business Center consists of 400,000 square feet and features a 32' clear ceiling height.***

*Hartsfield Warehouse, Atlanta*





*Rickenbacker Distribution Facility, Columbus, OH*  
*The flagship of our growth into the global logistics industry,*  
*Rickenbacker offers the latest innovations in bay spacing,*  
*clear height ceilings, and fire protection systems.*





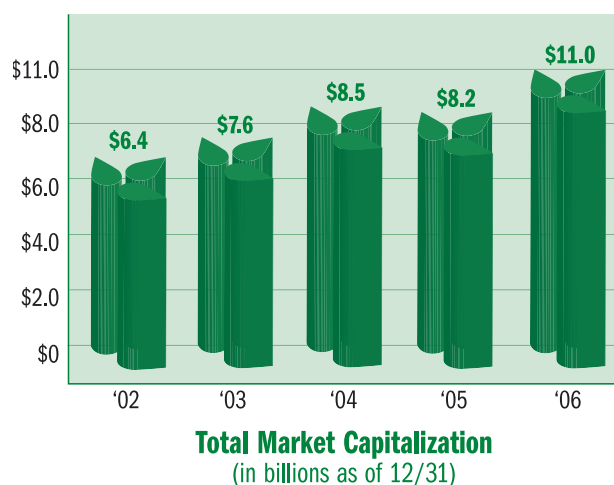
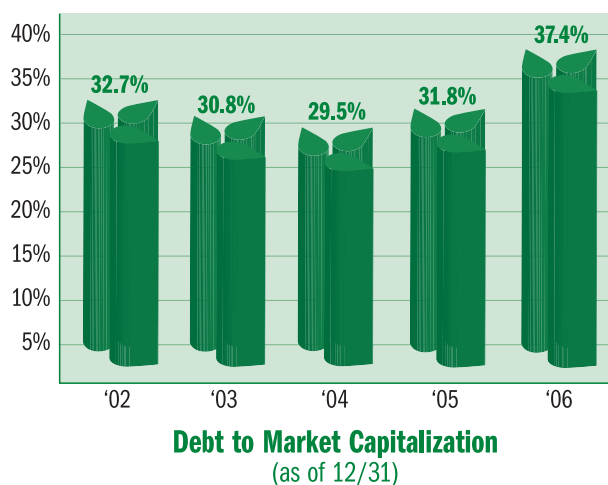
## Balance Sheet Management

### Increases Options

Strategic management of Duke's balance sheet throughout 2006 enabled us to leverage the company and achieve the growth we have described in this report. We increased an existing revolving line of credit to \$1 billion from \$500 million and lowered the rate by 7.5 basis points to 30-day LIBOR plus 52.5 basis points. This enables us to fund future growth at lower costs. In February 2006, we replaced \$75 million in preferred stock with

a new series of preferred stock that lowered our funding costs by 150 basis points. We funded the Winkler acquisition with a \$700 million term loan, which we later replaced with unsecured debt at very favorable rates. In November 2006, we executed a \$575 million convertible debt transaction with a 3.75% coupon rate. We expect that this transaction will increase FFO by about \$.04 per year for the next five years beginning in 2007. Acquisitions and dispositions of land and older, non-value

adding properties continued to play a strategic role in the management of our balance sheet in 2006.



### A Look Ahead

Duke Realty Corporation is ideally positioned as a vertically integrated provider of industrial, office, healthcare, and retail solutions for growing businesses in growing markets. We begin 2007 with a balance sheet that supports expansion, a team of experts that understands local markets, and new products that capitalize on national trends. We believe that the future is bright for Duke Realty Corporation.



The following sets forth selected financial and operating information on a historical basis for each of the years in the five-year period ended December 31, 2006. The following information should be read in conjunction with Item 7, “Management’s Discussion and

Analysis of Financial Condition and Results of Operations” and Item 8, “Financial Statements and Supplementary Data” included in this Form 10-K (in thousands, except per share amounts):

	2006	2005	2004	2003	2002
<b>Results of Operations:</b>					
Revenues:					
Rental Operations from Continuing Operations	\$818,675	\$668,607	\$603,821	\$552,761	\$523,200
Service Operations from Continuing Operations	90,125	81,941	70,803	59,456	68,580
<b>Total Revenues from Continuing Operations</b>	<b>\$908,800</b>	<b>\$750,548</b>	<b>\$674,624</b>	<b>\$612,217</b>	<b>\$591,780</b>
<b>Income from Continuing Operations</b>	<b>\$153,585</b>	<b>\$135,455</b>	<b>\$136,240</b>	<b>\$144,386</b>	<b>\$168,921</b>
<b>Net Income Available for common shareholders</b>	<b>\$145,095</b>	<b>\$309,183</b>	<b>\$151,279</b>	<b>\$161,911</b>	<b>\$153,969</b>
<b>Per Share Data:</b>					
Basic income per common share:					
Continuing operations	\$0.70	\$0.63	\$0.70	\$0.79	\$0.86
Discontinued operations	0.38	1.56	0.37	0.40	0.29
Diluted income per common share:					
Continuing operations	0.70	0.62	0.69	0.79	0.86
Discontinued operations	0.37	1.55	0.37	0.40	0.28
Dividends paid per common share	1.89	1.87	1.85	1.83	1.81
Dividends paid per common share – special	—	1.05	—	—	—
Weighted average common shares outstanding	134,883	141,508	141,379	135,595	133,981
Weighted average common shares and potential dilutive common equivalents	149,393	155,877	157,062	151,141	150,839
<b>Balance Sheet Data (at December 31):</b>					
Total Assets	\$7,238,595	\$5,647,560	\$5,896,643	\$5,561,249	\$5,348,823
Total Debt (1)	4,109,154	2,600,651	2,518,704	2,335,536	2,106,285
Total Preferred Equity	876,250	657,250	657,250	540,508	440,889
Total Shareholders’ Equity	2,503,583	2,452,798	2,825,869	2,666,749	2,617,336
Total Common Shares Outstanding	133,921	134,697	142,894	136,594	135,007
<b>Other Data:</b>					
Funds From Operations (2)	\$338,008	\$341,189	\$352,469	\$335,989	\$321,886

(1) Includes \$147,309 of secured debt classified as liabilities of properties held for sale at December 31, 2006.

(2) Funds From Operations (“FFO”) is used by industry analysts and investors as a supplemental operating performance measure of an equity real estate investment trust (“REIT”) like Duke. FFO is calculated in accordance with the definition that was adopted by the Board of Governors of the National Association of Real Estate Investment Trusts (“NAREIT”). NAREIT created FFO as a supplemental measure of REIT operating performance that excludes historical cost depreciation, among other items, from net income determined in accordance with United States generally accepted accounting principles (“GAAP”). FFO is a non-GAAP financial measure developed by NAREIT to compare the operating performance of REITs. The most comparable GAAP measure is net income (loss). FFO should not be considered as a substitute for net income or any other measures derived in accordance with GAAP and may not be comparable to other similarly titled measures of other companies.

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

Management believes that the use of FFO, combined with the required primary GAAP presentations, has improved the understanding of operating results of REITs among the investing public and has made comparisons of REIT operating results more meaningful. Management considers FFO to be a useful measure for reviewing comparative operating and financial performance (although FFO should be reviewed in conjunction with net income which remains the primary measure of performance) because, by excluding gains or losses related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization, FFO assists in comparing the operating performance of our real estate between periods or as compared to different companies.

See reconciliation of FFO to GAAP net income under Year in Review section of Management’s Discussion and Analysis of Financial Condition and Results of Operations.



## Cautionary Statement Regarding Forward Looking Statements

Certain statements contained in or incorporated by reference into this Report, including, without limitation, those related to our future operations, constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act, and Section 21E of the Exchange Act. The words "believe," "estimate," "expect," "anticipate," "intend," "plan," "seek," "may," and similar expressions or statements regarding future periods are intended to identify forward-looking statements.

These forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements, or industry results, to differ materially from any predictions of future results, performance or achievements that we express or imply in this Report or in the information incorporated by reference into this Report. Some of the risks, uncertainties and other important factors that may affect future results include, among others:

- Changes in general economic and business conditions, including performance of financial markets;
- Our continued qualification as a REIT;
- Heightened competition for tenants and potential decreases in property occupancy;
- Potential increases in real estate construction costs;
- Potential changes in the financial markets and interest rates;
- Our continuing ability to favorably raise funds through the issuance of debt and equity in the capital markets;
- Our ability to successfully identify, acquire, develop and/or manage properties on terms that are favorable to us;
- Our ability to successfully dispose of properties on terms that are favorable to us;
- Inherent risks in the real estate business including tenant defaults, potential liability relating to environmental matters and liquidity of real estate investments; and
- Other risks and uncertainties described or incorporated by reference herein,

including, without limitation, those risks and uncertainties discussed from time to time in our other reports and other public filings with the SEC.

This list of risks and uncertainties, however, is only a summary of some of the most important factors and is not intended to be exhaustive. Although we presently believe that the plans, expectations and results expressed in or suggested by the forward-looking statements are reasonable at the time they were made, all forward-looking statements are inherently uncertain, and subject to change, as they involve substantial risks and uncertainties beyond our control. New factors emerge from time to time, and it is not possible for us to predict the nature, or assess the potential impact, of each new factor on our business. Given these uncertainties, we caution you not to place undue reliance on these forward-looking statements. We undertake no obligation to update or revise any of our forward-looking statements for events or circumstances that arise after the statement is made, except as required by law.

## Business Overview

We are a self-administered and self-managed REIT that began operations through a related entity in 1972. As of December 31, 2006, we:

- Owned or jointly controlled 721 industrial, office and retail properties (including properties under development), consisting of approximately 113.8 million square feet; and
- Owned or jointly controlled more than 6,400 acres of unencumbered land with an estimated future development potential of more than 93 million square feet of industrial, office and retail properties.

We provide the following services for our properties and for certain properties owned by third parties and joint ventures:

- Property leasing;
- Property management;
- Construction;
- Development; and
- Other tenant-related services.

## Management Philosophy and Priorities

Our key business and financial strategies for the future include the following:





- Our business objective is to increase Funds From Operations ("FFO") by (i) maintaining and increasing property occupancy and rental rates through the management of our portfolio of existing properties; (ii) developing and acquiring new properties for rental operations in our existing markets; (iii) expanding geographically by acquiring and developing properties in new markets; (iv) using our construction expertise to act as a general contractor in our existing markets and other domestic markets on a fee basis; (v) developing and repositioning properties in our existing markets and other markets which we will sell through our Service Operations property sale program; and (vi) providing a full line of real estate services to our tenants and to third parties.

See the Year in Review section below for further explanation and definition of FFO.

- Our financing strategy is to actively manage the components of our capital structure including common and preferred equity and debt to maintain a conservatively leveraged balance sheet and investment grade ratings from our credit rating agencies. This strategy provides us with the financial flexibility to fund both development and acquisition opportunities. We seek to maintain a well-balanced, conservative and flexible capital structure by: (i) extending and sequencing the maturity dates of debt; (ii) borrowing primarily at fixed rates by targeting a variable rate component of total debt less than 20%; (iii) pursuing current and future long-term debt financings and refinancing generally on an unsecured basis; (iv) maintaining conservative debt service and fixed charge coverage ratios; and (v) issuing attractively priced perpetual preferred stock for 5-10% of our total capital structure.

## Year in Review

During 2006, we successfully executed on our strategy that we began in earnest in 2005 to improve our portfolio of held for investment buildings through our capital recycling program, increasing our development pipeline to over \$1.2 billion, and initiating geographic expansion that we anticipate will provide future earnings growth. As a result of these accomplishments, we achieved steady operating results while maintaining a strong balance sheet.

Net income available for common shareholders for the year ended December 31, 2006, was

\$145.1 million, or \$1.07 per share (diluted), compared to net income of \$309.2 million, or \$2.17 per share (diluted) for the year ended 2005. The decrease is primarily attributable to the \$201.5 million gain from the sale of a portfolio of 212 real estate properties (the "Industrial Portfolio Sale") that occurred in 2005 which was partially offset by income generated by current year building sales, acquired properties and organic growth. Through increased leasing activity, we achieved a growth in rental revenues from continuing operations in 2006 over 2005 as our in-service portfolio occupancy increased from 92.7% at the end of 2005 to 92.9% at the end of 2006.

As an important performance metric for us as a real estate company, FFO available to common shareholders totaled \$338.0 million for the year ended December 31, 2006, compared to \$341.2 million for the same period in 2005 which is the result of the time necessary to redeploy the proceeds from the Industrial Portfolio Sale noted above into FFO generating assets. Industry analysts and investors use FFO as a supplemental operating performance measure of an equity real estate investment trust ("REIT"). FFO is calculated in accordance with the definition that was adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"). FFO, as defined by NAREIT, represents net income (loss) determined in accordance with accounting principles generally accepted in the United States of America ("GAAP"), excluding extraordinary items as defined under GAAP and gains or losses from sales of previously depreciated operating real estate assets, plus certain non-cash items such as real estate asset depreciation and amortization, and after similar adjustments for unconsolidated partnerships and joint ventures.

Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry investors and analysts have considered presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Thus, NAREIT created FFO as a supplemental measure of REIT operating performance that excludes historical cost depreciation, among other items, from GAAP net income. Management believes that the use of FFO, combined with the required primary GAAP presentations,



improves the understanding of operating results of REITs among the investing public and makes comparisons of REIT operating results more meaningful. Management considers FFO to be a useful measure for reviewing comparative operating and financial performance (although FFO should be reviewed in conjunction with net income which remains the primary measure of performance) because by excluding gains or

losses related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization, FFO assists in comparing the operating performance of a company's real estate between periods or as compared to different companies.

The following table summarizes the calculation of FFO for the years ended December 31 (in thousands):

	2006	2005	2004
Net income available for common shareholders	<b>\$145,095</b>	\$309,183	\$151,279
Adjustments:			
Depreciation and amortization	<b>254,268</b>	254,170	228,582
Company share of joint venture depreciation and amortization	<b>18,394</b>	19,510	18,901
Earnings from depreciable property sales – wholly owned	<b>(42,089)</b>	(227,513)	(26,510)
Earnings from depreciable property sales – share of joint venture	<b>(18,802)</b>	(11,096)	—
Minority interest share of adjustments	<b>(18,858)</b>	(3,065)	(19,783)
Funds From Operations	<b>\$338,008</b>	\$341,189	\$352,469

Throughout 2006, we continued to maintain a conservative balance sheet and investment grade debt ratings from Moody's (Baa1), Standard & Poor's (BBB+) and Fitch (BBB+). Our debt to total market capitalization ratio (total market capitalization is defined as the total market value of all outstanding common and preferred shares and units of limited partner interest in our operating partnership plus outstanding indebtedness) of 37.4% at December 31, 2006 compared to 31.8% at December 31, 2005 continues to provide us financial flexibility to fund new investments.

Highlights of our debt financing activity in 2006 are as follows:

- In January 2006, we renewed our line of credit, including the extension of the maturity date to January 2010 and the increase of borrowing capacity by \$500.0 million to \$1.0 billion with interest rates ranging from LIBOR +.17% to LIBOR +.525% as of December 31, 2006.
- We had \$317.0 million outstanding on our line of credit as of December 31, 2006.
- Through new issuances, as well as assumptions of debt in conjunction with our 2006 acquisitions, we added \$540.6 million of new secured debt in 2006 at a weighted average interest rate of 6.09% and we retired \$40.6 million of secured debt of which \$25.0 million was variable rate.

- We issued \$854.5 million of unsecured debt at a weighted average interest rate of 4.97% and retired \$350.0 million of unsecured debt with a weighted average interest rate of 6.05%.
- We issued \$575.0 million of 3.75% Exchangeable Senior Notes ("Exchangeable Notes") in November 2006. The Exchangeable Notes can be exchanged for shares of our common stock upon certain events as well as at any time beginning on August 1, 2011 and ending on the second business day prior to the maturity date. The Exchangeable Notes will have an initial exchange rate of approximately 20.4298 common shares per \$1,000 principal amount of the notes, representing an exchange price of approximately \$48.95 per share of our common stock and an exchange premium of approximately 20.0% based on the last reported sale price of \$40.79 per share of our common stock on the date of issuance. The initial exchange rate is subject to adjustment under certain circumstances, including increases in our rate of dividends. Upon exchange, the holders of the Exchangeable Notes would receive cash equal to the principal amount of the note and, at our option, either cash or shares of common stock for the remaining balance due.

In order to reduce potential dilution of our common stock, we purchased a



capped call option with the proceeds of the Exchangeable Notes offering that allows us to buy our common shares, up to a maximum of approximately 11.7 million shares of our common stock, from the option counterparties at prescribed prices. The capped call option will terminate upon the earlier of the maturity date of the related Exchangeable Notes or the first day all of the related Exchangeable Notes are no longer outstanding due to exchange or otherwise. The capped call option, which cost \$27.0 million, was recorded as a reduction of shareholders' equity and effectively increased the exchange price to 40% above the stock price on the issuance date.

On the equity side of our balance sheet, we repurchased approximately 2.2 million common shares for approximately \$89.4 million from the proceeds of our Exchangeable Notes issuance. Additionally, we issued two new series of preferred equity securities, 6.95% Series M Cumulative Redeemable Preferred Shares and 7.25% Series N Cumulative Redeemable Preferred Shares, for total gross proceeds of \$294.0 million while we redeemed our 8.45% Series I Cumulative Redeemable Preferred Shares of \$75.0 million.

We continued strategic initiatives to expand geographically and projects to leverage our development, construction and management capabilities as follows:

- We completed the acquisition of a Washington D.C. metropolitan area portfolio of 32 suburban in-service office and light industrial properties, the assets of a related real estate management company, as well as significant undeveloped land positions (all referred to as the "Mark Winkler Portfolio") for a purchase price of approximately \$867.6 million. In December 2006, we contributed 23 of the in-service properties to joint ventures in which we hold a 30% continuing interest. We will contribute eight in-service properties to the joint ventures in the first quarter of 2007.
- We completed the purchase of a portfolio of industrial real estate properties in Savannah, Georgia consisting of 18 buildings for a purchase price of approximately \$196.2 million.
- We increased our investment in undeveloped land to provide greater opportunities to

use our development and construction expertise in the improving economic cycle. Throughout 2006, we completed land acquisitions totaling \$436.7 million. The new land positions include industrial, office and retail positions in several markets, including the Washington D.C., Baltimore, Houston, and Phoenix markets, which we entered during 2006.

- We disposed of 19 non-strategic wholly owned held for rental properties, most notably our entire Cleveland industrial portfolio, for \$139.9 million of gross proceeds. Additionally, unconsolidated subsidiaries disposed of 22 non-strategic held for rental properties of which our share of the gross proceeds totaled \$91.9 million. These transactions were a continuation of our long-term strategy of recycling assets into higher yielding new developments.
- Finally, we will continue to develop long-term investment assets to be held in our portfolio and develop assets to be sold upon completion. With over \$1.2 billion in our development pipeline at December 31, 2006, we are encouraged about the long-term growth opportunities in our business.

### Key Performance Indicators

Our operating results depend primarily upon rental income from our office and industrial properties ("Rental Operations"). The following highlights the areas of Rental Operations that we consider critical for future revenue growth. (All square footage totals and occupancy percentages reflect both wholly-owned properties and properties in joint ventures.)





**Occupancy Analysis:** As discussed above, our ability to maintain occupancy rates is a principal driver of our results of operations. The following table sets forth occupancy information regarding our in-service portfolio of rental properties as of December 31 (in thousands, except percentage data):

Type	Total Square Feet		Percent of Total Square Feet		Percent Occupied	
	2006	2005	2006	2005	2006	2005
Industrial						
Service Centers	4,562	4,724	4.2%	4.8%	91.6%	91.7%
Bulk	71,743	62,377	65.6%	63.8%	93.2%	94.3%
Office	32,377	30,123	29.6%	30.8%	92.2%	89.3%
Other	611	611	0.6%	0.6%	99.1%	96.0%
<b>Total</b>	<b>109,293</b>	<b>97,835</b>	<b>100.0%</b>	<b>100.0%</b>	<b>92.9%</b>	<b>92.7%</b>

in-service portfolio lease expiration schedule by property type as of December 31, 2006. The table indicates square footage and annualized net effective rents (based on December 2006 rental revenue) under expiring leases (in thousands, except percentage data):

Year of Expiration	Total Portfolio			Industrial		Office		Other	
	Square Feet	Ann. Rent Revenue	% of Revenue	Square Feet	Ann. Rent Revenue	Square Feet	Ann. Rent Revenue	Square Feet	Ann. Rent Revenue
2007	10,107	\$59,430	8%	7,819	\$29,949	2,279	\$29,358	9	\$123
2008	14,050	83,872	12%	10,665	41,892	3,366	41,645	19	335
2009	12,649	80,767	12%	9,190	36,105	3,455	44,584	4	78
2010	12,131	95,888	14%	7,714	33,852	4,410	61,931	7	105
2011	13,516	86,772	12%	9,911	38,246	3,565	47,803	40	723
2012	8,898	61,373	9%	5,928	21,701	2,963	39,339	7	333
2013	6,809	62,422	9%	3,568	15,043	3,207	46,800	34	579
2014	5,301	30,841	4%	4,011	13,815	1,290	17,026	—	—
2015	6,890	53,697	8%	4,736	18,778	2,154	34,919	—	—
2016	3,743	25,029	4%	2,690	9,562	879	13,795	174	1,672
2017 and Thereafter	7,399	56,894	8%	4,821	20,336	2,268	34,931	310	1,627
	<b>101,493</b>	<b>\$696,985</b>	<b>100%</b>	<b>71,053</b>	<b>\$279,279</b>	<b>29,836</b>	<b>\$412,131</b>	<b>604</b>	<b>\$5,575</b>
Total Portfolio Square Feet	<b>109,293</b>			<b>76,305</b>		<b>32,377</b>		<b>611</b>	
Percent Occupied	<b>92.9%</b>			<b>93.1%</b>		<b>92.2%</b>		<b>99.1%</b>	

presently expect this renewal percentage in 2007 to differ from that experienced in 2006.

**Future Development:** Another source of growth in earnings is the development of additional properties. These properties should provide future earnings through income upon sale or from Rental Operations growth as they are placed in service. We had 10.6 million square

We experienced continued strong occupancy in our in-service portfolio with the overall increase driven primarily by a 3.1% increase in the occupancy of our office portfolio.

**Lease Expiration and Renewals:** Our ability to maintain and grow occupancy rates primarily depends upon our continuing ability to re-lease expiring space. The following table reflects our

We renewed 79.9% and 74.3% of our leases up for renewal totaling approximately 7.5 million and 10.0 million square feet in 2006 and 2005, respectively. Our lease renewal percentages over the past three years have remained relatively consistent at a 70-80% success rate. We do not

feet of property under development with total estimated costs of \$1.1 billion at December 31, 2006, compared to 9.0 million square feet and total costs of \$658.7 million at December 31, 2005. We have increased our development pipeline significantly through 2006 and will continue to focus on the development side of our business in 2007.



The following table summarizes our properties under development as of December 31, 2006 (in thousands, except percentage data):

**Acquisition and Disposition Activity:** We continued to selectively dispose of non-strategic properties in 2006. Sales proceeds related to the dispositions of wholly owned held for rental properties were \$139.9 million, which

Anticipated In-Service Date	Square Feet	Percent Leased	Project Costs	Anticipated Stabilized Return
Held for Rental:				
1st Quarter 2007	1,064	19%	\$116,135	9.60%
2nd Quarter 2007	559	12%	60,286	9.13%
3rd Quarter 2007	2,015	4%	137,426	9.40%
Thereafter	<u>846</u>	4%	<u>120,789</u>	9.38%
	<u>4,484</u>	9%	<u>434,636</u>	9.41%
Service Operations Buildings:				
1st Quarter 2007	1,533	51%	130,947	8.87%
2nd Quarter 2007	2,684	37%	122,038	8.72%
3rd Quarter 2007	1,237	81%	240,446	8.72%
Thereafter	<u>647</u>	63%	<u>173,954</u>	8.07%
	<u>6,101</u>	52%	<u>667,385</u>	8.57%
<b>Total</b>	<u>10,585</u>	34%	<u>\$1,102,021</u>	8.91%

included the disposition of our entire portfolio of industrial properties in the Cleveland market. Our share of proceeds from sales of properties within unconsolidated joint ventures, of which we have a less than 100% interest, totaled \$91.9 million. In 2005, proceeds from the disposition of non-strategic properties totaled \$1.1 billion for wholly owned held for rental properties, as the result of the Industrial Portfolio Sale, and \$31.8 million for our share of property sales from unconsolidated joint ventures. Dispositions of wholly owned properties developed for sale rather than rental resulted in \$188.6 million in proceeds in 2006 compared to \$121.4 million in 2005.

In 2006, we acquired \$948.4 million of income producing properties and \$436.7 million of undeveloped land compared to \$295.6 million of income producing properties and \$137.7 million of undeveloped land in 2005. We contributed 23 in service properties from the Mark Winkler portfolio, with a book value of \$381.6 million, to two newly formed unconsolidated joint ventures in December 2006.



## Results of Operations

A summary of our operating results and property statistics for each of the years in the three-year

period ended December 31, 2006, is as follows (in thousands, except number of properties and per share data):

	2006	2005	2004
Rental Operations revenues from Continuing Operations	<b>\$818,675</b>	\$668,607	\$603,821
Service Operations revenues from Continuing Operations	<b>90,125</b>	81,941	70,803
Earnings from Continuing Rental Operations	<b>127,989</b>	113,746	135,248
Earnings from Continuing Service Operations	<b>53,196</b>	44,278	27,652
Operating income	<b>145,351</b>	127,021	133,419
Net income available for common shareholders	<b>145,095</b>	309,183	151,279
Weighted average common shares outstanding	<b>134,883</b>	141,508	141,379
Weighted average common and dilutive potential common shares	<b>149,393</b>	155,877	157,062
Basic income per common share:			
Continuing operations	<b>\$.70</b>	\$.63	\$.70
Discontinued operations	<b>\$.38</b>	\$1.56	\$.37
Diluted income per common share:			
Continuing operation	<b>\$.70</b>	\$.62	\$.69
Discontinued operations	<b>\$.37</b>	\$1.55	\$.37
Number of in-service properties at end of year	<b>693</b>	660	874
In-service square footage at end of year	<b>109,293</b>	97,835	109,635

## Comparison of Year Ended December 31, 2006 to Year Ended December 31, 2005

### Rental Income from Continuing Operations

Overall, rental income from continuing operations increased from \$639.1 million in 2005 to \$780.7 million in 2006. The following table reconciles rental income from continuing operations by reportable segment to total reported rental income from continuing operations for the years ended December 31 (in thousands):

	2006	2005
Office	<b>\$562,903</b>	\$462,939
Industrial	<b>203,259</b>	166,343
Non-segment	<b>14,509</b>	9,776
Total	<b>\$780,671</b>	\$639,058

Both of our reportable segments that comprise Rental Operations (office and industrial) are within the real estate industry; however, the same economic and industry conditions do not affect each segment in the same manner. The primary causes of the increase in rental income from continuing operations, with specific references to a particular segment when applicable, are summarized below:

- In 2006, we acquired 50 new properties and placed 27 development projects in-service. These 2006 acquisitions and developments are the primary factor in the overall increase in rental revenue for the year ended 2006 compared to 2005 as they provided incremental revenues of

\$73.8 million and \$9.3 million respectively. These acquisitions totaled \$948.4 million on 8.6 million square feet and were 99% leased at December 31, 2006.

- Acquisitions and developments that were placed in service in 2005 provided \$15.8 million and \$11.2 million, respectively, of incremental revenue in 2006.
- Our in-service occupancy increased from 92.7% at December 31, 2005, to 92.9% at December 31, 2006.
- Rental income includes lease termination fees. Lease termination fees relate to specific tenants who pay a fee to terminate their lease obligations before the end of the contractual lease term. Lease termination fees increased from \$7.3 million in 2005 to \$16.1 million in 2006.

### Equity in Earnings of Unconsolidated Companies

Equity in earnings represents our ownership share of net income from investments in unconsolidated companies. These joint ventures generally own and operate rental properties and hold land for development. These earnings increased from \$29.5 million in 2005 to \$38.0 million in 2006. During 2006, our joint ventures sold 22 non-strategic buildings, with our share of the net gain recorded through equity in earnings totaling \$18.8 million. During the second quarter of 2005, one of our ventures sold three buildings,





with our share of the net gain recorded through equity in earnings totaling \$11.1 million.

### Rental Expenses and Real Estate Taxes

The following table reconciles rental expenses and real estate taxes by reportable segment to our total reported amounts in the statement of operations for the years ended December 31, 2006 and 2005, respectively (in thousands):

	2006	2005
Rental Expenses:		
Office	\$151,368	\$125,093
Industrial	23,745	21,622
Non-segment	3,519	1,557
Total	<u>\$178,632</u>	<u>\$148,272</u>
Real Estate Taxes:		
Office	\$59,717	\$53,039
Industrial	23,186	19,979
Non-segment	6,015	5,104
Total	<u>\$88,918</u>	<u>\$78,122</u>

Rental expenses and real estate taxes for 2006 have increased from 2005 by \$30.4 million and \$10.8 million, respectively, as the result of acquisition and development activity in 2005 and 2006 as well as from our increase in occupancy over the past two years.

### Interest Expense

Interest expense increased from \$113.1 million in 2005 to \$179.0 million in 2006, as a result of the following:

- Interest expense on the unsecured line of credit increased by \$29.2 million from 2005 as the result of increased borrowings throughout the year, as well as increased interest rates.
- Interest expense on unsecured notes increased by \$10.2 million as the result of an overall increase in borrowings used mainly to fund acquisitions and development.
- Interest expense on secured debt increased by \$27.8 million as the result of the increase in borrowings in 2006.
- Amortization of deferred financing fees increased by \$2.4 million as the result of additional borrowings in 2006.
- Offsetting the above increases, capitalized interest increased by \$26.8 million as the result of increased development activity.

### Depreciation and Amortization Expense

Depreciation and amortization increased from \$215.4 million in 2005 to \$244.1 million in 2006 as the result of increases in our held-for-rental asset base from acquisitions and developments during 2005 and 2006.

### Service Operations

Service Operations primarily consist of sales of properties developed or acquired with the intent to sell within a short period of time and the leasing, management, construction and development services for joint venture properties and properties owned by third parties. These operations are heavily influenced by the current state of the economy, as leasing and management fees are dependent upon occupancy while construction and development services rely on the expansion of business operations. Service Operations earnings increased from \$44.3 million in 2005 to \$53.2 million in 2006. The following are the factors related to the increase in Service Operations earnings in 2006.

- Our Service Operations building development and sales program, whereby a building is developed or repositioned by us and then sold, is a significant component of earnings from service operations. During 2006, we generated pre-tax gains of \$44.6 million from the sale of nine properties compared to \$29.9 million from the sale of ten properties in 2005. Profit margins on these types of building sales fluctuate by sale depending on the type of property being sold, the strength of the underlying tenant and nature of the sale, such as a pre-contracted purchase price for a primary tenant versus a sale on the open market.
- Partially offsetting the increased 2006 gains from our Service Operations building development and sales program was the effect of a decreased focus on third-party construction services as well as the fact that in the first quarter of 2005, we recognized \$2.7 million of a non-recurring deferred gain associated with the sale of our landscaping operations in 2001.

### General and Administrative Expense

General and administrative expense increased from \$31.0 million in 2005 to \$35.8 million in 2006. General and administrative expenses consist of two components. The first component is direct expenses that are not attributable to specific assets such as legal fees, external audit fees, marketing costs, investor relations



expenses and other corporate overhead. The second component is the unallocated overhead costs associated with the operation of our owned properties and Service Operations, including construction, leasing and maintenance operations. Overhead costs not allocated to these operations are charged to general and administrative expenses. The increase in general and administrative expenses from 2005 was largely attributable to an increase in our overall pool of overhead costs to support our current and anticipated future growth.

### Discontinued Operations

The results of operations for properties sold during the year or designated as held-for-sale at the end of the period are required to be classified as discontinued operations. The property specific components of net earnings that are classified as discontinued operations include rental revenues, rental expenses, real estate taxes, allocated interest expense, depreciation expense and minority interest, as well as the net gain or loss on the disposition of properties.

We classified the operations of 308 buildings as discontinued operations as of December 31, 2006. These 308 buildings consist of 273 industrial, 32 office and three retail properties. As a result, we classified net income from operations, net of minority interest, of \$8.4 million, \$15.9 million and \$28.6 million as net income from discontinued operations for the years ended December 31, 2006, 2005 and 2004, respectively.

Of these properties, 21 were sold during 2006, 234 properties were sold during 2005, 41 properties were sold during 2004, and 12 operating properties are classified as held-for-sale at December 31, 2006. The gains on disposal of these properties, net of impairment adjustment and minority interest, of \$42.1 million, \$204.3 million and \$23.9 million for the years ended December 31, 2006, 2005 and 2004, respectively, are also reported in discontinued operations.

### Comparison of Year Ended December 31, 2005 to Year Ended December 31, 2004

#### Rental Income from Continuing Operations

Overall, rental income from continuing operations increased from \$582.2 million in 2004 to \$639.1 million in 2005. The following table reconciles rental income from continuing operations by reportable segment to total reported rental income from continuing operations for the

years ended December 31, 2005 and 2004, respectively (in thousands):

	2005	2004
Office	\$462,939	\$419,068
Industrial	166,343	152,989
Non-segment	9,776	10,178
Total	<u>\$639,058</u>	<u>\$582,235</u>

Both of our reportable segments that comprise Rental Operations (office and industrial) are within the real estate industry; however, the same economic and industry conditions do not affect each segment in the same manner. The primary causes of the increase in rental income from continuing operations, with specific references to a particular segment when applicable, are summarized below:

- In 2005, we acquired nine new properties and placed 17 development projects in-service. These acquisitions and developments are the primary factor in the \$56.8 million overall increase in rental revenue for the year ended 2005, compared to 2004.
- The nine property acquisitions provided revenues of \$21.0 million. These acquisitions totaled \$307.5 million on 2.2 million square feet and were 86.5% leased at December 31, 2005. Revenues from acquisitions that occurred in 2004 totaled \$31.8 million in 2005 compared to \$13.4 million in 2004.
- Developments placed in service in 2005 provided revenues of \$5.8 million. Revenues from developments placed in service in 2004 increased \$9.9 million to \$17.4 million in 2005.
- Our in-service occupancy increased from 90.9% at December 31, 2004, to 92.7% at December 31, 2005.
- Rental income includes lease termination fees. Lease termination fees relate to specific tenants who pay a fee to terminate their lease obligations before the end of the contractual lease term. Lease termination fees in 2005 continued to steadily decrease as a result of improving market conditions. Lease termination fees decreased from \$14.7 million in 2004 to \$7.3 million in 2005.

#### Equity in Earnings of Unconsolidated Companies

Equity in earnings represents our ownership share of net income from investments in



unconsolidated companies. These joint ventures generally own and operate rental properties and hold land for development. These earnings increased from \$21.6 million in 2004 to \$29.5 million in 2005. During the second quarter of 2005, one of our ventures sold three buildings with our share of the net gain recorded through equity in earnings totaling \$11.1 million.

### Rental Expenses and Real Estate Taxes

The following table reconciles rental expenses and real estate taxes by reportable segment to our total reported amounts in the statement of operations for the years ended December 31, 2005 and 2004, respectively (in thousands):

	2005	2004
Rental Expenses:		
Office	\$125,093	\$106,303
Industrial	21,622	19,467
Non-segment	1,557	1,214
Total	<u>\$148,272</u>	<u>\$126,984</u>
Real Estate Taxes:		
Office	\$53,039	\$44,245
Industrial	19,979	16,922
Non-segment	5,104	4,682
Total	<u>\$78,122</u>	<u>\$65,849</u>

Rental and real estate tax expenses for 2005, as compared to 2004, have increased as a result of our 2004 and 2005 acquisitions as well as our increase in occupancy. This increase in rental and real estate taxes was in line with our expectations.

### Interest Expense

Interest expense increased from \$104.0 million in 2004 to \$113.1 million in 2005 largely as the result of increased interest expense from additional unsecured borrowings.

### Depreciation and Amortization Expense

Depreciation and amortization expense increased from \$171.8 million in 2004 to \$215.4 million in 2005 as the result of increases in our held-for-rental base from acquisitions and developments during 2004 and 2005.

### Service Operations

Service Operations primarily consist of building sales and the leasing, management, construction and development services for joint venture properties and properties owned by third parties. These operations are heavily influenced by the current state of the economy as leasing and management fees are dependent upon occupancy while construction and development services

rely on the expansion of business operations. Service Operations earnings increased from \$27.7 million in 2004 to \$44.3 million in 2005. The increase reflects higher construction volumes partially offset by increased staffing costs in 2005. Other factors impacting service operations are discussed below.

- Our Service Operations development and sales program, whereby a building is developed or repositioned by us and then sold, is a significant component of construction and development income. During 2005, we generated pre-tax gains of \$29.9 million from the sale of 10 properties compared to \$24.2 million from the sale of six properties in 2004. Profit margins on these types of building sales fluctuate by sale depending on the type of property being sold, the strength of the underlying tenant and nature of the sale, such as a pre-contracted purchase price for a primary tenant versus a sale on the open market.
- In 2005, we experienced an increase in our third-party construction business as evidenced by the increase in general contractor revenues in 2005 over 2004. We achieved a slight increase in our profit margins during 2005, which reflected improved pricing in certain markets and our ability to select more profitable projects as resources are re-positioned to our increasing held-for-investment development pipeline.
- In the first quarter of 2005, we recognized \$2.7 million of a non-recurring deferred gain associated with the sale of our landscaping operations in 2001. The gain was deferred as a result of future performance provisions contained in the original sales agreement. As a result of contract renegotiations effective in the first quarter of 2005, all future performance provisions were removed and the deferred gain was recognized.

### General and Administrative Expense

General and administrative expense increased from \$29.5 million in 2004 to \$31.0 million in 2005. General and administrative expenses consist of two components. The first component is direct expenses not attributable to specific assets such as legal fees, external audit fees, marketing costs, investor relations expenses and other corporate overhead. The second component is the unallocated overhead costs associated with the operation of our owned properties and Service Operations, including construction,





leasing and maintenance operations. Overhead costs not allocated to these operations are charged to general and administrative expenses. The increase in general and administrative expenses is primarily the result of an increase in payroll expenses associated with long-term compensation plans and an increase in the number of employees to support our overall growth.

### Critical Accounting Policies

The preparation of our consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Our estimates, judgments and assumptions are inherently subjective and based on the existing business and market conditions, and are therefore continually evaluated based upon available information and experience. Note 2 to the Consolidated Financial Statements includes further discussion of our significant accounting policies. Our management has assessed the accounting policies used in the preparation of our financial statements and discussed them with our Audit Committee and independent auditors. The following accounting policies are considered critical based upon materiality to the financial statements, degree of judgment involved in estimating reported amounts and sensitivity to changes in industry and economic conditions:

**Accounting for Joint Ventures:** We analyze our investments in joint ventures under Financial Accounting Standards Board ("FASB") Interpretation No. 46(R), *Consolidation of Variable Interest Entities*, to determine if the joint venture is considered a variable interest entity and would require consolidation. To the extent that our joint ventures do not qualify as variable interest entities, we further assess under the guidelines of 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"), Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures*; Accounting Research Bulletin No. 51, *Consolidated Financial Statements* and FASB No. 94, *Consolidation of All Majority-Owned Subsidiaries*, to determine if the venture should be consolidated. We have equity interests ranging from 10%–67% in joint ventures that

own and operate rental properties and hold land for development. We consolidate those joint ventures that we control through majority ownership interests or substantial participating rights. Control is further demonstrated by the ability of the general partner to manage day-to-day operations, refinance debt and sell the assets of the joint venture without the consent of the limited partner and inability of the limited partner to replace the general partner. We use the equity method of accounting for those joint ventures where we do not have control over operating and financial policies. Under the equity method of accounting, our investment in each joint venture is included on our balance sheet; however, the assets and liabilities of the joint ventures for which we use the equity method are not included on our balance sheet.

**Cost Capitalization:** Direct and certain indirect costs, including interest, clearly associated with and incremental to the development, construction, leasing or expansion of real estate investments are capitalized as a cost of the property.

We capitalize interest and direct and indirect project costs associated with the initial construction of a property up to the time the property is substantially complete and ready for its intended use. We believe the completion of the building shell is the proper basis for determining substantial completion and that this basis is the most widely accepted standard in the real estate industry. The interest rate used to capitalize interest is based upon our average borrowing rate on existing debt.

We also capitalize direct and indirect costs, including interest costs, on vacant space during extended lease-up periods after construction of the building shell has been completed if costs are being incurred to ready the vacant space for its intended use. If costs and activities incurred to ready the vacant space cease, then cost capitalization is also discontinued until such activities are resumed. Once necessary work has been completed on a vacant space, project costs are no longer capitalized. We cease capitalization of all project costs on extended lease-up periods after the shorter of a one-year period after the completion of the building shell or when the property attains 90% occupancy. In addition, all leasing commissions paid to third parties for new leases or lease renewals are capitalized.

In assessing the amount of indirect costs to be capitalized, we first allocate payroll costs, on a department-by-department basis, among



activities for which capitalization is warranted (i.e., construction, development and leasing) and those for which capitalization is not warranted (i.e., property management, maintenance, acquisitions and dispositions and general corporate functions). To the extent the employees of a department split their time between capitalizable and non-capitalizable activities, the allocations are made based on estimates of the actual amount of time spent in each activity. Once the payroll costs are allocated, the non-payroll costs of each department are allocated among the capitalizable and non-capitalizable activities in the same proportion as payroll costs.

To ensure that an appropriate amount of costs are capitalized, the amount of capitalized costs that are allocated to a specific project are limited to amounts using standards we developed. These standards consist of a percentage of the total development costs of a project and a percentage of the total gross lease amount payable under a specific lease. These standards are derived after considering the amounts that would be allocated if the personnel in the departments were working at full capacity. The use of these standards ensures that overhead costs attributable to downtime or to unsuccessful projects or leasing activities are not capitalized.

#### **Impairment of Real Estate Investments:**

We evaluate our real estate investments upon occurrence of significant changes in the operations, but not less than annually, to assess whether any impairment indications are present that affect the recovery of the recorded value. If any real estate investment is considered to be impaired, a loss is provided to reduce the carrying value of the asset to its estimated fair value. We utilize the guidelines established under SFAS No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets* ("SFAS 144"), to determine if impairment conditions exist. Under SFAS 144, we review the expected undiscounted cash flows of each property in our held for rental portfolio to determine if there are any indications of impairment of a property. The review of anticipated cash flows involves subjective assumptions of estimated occupancy and rental rates and ultimate residual value. In addition to reviewing anticipated cash flows, we assess other factors such as changes in business climate and legal factors that may affect the ultimate value of the property. These assumptions are subjective and the anticipated cash flows may not ultimately be achieved.

Real estate assets to be disposed of are reported at the lower of their carrying value amount or the fair value less estimated cost to sell.

#### **Acquisition of Real Estate Property:**

In accordance with SFAS 141, *Business Combinations*, we allocate the purchase price of acquired properties to net tangible and identified intangible assets based on their respective fair values.

The allocation to tangible assets (buildings, tenant improvements and land) is based upon management's determination of the value of the property as if it were vacant using discounted cash flow models similar to those used by independent appraisers. Factors considered by management include an estimate of carrying costs during the expected lease-up periods considering current market conditions, and costs to execute similar leases. The remaining purchase price is allocated among three categories of intangible assets consisting of the above or below market component of in-place leases, the value of in-place leases and the value of customer relationships.

- The value allocable to the above or below market component of an acquired in-place lease is determined based upon the present value (using an interest rate which reflects the risks associated with the lease) of the difference between (i) the contractual amounts to be paid pursuant to the lease over its remaining term and (ii) management's estimate of the amounts that would be paid using current fair market rates over the remaining term of the lease. The amounts allocated to above market leases are included in deferred leasing and other costs in the balance sheet and below market leases are included in other liabilities in the balance sheet; both are amortized to rental income over the remaining terms of the respective leases.
- The total amount of intangible assets is further allocated to in-place lease values and to customer relationship values, based upon management's assessment of their respective values. These intangible assets are included in deferred leasing and other costs in the balance sheet and are depreciated over the remaining term of the existing lease, or the anticipated life of the customer relationship, as applicable.

**Valuation of Receivables:** We are subject to tenant defaults and bankruptcies that could affect the collection of outstanding receivables.



In order to mitigate these risks, we perform in-house credit review and analysis on major existing tenants and all significant leases before they are executed. We have established the following procedures and policies to evaluate the collectibility of outstanding receivables and record allowances:

- We maintain a tenant “watch list” containing a list of significant tenants for which the payment of receivables and future rent may be at risk. Various factors such as late rent payments, lease or debt instrument defaults, and indications of a deteriorating financial position are considered when determining whether to include a tenant on the watch list.
- As a matter of policy, we reserve the entire receivable balance, including straight-line rent, of any tenant with an amount outstanding over 90 days.
- Straight-line rent receivables for any tenant on the watch list or any other tenant identified as a potential long-term risk, regardless of the status of rent receivables, are reviewed and reserved as necessary.

#### **Revenue Recognition on Construction Contracts:**

We recognize income on construction contracts where we serve as a general contractor on the percentage of completion method. Using this method, profits are recorded on the basis of our estimates of the overall profit and percentage of completion of individual contracts. A portion of the estimated profits is accrued based upon our estimates of the percentage of completion of the construction contract. Cumulative revenues recognized may be less or greater than cumulative costs and profits billed at any point in time during a contract's term. This revenue recognition method involves inherent risks relating to profit and cost estimates with those risks reduced through approval and monitoring processes.

With regard to critical accounting policies, management has discussed the following with the Audit Committee:

- Criteria for identifying and selecting;
- Methodology in applying; and
- Impact on the financial statements.

The Audit Committee has reviewed the critical accounting policies we identified.

## **Liquidity and Capital Resources**

### **Sources of Liquidity**

We expect to meet our short-term liquidity requirements over the next twelve months, including payments of dividends and distributions, as well as recurring capital expenditures relating to maintaining our current real estate assets, primarily through the following:

- working capital;
- net cash provided by operating activities; and
- proceeds received from real estate dispositions

Although we historically have not used any other sources of funds to pay for recurring capital expenditures on our current real estate investments, we may rely on the temporary use of borrowings or property disposition proceeds needed to fund such expenditures during periods of high leasing volume.

We expect to meet long-term liquidity requirements, such as scheduled mortgage debt maturities, refinancing of long-term debt, preferred share redemptions, the retirement of unsecured notes and amounts outstanding under the unsecured credit facility, property acquisitions, financing of development activities and other non-recurring capital improvements, primarily from the following sources:

- issuance of additional equity, including common and preferred stock;
- issuance of additional debt securities;
- undistributed cash provided by operating activities, if any; and
- proceeds received from real estate dispositions.

### **Rental Operations**

We believe our principal source of liquidity, cash flows from Rental Operations, provides a stable source of cash to fund operational expenses. We believe this cash-based revenue stream is substantially aligned with revenue recognition (except for periodic straight-line rental income accruals and amortization of above or below market rents) as cash receipts from the leasing of rental properties are generally received in advance of or in a short time following the actual revenue recognition.





We are subject to risks of decreased occupancy through market conditions, as well as tenant defaults and bankruptcies, and potential reduction in rental rates upon renewal or re-letting of properties, which would result in reduced cash flow from operations. However, we believe that these risks are mitigated by our relatively strong market presence in most of our

locations and the fact that we perform in-house credit review and analysis on major tenants and all significant leases before they are executed.

### **Credit Facility**

We had one unsecured line of credit available at December 31, 2006, summarized as follows (in thousands):

<b>Description</b>	<b>Borrowing Capacity</b>	<b>Maturity Date</b>	<b>Interest Rate</b>	<b>Outstanding at December 31, 2006</b>
Unsecured Line of Credit	\$1,000,000	January 2010	LIBOR + .525%	\$317,000

We use this line of credit to fund development activities, acquire additional rental properties and provide working capital. The line of credit provides us with an option to obtain borrowings from financial institutions that participate in the line, at rates lower than the stated interest rate, subject to certain restrictions. Interest rates on the amounts outstanding on the unsecured line of credit as of December 31, 2006, ranged from LIBOR +.17% to LIBOR +.525% (equal to 5.52% and 5.875% as of December 31, 2006.) The line of credit also contains financial covenants that require us to meet financial ratios and defined levels of performance, including those related to variable interest indebtedness, consolidated net worth and debt-to-market capitalization. As of December 31, 2006, we were in compliance with all financial covenants under our line of credit.

### **Debt and Equity Securities**

On July 31, 2006, we filed with the SEC an automatic shelf registration statement on Form S-3 relating to the offer and sale, from time to time, of an indeterminate amount of debt securities, common stock, preferred stock, depositary shares and warrants. From time to time, we expect to issue additional securities under this new automatic shelf registration statement to fund the development and acquisition of additional rental properties and to fund the repayment of the credit facility and other long-term debt upon maturity.

On February 18, 2007, we filed a resale shelf registration statement on Form S-3 with respect to 11,747,135 shares of our common stock issuable upon the exchange or redemption of the Exchangeable Notes. Recipients of such common stock, whom we refer to as the "selling shareholders," may use the prospectus filed as part of the resale shelf registration statement to resell, from time to time, the shares of our common stock that we may issue to them upon the exchange or redemption of the Exchangeable

Notes. Additional selling shareholders may be named by future prospectus supplements.

We registered the offering and resale of such shares to allow the selling shareholders to sell any or all of their shares of common stock on the New York Stock Exchange or in private transactions as described in the prospectus. The registration of the shares does not necessarily mean that the selling shareholders will exchange their Exchangeable Notes for our common stock, that upon any exchange or redemption of the Exchangeable Notes we will elect, in our sole and absolute discretion, to exchange or redeem some or all of the Exchangeable Notes for shares of our common stock rather than cash, or that any shares of our common stock received upon exchange or redemption of the Exchangeable Notes will be sold by the selling shareholders under the prospectus or otherwise.

The indenture governing our unsecured notes also requires us to comply with financial ratios and other covenants regarding our operations. We were in compliance with all such covenants as of December 31, 2006.

### **Sale of Real Estate Assets**

We utilize sales of real estate assets as an additional source of liquidity. We pursue opportunities to sell real estate assets at favorable prices to capture value created by us as well as to improve the overall quality of our portfolio by recycling sale proceeds into new properties with greater value creation opportunities.

### **Uses of Liquidity**

Our principal uses of liquidity include the following:

- Property investments;
- Recurring leasing/capital costs;



- Dividends and distributions to shareholders and unitholders;
- Long-term debt maturities; and
- Other contractual obligations

### Property Investments

We evaluate development and acquisition opportunities based upon market outlook, supply and long-term growth potential.

### Recurring Expenditures

One of our principal uses of our liquidity is to fund the development, acquisition and recurring leasing/capital expenditures of our real estate investments. The following is a summary of our recurring capital expenditures for the year ended December 31 (in thousands):

	2006	2005	2004
Tenant improvements	\$41,895	\$60,633	\$58,847
Leasing costs	17,106	33,175	27,777
Building improvements	8,122	15,232	21,029
Totals	<u>\$67,123</u>	<u>\$109,040</u>	<u>\$107,653</u>

### Dividends and Distributions

In order to qualify as a REIT for federal income tax purposes, we must currently distribute at least 90% of our taxable income to shareholders. We paid dividends per share of \$1.89, \$1.87 and \$1.85 for the years ended December 31, 2006, 2005 and 2004, respectively. We also paid a one-time special dividend of \$1.05 per share in 2005 as a result of the significant gain realized from the Industrial Portfolio Sale. We expect to continue to distribute taxable earnings to meet the requirements to maintain our REIT status. However, distributions are declared at the discretion of our board of directors and are subject to actual cash available for distribution, our financial condition, capital requirements and such other factors, as our board of directors deems relevant.

### Debt Maturities

Debt outstanding at December 31, 2006, totaled \$4.1 billion with a weighted average interest rate of 5.77% maturing at various dates through 2028. We had \$3.1 billion of unsecured debt, \$317.0 million outstanding on our unsecured line of credit, and \$662.5 million of secured debt outstanding at December 31, 2006. Scheduled principal amortization and maturities of such debt totaled \$1.1 billion for the year ended December 31, 2006.

The following is a summary of the scheduled future amortization and maturities of our indebtedness at December 31, 2006 (in thousands, except percentage data):

Year	Future Repayments			Weighted Average Interest Rate of Future Repayments
	Scheduled Amortization	Maturities	Total	
2007	13,045	214,615	227,660	5.75%
2008	12,478	273,464	285,942	5.07%
2009	12,185	275,000	287,185	7.36%
2010	11,952	492,000	503,952	5.68%
2011	11,985	1,012,139	1,024,124	5.10%
2012	9,914	201,216	211,130	5.90%
2013	9,905	150,000	159,905	4.74%
2014	9,826	294,534	304,360	6.44%
2015	7,593	5,807	13,400	7.13%
2016	6,671	506,449	513,120	6.17%
2017	4,976	450,000	454,976	5.95%
Thereafter	31,676	91,724	123,400	6.49%
	<u>\$142,206</u>	<u>\$3,966,948</u>	<u>\$4,109,154</u>	5.77%



## Historical Cash Flows

Cash and cash equivalents were \$68.5 million and \$26.7 million at December 31, 2006 and

2005, respectively. The following highlights significant changes in net cash associated with our operating, investing and financing activities (in millions):

	Years Ended December 31,		
	2006	2005	2004
Net Cash Provided by Operating Activities	\$275.7	\$404.3	\$375.5
Net Cash Provided by (Used for) Investing Activities	(1,236.9)	328.1	(427.2)
Net Cash Provided by (Used for) Financing Activities	1,002.9	(711.2)	44.7

### Operating Activities

Cash flows from operating activities provide the cash necessary to meet normal operational requirements of our rental operations and Service Operations activities. The receipt of rental income from rental operations continues to provide the primary source of our revenues and operating cash flows. In addition, we develop buildings with the intent to sell them at or soon after completion, which provides another significant source of operating cash flow activity.

- During the year ended December 31, 2006, we incurred Service Operations building development costs of \$273.5 million, compared to \$83.4 million and \$43.1 million for the years ended December 31, 2005 and 2004, respectively. The difference is reflective of the increased activity in our held-for-sale pipeline. The pipeline of held-for-sale projects under construction as of December 31, 2006, has anticipated costs of \$667.4 million.
- We sold nine Service Operations buildings in 2006 compared to ten in 2005 and six in 2004, receiving net proceeds of \$181.8 million, \$113.0 million and \$72.7 million, respectively and recognized pre-tax gains of \$49.0 million, \$29.9 million and \$24.2 million, respectively.

### Investing Activities

Investing activities are one of the primary uses of our liquidity. Development and acquisition activities typically generate additional rental revenues and provide cash flows for operational requirements. Highlights of significant cash uses are as follows:

- Sales of land and depreciated property provided \$180.8 million in net proceeds in 2006, compared to \$1.1 billion in 2005 and \$178.3 million in 2004. In addition, during 2006 we received distributions of \$21.2 million for our share of proceeds on

the sales of land and depreciable property within three of our joint ventures. The Industrial Portfolio Sale provided \$955 million of the \$1.1 billion of proceeds received in 2005. We continue to dispose of non-strategic and older properties as part of our capital recycling program to fund acquisitions and new developments while improving the overall quality of our investment portfolio.

- Development costs for our held for rental portfolio increased to \$385.5 million for the year ended December 31, 2006, from \$210.0 million and \$145.6 million for the years ended December 31, 2005 and 2004, respectively. Management anticipated this continued increase, as a commitment to development activity was part of our strategic plan for 2006 and continues to be for 2007.
- During 2006, we paid cash of \$735.3 million for real estate acquisitions, compared to \$285.3 million in 2005 and \$204.4 million in 2004. The most significant activity in 2006 consisted of the purchase of the Mark Winkler Portfolio of suburban office and light industrial properties and undeveloped land in the Washington, D.C. area for \$867.6 million (\$713.5 million paid in cash) and a portfolio of industrial properties in Savannah, Georgia for \$196.2 million (\$125.9 million paid in cash at closing).
- In 2006, we paid cash of \$435.9 million for undeveloped land, compared to \$135.8 million in 2005 and \$113.4 million in 2004. These acquisitions provide us greater opportunities to use our development and construction expertise in the improving economic cycle.

### Financing Activities

The following significant items highlight fluctuations in net cash provided by financing activities:





- In January 2006, we received approximately \$177.7 million in net proceeds from the issuance of our Series M Cumulative Redeemable Preferred Shares. These preferred shares bear a dividend yield of 6.95%. We applied a portion of the net proceeds from the Series M preferred shares issuance to redeem \$75.0 million of Series I preferred shares in February, which had an 8.45% dividend rate.
- In February 2006, we obtained a \$700.0 million secured term loan, which was priced at LIBOR +.525%. The proceeds were used to finance the acquisition of the Mark Winkler Portfolio in the Washington, D.C. metropolitan area, and the loan was secured by these properties. This term loan was paid in full in August 2006 with proceeds from the issuance of senior unsecured debt as described below.
- In February and March 2006, we issued \$150.0 million of 5.50% senior unsecured notes due in 2016. A portion of the proceeds were used to retire our \$100.0 million 6.72% puttable option reset securities. The remaining cash proceeds were used to fund costs associated with the issuance of debt and to repay amounts outstanding under our line of credit.
- In June 2006, we received approximately \$106.3 million in net proceeds from the issuance of our Series N Cumulative Redeemable Preferred Shares. These preferred shares bear a dividend yield of 7.25%.
- In August 2006, we issued \$450.0 million of 5.95% senior unsecured notes due in 2017 and \$250.0 million of 5.625% senior unsecured notes due in 2011. The proceeds from these issuances were used to pay off the \$700.0 million secured term loan as described above.
- In November 2006, we issued \$319.0 million of 5.91% debt due in 2016 secured by certain of our in-service real estate properties.
- In November 2006, we issued \$575.0 million of Exchangeable Notes, which will pay interest semiannually at a rate of 3.75% per annum and mature in December 2011.

- In December 2006, we repaid our \$250 million LIBOR +.26% Senior Unsecured Notes.

### *Credit Ratings*

We are currently assigned investment grade corporate credit ratings on our senior unsecured notes from Fitch Ratings, Moody's Investor Service and Standard and Poor's Ratings Group. Currently, Fitch and Standard and Poor's have assigned a rating of BBB+ and Moody's Investors has assigned a rating of Baa1 to our senior notes.

We also received investment grade credit ratings from the same rating agencies on our preferred stock. Fitch and Standard and Poor's have assigned a preferred stock rating of BBB and Moody's Investors has assigned a preferred stock rating of Baa2 to our preferred stock.

These senior notes and preferred stock ratings could change based upon, among other things, our results of operations and financial condition.

### *Financial Instruments*

We are exposed to capital market risk, such as changes in interest rates. In order to manage the volatility relating to interest rate risk, we may enter into interest rate hedging arrangements from time to time. We do not utilize derivative financial instruments for trading or speculative purposes.

In August 2005, we entered into \$300.0 million of cash flow hedges through forward-starting interest rate swaps to hedge interest rates on \$300.0 million of anticipated debt offerings in 2007. The swaps qualify for hedge accounting, with any changes in fair value recorded in accumulated Other Comprehensive Income ("OCI"). At December 31, 2006, the fair value of these swaps was approximately \$9.9 million in an asset position as the effective rates of the swaps were lower than current interest rates at December 31, 2006.

In March 2005, we entered into \$300.0 million of cash flow hedges through forward-starting interest rate swaps to hedge interest rates on \$300.0 million of anticipated debt offerings in 2006. The swaps qualified for hedge accounting, with any changes in fair value recorded in OCI. In March 2006, we issued \$150.0 million of 5.50% senior unsecured notes due 2016 and terminated a corresponding amount of the cash flow hedges designated for this transaction. The settlement amount paid of approximately



\$800,000 will be recognized to earnings through interest expense ratably over the life of the senior unsecured notes and the ineffective portion of the hedge was insignificant. In August 2006, we issued \$450.0 million of 5.95% senior unsecured notes due 2017 and \$250.0 million of 5.63% senior unsecured notes due 2011 and terminated the remaining \$150.0 million of cash flow hedges. The settlement amount received of approximately \$1.6 million will be recognized to earnings through a reduction of interest expense ratably over the lives of the senior unsecured notes. The ineffective portion of the hedge was insignificant.

In June 2004, we simultaneously entered into three forward-starting interest rate swaps aggregating \$144.3 million, which effectively fixed the rate on financing expected in 2004 at 5.346%, plus our credit spread over the swap rate. The swaps qualified for hedge accounting; therefore, changes in the fair value were recorded in OCI. In August 2004, we settled these three swaps when we issued \$250.0 million of senior unsecured notes with an effective interest rate of 6.33%, due in 2014. We paid \$6.9 million to unwind the swaps, which is amortized from OCI into interest expense over the life of the new 6.33% senior unsecured notes.

The effectiveness of our forward-starting hedge instruments will be evaluated throughout their lives using the hypothetical derivative method under which the change in fair value of the actual

swap designated as the hedging instrument is compared to the change in fair value of a hypothetical swap.

## Off Balance Sheet Arrangements

### Investments in Unconsolidated Companies

We have equity interests ranging from 10%–67% in unconsolidated companies that own and operate rental properties and hold land for development. The equity method of accounting (see Critical Accounting Policies) is used for these investments in which we have the ability to exercise significant influence, but not control, over operating and financial policies. As a result, the assets and liabilities of these joint ventures are not included on our balance sheet.

Our investments in and advances to unconsolidated companies represents approximately 9% of our total assets as of December 31, 2006. These investments provide several benefits to us, including increased market share, tenant and property diversification and an additional source of capital to fund real estate projects.

The following table presents summarized financial information for unconsolidated companies for the years ended December 31, 2006 and 2005, respectively (in thousands, except percentage data):

	Dugan Realty, LLC		Dugan Texas, LLC		Eaton Vance Joint Ventures		Other Joint Ventures		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Land, buildings and tenant improvements, net	\$641,562	\$677,377	\$217,694	\$211,818	\$382,232	\$—	\$269,482	\$232,059	\$1,510,970	\$1,121,254
Land held for development	9,669	11,628	5,312	9,222	—	—	76,299	27,086	91,280	47,936
Other assets	37,060	35,959	21,656	17,347	5,189	—	84,675	19,778	148,580	73,084
	<b>\$688,291</b>	<b>\$724,964</b>	<b>\$244,662</b>	<b>\$238,387</b>	<b>\$387,421</b>	<b>\$—</b>	<b>\$430,456</b>	<b>\$278,923</b>	<b>\$1,750,830</b>	<b>\$1,242,274</b>
Property indebtedness	\$307,439	\$360,290	\$17,998	\$17,999	\$—	\$—	\$92,533	\$136,903	\$417,970	\$515,192
Other liabilities	22,391	23,903	9,803	10,436	5,285	—	132,689	23,886	170,168	58,225
	<b>329,830</b>	<b>384,193</b>	<b>27,801</b>	<b>28,435</b>	<b>5,285</b>	<b>—</b>	<b>225,222</b>	<b>160,789</b>	<b>588,138</b>	<b>573,417</b>
Owners' equity	358,461	340,771	216,861	209,952	382,136	—	205,234	118,134	1,162,692	668,857
	<b>\$688,291</b>	<b>\$724,964</b>	<b>\$244,662</b>	<b>\$238,387</b>	<b>\$387,421</b>	<b>\$—</b>	<b>\$430,456</b>	<b>\$278,923</b>	<b>\$1,750,830</b>	<b>\$1,242,274</b>
Rental income	\$94,312	\$94,045	\$32,123	\$30,481	\$2,644	\$—	\$28,107	\$38,921	\$157,186	\$163,447
Net income (loss)	<b>\$34,483</b>	<b>\$41,678</b>	<b>\$12,822</b>	<b>\$12,351</b>	<b>\$1,069</b>	<b>\$—</b>	<b>\$17,611</b>	<b>\$3,532</b>	<b>\$65,985</b>	<b>\$57,561</b>
Total square feet	20,770	21,436	6,840	6,255	1,778	—	6,307	5,225	35,695	32,916
Percent leased	93.06%	95.9%	89.24%	90.7%	96.43%	—%	71.50%	90.0%	88.69%	94.2%
Company ownership percentage	50.0%	50.0%	50.0%	50.0%	30.0%	—%	67%	64.0%		



## Off Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships ("special purpose entities") that have been established solely for the purpose of facilitating off-balance sheet arrangements.

## Contractual Obligations

At December 31, 2006, we are subject to certain contractual payment obligations as described in the table below:

Contractual Obligations	Payments Due by Period						
	Total	2007	2008	2009	2010	2011	Thereafter
Long-term debt (1)	\$5,126,157	\$432,672	\$474,791	\$464,387	\$342,921	\$1,168,423	\$2,242,963
Line of credit (2)	373,531	18,434	18,434	18,434	318,229	—	—
Share of mortgage debt of unconsolidated joint ventures (3)	251,815	51,493	13,197	61,929	120,615	4,581	—
Ground leases	27,298	1,186	1,048	1,240	1,362	1,395	21,067
Operating leases	725	399	169	145	10	2	—
Development and construction backlog costs (4)	590,807	549,169	41,638	—	—	—	—
Future land acquisitions (5)	36,146	28,767	2,782	—	4,597	—	—
Service contracts (6)	6,531	2,437	2,591	1,161	171	171	—
Other (7)	3,549	353	355	356	358	359	1,768
<b>Total Contractual Obligations</b>	<b>\$6,416,559</b>	<b>\$1,084,910</b>	<b>\$555,005</b>	<b>\$547,652</b>	<b>\$788,263</b>	<b>\$1,174,931</b>	<b>\$2,265,798</b>

(1) Our long-term debt consists of both secured and unsecured debt and includes both principal and interest. Interest expense for variable rate debt was calculated using the interest rate at December 31, 2006.

(2) Our unsecured line of credit matures in January 2010.

(3) Our share of unconsolidated mortgage debt includes both principal and interest. Interest expense for variable rate debt was calculated using the interest rate at December 31, 2006.

(4) Represents estimated remaining costs on the completion of held-for-rental, held-for-sale and third-party construction projects.

(5) These land acquisitions are subject to the completion of due diligence requirements, resolution of certain contingencies and completion of customary closing conditions.

(6) Service contracts defined as those, which cover periods greater than one year and are not cancelable without cause by either party.

(7) Represents other contractual obligations.

## Related Party Transactions

We provide property management, leasing, construction and other tenant related services to unconsolidated companies in which we have equity interests. For the years ended December 31, 2006, 2005 and 2004, respectively, we received from these unconsolidated companies management fees of \$4.4 million, \$4.8 million and \$4.9 million, leasing fees of \$2.9 million, \$4.3 million and \$2.6 million and construction and development fees of \$19.1 million, \$2.0 million and \$1.5 million. We recorded these fees at market rates and eliminated our ownership percentages of these fees in the consolidated financial statements.

## Commitments and Contingencies

We have guaranteed the repayment of \$79.6 million of economic development bonds issued by various municipalities in connection with certain commercial developments. We will be required to make payments under our guarantees to the extent that incremental taxes from specified developments are not sufficient to pay the bond

debt service. Management does not believe that it is probable that we will be required to make any significant payments in satisfaction of these guarantees.

We also have guaranteed the repayment of secured and unsecured loans of four of our unconsolidated subsidiaries. At December 31, 2006, the outstanding balance on these loans was approximately \$129.0 million. Management believes that the value of the real estate exceeds the loan balance and that we will not be required to satisfy these guarantees.

We have entered into agreements, subject to the completion of due diligence requirements, resolution of certain contingencies and completion of customary closing conditions, for the future acquisition of land totaling \$36.1 million.

In October 2000, we sold or contributed industrial properties and undeveloped land with a fair value of \$487.0 million to a joint venture (Dugan Realty LLC) in which we have a 50% interest and recognized a net gain of \$35.2





million. In connection with this transaction, the joint venture partners were given an option to put up to a \$50.0 million interest in the joint venture to us in exchange for our common stock or cash (at our option), subject to certain timing and other restrictions. As a result of this put option, we deferred \$10.2 million of gain on sale of depreciated property and recorded a \$50.0 million liability.

We renewed all of our major insurance policies in 2006. These policies include coverage for acts of terrorism for our properties. We believe that this insurance provides adequate coverage against normal insurance risks and that any loss experienced would not have a significant impact on our liquidity, financial position, or results of operations.

We are subject to various legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of any ultimate liability with respect to these actions will not materially affect our consolidated financial statements or results of operations.

### Recent Accounting Pronouncements

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on description, classification, interest and penalties, accounting in interim periods, disclosure and

transition. FIN 48 becomes effective on January 1, 2007 and is not anticipated to have a material effect on our 2007 financial position, results of operations, or liquidity.

In September 2006, the Securities Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB 108"). SAB 108 provides guidance regarding the process of quantifying the materiality of financial statement misstatements. We adopted SAB 108 in the fourth quarter of 2006 with no effect to our financial statements.

### Item 7A. Quantitative and Qualitative Disclosure About Market Risks

We are exposed to interest rate changes primarily as a result of our line of credit and long-term debt borrowings. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve our objectives, we borrow primarily at fixed rates and may enter into derivative financial instruments such as interest rate swaps, caps and treasury locks in order to mitigate our interest rate risk on a related financial instrument. We do not enter into derivative or interest rate transactions for speculative purposes.

Our interest rate risk is monitored using a variety of techniques. The table below presents the principal amounts (in thousands) of the expected annual maturities, weighted average interest rates for the average debt outstanding in the specified period, fair values and other terms required to evaluate the expected cash flows and sensitivity to interest rate changes.

	2007	2008	2009	2010	2011	Thereafter	Total	Fair Value
Fixed rate secured debt	\$26,859	\$55,766	\$11,475	\$11,202	\$23,339	\$524,245	\$652,886	\$655,809
Weighted average interest rate	7.31%	5.80%	6.91%	6.86%	7.14%	6.12%		
Variable rate secured debt	\$645	\$680	\$710	\$750	\$785	\$6,045	\$9,615	\$9,615
Weighted average interest rate	3.79%	3.79%	3.79%	3.79%	3.79%	3.79%		
Fixed rate unsecured notes	\$200,156	\$225,000	\$275,000	\$175,000	\$1,000,000	\$1,250,000	\$3,125,156	\$3,167,834
Weighted average interest rate	5.55%	4.77%	7.39%	5.37%	5.05%	6.00%		
Variable rate unsecured notes	\$—	\$4,497	\$—	\$—	\$—	\$—	\$4,497	\$4,497
Weighted average interest rate	N/A	6.20%	N/A	N/A	N/A	N/A		
Unsecured line of credit	\$—	\$—	\$—	\$317,000	\$—	\$—	\$317,000	\$317,000
Rate at December 31, 2006	N/A	N/A	N/A	5.82%	N/A	N/A		

As the table incorporates only those exposures that exist as of December 31, 2006, it does not consider those exposures or positions that could arise after that date. As a result, our ultimate

realized gain or loss with respect to interest rate fluctuations will depend on the exposures that arise during the period, our hedging strategies at that time, and interest rates.



We, as management of Duke Realty Corporation and its subsidiaries ("Duke"), are responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Pursuant to the rules and regulations of the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles and includes those policies and procedure that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of assets of the company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Management has evaluated the effectiveness of its internal control over financial reporting as of December 31, 2006 based on the control criteria established in a report entitled Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on such evaluation, we have concluded that, as of December 31, 2006, our internal control over financial reporting is effective based on these criteria.

The independent registered public accounting firm of KPMG LLP, as auditors of Duke's consolidated financial statements, has issued an attestation report on management's assessment of Duke's internal control over financial reporting.



Dennis D. Oklak  
Chairman and Chief Executive Officer  
(Principal Executive Officer)



Matthew A. Cohoat  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)



**The Shareholders and Directors of Duke Realty Corporation:**

We have audited the consolidated balance sheets of Duke Realty Corporation and Subsidiaries ( the “Company” ) as of December 31, 2006 and 2005, and the related consolidated statements of operations, cash flows and shareholders’ equity for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Duke Realty Corporation and Subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Duke Realty Corporation and Subsidiaries’ internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 28, 2007, expressed an unqualified opinion on management’s assessment of, and the effective operation of, internal control over financial reporting.

**KPMG LLP**

Indianapolis, Indiana  
February 28, 2007





## The Shareholders and Directors of Duke Realty Corporation:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control that Duke Realty Corporation and Subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Duke Realty Corporation and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U. S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Duke Realty Corporation and Subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control-Integrated Framework issued by COSO. Also, in our opinion, Duke Realty Corporation and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Duke Realty Corporation and Subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, cash flows and shareholders' equity for each of the years in the three-year period ended December 31, 2006, and our report dated February 28, 2007, expressed an unqualified opinion on those consolidated financial statements.

**KPMG LLP**

Indianapolis, Indiana  
February 28, 2007



As of December 31, (in thousands, except per share amounts)

2006

2005

**ASSETS**

## Real estate investments:

Land and improvements	\$ 844,091	\$ 675,050
Buildings and tenant improvements	4,211,602	4,156,456
Construction in progress	359,765	227,066
Investments in and advances to unconsolidated companies	628,323	301,322
Land held for development	737,752	429,270
	<u>6,781,533</u>	<u>5,789,164</u>
Accumulated depreciation	(867,079)	(754,742)
Net real estate investments	5,914,454	5,034,422

## Real estate investments and other assets held-for-sale

512,925 —

## Cash and cash equivalents

68,483 26,732

## Accounts receivable, net of allowance of \$1,088 and \$1,093

24,118 31,342

## Straight-line rent receivable, net of allowance of \$1,915 and \$1,538

105,319 95,948

## Receivables on construction contracts, including retentions

64,768 50,035

## Deferred financing costs, net of accumulated amortization of \$19,492 and \$14,113

62,277 27,118

## Deferred leasing and other costs, net of accumulated amortization of \$127,155 and \$112,245

311,553 227,648

## Escrow deposits and other assets

174,698 154,315

\$7,238,595 \$5,647,560**LIABILITIES AND SHAREHOLDERS' EQUITY**

## Indebtedness:

Secured debt	\$ 515,192	\$ 167,255
Unsecured notes	3,129,653	2,050,396
Unsecured line of credit	317,000	383,000
	<u>3,961,845</u>	<u>2,600,651</u>

## Liabilities of properties held for sale

155,185 —

## Construction payables and amounts due subcontractors, including retentions

136,508 93,137

## Accrued expenses:

Real estate taxes	59,276	60,883
Interest	52,106	33,022
Other	63,217	54,878

## Other liabilities

118,901 134,701

## Tenant security deposits and prepaid rents

31,121 34,924

4,578,159 3,012,196

## Minority interest

156,853 182,566

## Shareholders' equity:

Preferred shares (\$.01 par value); 5,000 shares authorized; 3,241 and 2,365 shares issued and outstanding	876,250	657,250
Common shares (\$.01 par value); 250,000 shares authorized; 133,921 and 134,697 shares issued and outstanding	1,339	1,347
Additional paid-in capital	2,196,388	2,266,204
Accumulated other comprehensive income (loss)	5,435	(7,118)
Distributions in excess of net income	(575,829)	(464,885)
Total shareholders' equity	<u>2,503,583</u>	<u>2,452,798</u>

\$7,238,595 \$5,647,560

See accompanying Notes to Consolidated Financial Statements.



For the Years Ended December 31 (in thousands, except per share amounts)

2006

2005

2004

## RENTAL OPERATIONS

### Revenues:

Rental income from continuing operations	<b>\$780,671</b>	\$639,058	\$582,235
Equity in earnings of unconsolidated companies	<b>38,004</b>	29,549	21,586
	<b>818,675</b>	668,607	603,821

### Operating expenses:

Rental expenses	<b>178,632</b>	148,272	126,984
Real estate taxes	<b>88,918</b>	78,122	65,849
Interest expense	<b>179,007</b>	113,067	103,976
Depreciation and amortization	<b>244,129</b>	215,400	171,764
	<b>690,686</b>	554,861	468,573
Earnings from continuing rental operations	<b>127,989</b>	113,746	135,248

## SERVICE OPERATIONS

### Revenues:

General contractor gross revenue	<b>308,562</b>	380,173	357,133
General contractor costs	<b>(284,633)</b>	(348,263)	(329,545)
Net general contractor revenue	<b>23,929</b>	31,910	27,588
Service fee revenue	<b>21,633</b>	20,149	18,995
Gain on sale of service operations properties	<b>44,563</b>	29,882	24,220
Total revenue	<b>90,125</b>	81,941	70,803

### Operating expenses

Earnings from service operations	<b>53,196</b>	44,278	27,652
General and administrative expense	<b>(35,834)</b>	(31,003)	(29,481)
Operating income	<b>145,351</b>	127,021	133,419

## OTHER INCOME (EXPENSE)

Interest and other income, net	<b>10,450</b>	4,637	4,646
Earnings from sale of land, net of impairment adjustments	<b>7,791</b>	14,201	10,202
Other minority interest in earnings of subsidiaries	<b>(247)</b>	(1,438)	(1,253)
Minority interest in earnings of common unitholders	<b>(9,760)</b>	(8,966)	(10,774)
Income from continuing operations	<b>153,585</b>	135,455	136,240

### Discontinued operations:

Net income from discontinued operations, net of minority interest	<b>8,429</b>	15,914	28,563
Gain on sale of property, net of impairment adjustments and minority interest	<b>42,133</b>	204,293	23,898
Income from discontinued operations	<b>50,562</b>	220,207	52,461

Net income	<b>204,147</b>	355,662	188,701
Dividends on preferred shares	<b>(56,419)</b>	(46,479)	(33,777)
Adjustments for redemption of preferred shares	<b>(2,633)</b>	—	(3,645)
Net income available for common shareholders	<b>\$145,095</b>	\$309,183	\$151,279

### Basic net income per common share:

Continuing operations	<b>\$.70</b>	\$.63	\$.70
Discontinued operations	<b>.38</b>	1.56	.37
Total	<b>\$1.08</b>	\$2.19	\$1.07

### Diluted net income per common share:

Continuing operations	<b>\$.70</b>	\$.62	\$.69
Discontinued operations	<b>.37</b>	1.55	.37
Total	<b>\$1.07</b>	\$2.17	\$1.06

Weighted average number of common shares outstanding	<b>134,883</b>	141,508	141,379
Weighted average number of common shares and potential dilutive common equivalents	<b>149,393</b>	155,877	157,062

See accompanying Notes to Consolidated Financial Statements.





For the Years Ended December 31 (in thousands)	2006	2005	2004
<b>Cash flows from operating activities:</b>			
Net income	\$ 204,147	\$355,662	\$188,701
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of buildings and tenant improvements	206,999	204,377	189,119
Amortization of deferred leasing and other costs	47,269	49,793	39,463
Amortization of deferred financing costs	8,617	6,154	4,904
Minority interest in earnings	14,953	31,493	17,184
Straight-line rent adjustment	(20,795)	(22,519)	(22,436)
Earnings from land and depreciated property sales	(49,614)	(238,060)	(36,449)
Build-for-sale operations, net	(140,692)	(6,295)	(41)
Construction contracts, net	1,749	16,196	(11,047)
Other accrued revenues and expenses, net	21,429	10,513	(4,306)
Operating distributions received in excess of (less than) equity in earnings from unconsolidated companies	(18,339)	(3,055)	10,447
<b>Net cash provided by operating activities</b>	<b>275,723</b>	<b>404,259</b>	<b>375,539</b>
<b>Cash flows from investing activities:</b>			
Development of real estate investments	(385,516)	(209,990)	(145,629)
Acquisition of in-service real estate investments	(735,294)	(285,342)	(204,361)
Acquisition of land held for development	(435,917)	(135,771)	(113,433)
Recurring tenant improvements	(41,895)	(60,633)	(58,847)
Recurring leasing costs	(17,106)	(33,175)	(27,777)
Recurring building improvements	(8,122)	(15,232)	(21,029)
Other deferred leasing costs	(46,463)	(19,425)	(16,386)
Other deferred costs and other assets	6,203	(15,438)	(15,055)
Proceeds from land and depreciated property sales, net	180,825	1,134,667	178,301
Distributions received from unconsolidated companies for land and depreciated property sales	21,238	—	—
Capital distributions from unconsolidated companies	275,335	—	—
Advances to unconsolidated companies, net	(50,182)	(31,599)	(3,033)
<b>Net cash provided by (used for) investing activities</b>	<b>(1,236,894)</b>	<b>328,062</b>	<b>(427,249)</b>
<b>Cash flows from financing activities:</b>			
Payments for repurchases of common shares	(101,282)	(287,703)	—
Proceeds from exercise of stock options	6,672	3,945	12,259
Proceeds from issuance of preferred shares, net	283,994	—	338,360
Payments for redemption of preferred shares	(75,010)	—	(102,652)
Redemption of warrants	—	—	(2,881)
Redemption of limited partner units	—	(2,129)	—
Proceeds from unsecured debt issuance	1,429,497	400,000	690,000
Payments on unsecured debt	(350,000)	(665,000)	(150,000)
Proceeds from issuance of secured debt	1,029,426	—	—
Payments on secured indebtedness including principal amortization	(750,354)	(46,675)	(39,430)
Borrowings (payments) on lines of credit, net	(66,000)	383,000	(351,000)
Distributions to common shareholders	(255,502)	(264,980)	(261,061)
Distributions to common shareholders – special dividends	—	(143,836)	—
Distributions to preferred shareholders	(56,419)	(46,479)	(31,828)
Distributions to minority interest, net	(24,207)	(26,653)	(26,941)
Distributions to minority interest – special distributions	—	(14,069)	—
Payment for capped call option	(26,967)	—	—
Deferred financing costs	(40,926)	(599)	(30,159)
<b>Net cash provided by (used for) financing activities</b>	<b>1,002,922</b>	<b>(711,178)</b>	<b>44,667</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>41,751</b>	<b>21,143</b>	<b>(7,043)</b>
Cash and cash equivalents at beginning of year	26,732	5,589	12,632
Cash and cash equivalents at end of year	\$ 68,483	\$26,732	\$5,589
<b>Other non-cash items:</b>			
Assumption of debt for real estate acquisitions	\$ 217,520	\$ 11,743	\$ 29,854
Contributions of property to unconsolidated companies	\$ 505,440	\$ —	\$ —
Conversion of Limited Partner units to common shares	\$ 39,918	\$ 18,085	\$ 25,376
Conversion of Series D preferred shares to common shares	\$ —	\$ —	\$ 130,665
Issuance of Limited Partner Units for real estate acquisitions	\$ —	\$ —	\$ 7,575
Common shares repurchased and retired, not settled	\$ —	\$ 9,357	\$ —
Issuance of Limited Partner Units for acquisition of minority interest	\$ —	\$ 15,000	\$ —

See accompanying Notes to Consolidated Financial Statements.



(in thousands, except per share data)	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Distributions In Excess of Net Income	Total
<b>Balance at December 31, 2003</b>	<b>\$540,508</b>	<b>\$1,366</b>	<b>\$2,379,817</b>	<b>\$—</b>	<b>\$(254,942)</b>	<b>\$2,666,749</b>
Comprehensive Income:						
Net income	—	—	—	—	188,701	188,701
Losses on derivative instruments	—	—	—	(6,547)	—	(6,547)
Comprehensive income						182,154
Issuance of common shares	—	6	12,361	—	—	12,367
Issuance of preferred shares	350,000	—	(11,688)	—	—	338,312
Acquisition of minority interest	—	8	25,368	—	—	25,376
Conversion of Series D Preferred Shares	(130,665)	49	130,616	—	—	—
Redemption of Series D Preferred Shares	(2,593)	—	(30)	—	—	(2,623)
Redemption of Series E Preferred Shares	(100,000)	—	(29)	—	—	(100,029)
Exercise of Warrants	—	—	(2,881)	—	—	(2,881)
Tax benefits from employee stock plans	—	—	770	—	—	770
Stock based compensation expense	—	—	512	—	—	512
Distributions to preferred shareholders	—	—	—	—	(33,777)	(33,777)
Adjustment for carrying value of preferred stock redemption	—	—	3,645	—	(3,645)	—
Distributions to common shareholders (\$1.85 per share)	—	—	—	—	(261,061)	(261,061)
<b>Balance at December 31, 2004</b>	<b>\$657,250</b>	<b>\$1,429</b>	<b>\$2,538,461</b>	<b>\$(6,547)</b>	<b>\$(364,724)</b>	<b>\$2,825,869</b>
Comprehensive Income:						
Net income	—	—	—	—	355,662	355,662
Losses on derivative instruments	—	—	—	(571)	—	(571)
Comprehensive income						355,091
Issuance of common shares	—	2	4,141	—	—	4,143
Acquisition of minority interest	—	6	18,079	—	—	18,085
Tax benefits from employee stock plans	—	—	245	—	—	245
Stock based compensation expense	—	—	2,032	—	—	2,032
Dividends on long-term compensation plans	—	—	216	—	(216)	—
Retirement of common shares	—	(90)	(296,970)	—	—	(297,060)
Distributions to preferred shareholders	—	—	—	—	(46,479)	(46,479)
Distributions to common shareholders (\$1.87 per share)	—	—	—	—	(265,076)	(265,076)
Distributions to common shareholders Special (\$1.05 per share)	—	—	—	—	(144,052)	(144,052)
<b>Balance at December 31, 2005</b>	<b>\$657,250</b>	<b>\$1,347</b>	<b>\$2,266,204</b>	<b>\$(7,118)</b>	<b>\$(464,885)</b>	<b>\$2,452,798</b>
Comprehensive Income:						
Net income	—	—	—	—	204,147	204,147
Gains on derivative instruments	—	—	—	12,553	—	12,553
Comprehensive income	—	—	—	—	—	216,700
Issuance of common shares	—	5	6,181	—	—	6,186
Redemption of Preferred Series I shares	(75,000)	—	(10)	—	—	(75,010)
Issuance of Preferred Series M shares	184,000	—	(6,266)	—	—	177,734
Issuance of Preferred Series N shares	110,000	—	(3,740)	—	—	106,260
Acquisition of minority interest	—	10	39,908	—	—	39,918
Capped call option	—	—	(26,967)	—	—	(26,967)
Tax benefits from employee stock plans	—	—	606	—	—	606
Stock based compensation expense	—	—	8,892	—	—	8,892
Dividends on long-term compensation plans	—	—	849	—	(849)	—
Distributions to preferred shareholders	—	—	—	—	(56,419)	(56,419)
Adjustment for carrying value of preferred stock redemption	—	—	2,633	—	(2,633)	—
Retirement of common shares	—	(23)	(91,902)	—	—	(91,925)
Distributions to common shareholders (\$1.89 per share)	—	—	—	—	(255,190)	(255,190)
<b>Balance at December 31, 2006</b>	<b>\$876,250</b>	<b>\$1,339</b>	<b>\$2,196,388</b>	<b>\$5,435</b>	<b>\$(575,829)</b>	<b>\$2,503,583</b>

See accompanying Notes to Consolidated Financial Statements.



## (1) The Company

Our rental operations are conducted through Duke Realty Limited Partnership (“DRLP”). We owned approximately 91.5% of the common partnership interests of DRLP (“Units”) at December 31, 2006. The remaining Units in DRLP are redeemable for shares of our common stock on a one-to-one basis and earn dividends at the same rate as shares of our common stock. We conduct Service Operations through Duke Realty Services LLC and Duke Realty Services Limited Partnership, of which we are the sole general partner and of which DRLP is the sole limited partner. We also conduct Service Operations through Duke Construction Limited Partnership, which is effectively 100% owned by DRLP. The consolidated financial statements include our accounts and our majority-owned or controlled subsidiaries, and the terms “we”, “us” and “our” refer to Duke Realty Corporation and subsidiaries (the “Company”) and those entities owned or controlled by the Company.

## (2) Summary of Significant Accounting Policies

### Principles of Consolidation

The consolidated financial statements include our accounts and our controlled subsidiaries. The equity interests in these controlled subsidiaries not owned by us are reflected as minority interests in the consolidated financial statements. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements. Investments in entities that we do not control through majority voting interest or where the other owner has substantial participating rights are not consolidated and are reflected as investments in unconsolidated companies under the equity method of reporting.

### Reclassifications

Certain 2005 and 2004 balances have been reclassified to conform to the 2006 presentation.

### Real Estate Investments

Rental real property, including land, land improvements, buildings and building improvements, are included in real estate investments and are generally stated at cost. Buildings and land improvements are depreciated on the straight-line method over their estimated life not to exceed 40 and 15 years, respectively, and tenant improvement costs are depreciated

using the straight-line method over the term of the related lease.

Direct and certain indirect costs clearly associated with and incremental to the development, construction, leasing or expansion of real estate investments are capitalized as a cost of the property. In addition, all leasing commissions paid to third parties for new leases or lease renewals are capitalized. We capitalize a portion of our indirect costs associated with our construction, development and leasing efforts. In assessing the amount of direct and indirect costs to be capitalized, allocations are made based on estimates of the actual amount of time spent in each activity. We do not capitalize any costs attributable to downtime or to unsuccessful projects.

We capitalize direct and indirect project costs associated with the initial construction of a property up to the time the property is substantially complete and ready for its intended use. In addition, we capitalize costs, including real estate taxes, insurance, and utilities, that have been allocated to vacant space based on the square footage of the portion of the building not held available for immediate occupancy during the extended lease-up periods after construction of the building shell has been completed if costs are being incurred to ready the vacant space for its intended use. If costs and activities incurred to ready the vacant space cease, then cost capitalization is also discontinued until such activities are resumed. Once necessary work has been completed on a vacant space, project costs are no longer capitalized.

We cease capitalization of all project costs on extended lease-up periods after the shorter of a one-year period after the completion of the building shell or when the property attains 90% occupancy.

Construction in process and land held for development are included in real estate investments and are stated at cost. Real estate investments also include our equity interests in unconsolidated joint ventures that own and operate rental properties and hold land for development. We first analyze our investments in joint ventures under Financial Accounting Standards Board (“FASB”) Interpretation No. 46(R), *Consolidation of Variable Interest Entities* (“FIN 46(R)”), to determine if the joint venture is a variable interest entity and would require consolidation. To the extent that our joint ventures do not qualify as variable interest entities, we further assess under the guidelines





of 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”), Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures*; Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, and FASB No. 94, *Consolidation of All Majority-Owned Subsidiaries*, to determine if the venture should be consolidated. The equity method of accounting is used for those investments in which we have the ability to exercise significant influence, but not control, over operating and financial policies. Any difference between the carrying amount of these investments and the underlying equity in net assets is amortized to equity in earnings of unconsolidated companies over the depreciable life of the property, generally 40 years. Distributions received from unconsolidated joint ventures related to the operations of the properties in the joint ventures are reflected as an operating activity in our Consolidated Statement of Cash Flows. Distributions received from unconsolidated joint ventures related to property sales or other capital transactions are reflected as an investing activity in our Consolidated Statement of Cash Flows.

Properties held for rental are individually evaluated for impairment when conditions exist which may indicate that it is probable that the sum of expected future cash flows (on an undiscounted basis) from a rental property over its anticipated holding period is less than its historical net cost basis. Upon determination that a permanent impairment has occurred, a loss is recorded to reduce the net book value of that property to its fair market value. Properties to be disposed of are reported at the lower of net historical cost basis or the estimated fair market value, less the estimated costs to sell. Once a property is designated as held for disposal, no further depreciation expense is recorded.

We allocate the purchase price of acquired properties to net tangible and identified intangible assets based on their respective fair values, based on all pertinent information available and adjusted based on changes in that information in no event to exceed one year from the date of acquisition. The allocation to tangible assets (buildings, tenant improvements and land) is based upon management’s determination of the value of the property as if it were vacant using discounted cash flow models similar to those used by independent appraisers. Factors considered by management include an

estimate of carrying costs during the expected lease-up periods considering current market conditions, and costs to execute similar leases. The remaining purchase price is allocated among three categories of intangible assets consisting of the above or below market component of in-place leases, the value of in-place leases and the value of customer relationships.

The value allocable to the above or below market component of an acquired in-place lease is determined based upon the present value (using a discount rate which reflects the risks associated with the acquired leases) of the difference between (i) the contractual amounts to be paid pursuant to the lease over its remaining term and (ii) management’s estimate of the amounts that would be paid using fair market rates over the remaining term of the lease. The amounts allocated to above market leases are included in deferred leasing and other costs in the balance sheet and below market leases are included in other liabilities in the balance sheet; both are amortized to rental income over the remaining terms of the respective leases.

The total amount of intangible assets is further allocated to in-place lease values and to customer relationship values based upon management’s assessment of their respective values. These intangible assets are included in deferred leasing and other costs in the balance sheet and are depreciated over the remaining term of the existing lease, or the anticipated life of the customer relationship, as applicable.

### Cash Equivalents

Investments with a maturity of three months or less when purchased are classified as cash equivalents.

### Valuation of Receivables

We reserve the entire receivable balance, including straight-line rent, of any tenant with an amount outstanding over 90 days. Straight-line rent receivables for any tenant with long-term risk, regardless of the status of rent receivables, are reviewed and reserved as necessary.

### Deferred Costs

Costs incurred in connection with obtaining financing are amortized to interest expense on the straight-line method, which approximates a constant spread over the term of the related loan. All direct and indirect costs, including estimated internal costs, associated with the leasing of real estate investments owned by us are capitalized and amortized over the term of



the related lease. We include lease incentive costs, which are payments made on behalf of a tenant to sign a lease, in deferred leasing costs and amortize them on a straight-line basis over the respective lease terms as a reduction of rental revenues. We include as lease incentives amounts funded to construct tenant improvements owned by the tenant. Unamortized costs are charged to expense upon the early termination of the lease or upon early payment of the financing.

## Revenues

### Rental Operations

The timing of revenue recognition under an operating lease is determined based upon ownership of the tenant improvements. If we are the owner of the tenant improvements, revenue recognition commences after the improvements are completed and the tenant takes possession or control of the space. In contrast, if we determine that the tenant allowances we are funding are lease incentives, then we commence revenue recognition when possession or control of the space is turned over to the tenant. Rental income from leases with scheduled rental increases during their terms is recognized on a straight-line basis.

Revenue is recognized on payments received from tenants for early lease terminations after all necessary criteria have been met in accordance with SFAS No. 13, *Accounting for Leases*.

### Service Operations

Management fees are based on a percentage of rental receipts of properties managed and are recognized as the rental receipts are collected. Maintenance fees are based upon established hourly rates and are recognized as the services are performed. Construction management and development fees represent fee based third-party contracts and are recognized as earned based on the terms of the contract, which approximates the percentage of completion method.

We recognize income on construction contracts where we serve as a general contractor on the percentage of completion method. Using this method, profits are recorded based on our estimates of the percentage of completion of individual contracts, commencing when the work performed under the contracts reach a point where the final costs can be estimated

with reasonable accuracy. The percentage of completion estimates are based on a comparison of the contract expenditures incurred to the estimated final costs. Changes in job performance, job conditions and estimated profitability may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

Unbilled receivables on construction contracts totaled \$32.4 million and \$10.7 million at December 31, 2006 and 2005, respectively.

### Property Sales

Gains on sales of all properties are recognized in accordance with SFAS No. 66, *Accounting for Sales of Real Estate*.

Gains from sales of depreciated property are included in discontinued operations and the proceeds from the sale of these held-for-rental properties are classified in the investing activities section of the Consolidated Statements of Cash Flows.

Gains or losses from our sale of properties that were developed or repositioned with the intent to sell and not for long-term rental are classified as gain on sale of Service Operation properties in the Consolidated Statements of Operations. All activities and proceeds received from the development and sale of these buildings are classified in the operating activities section of the Consolidated Statements of Cash Flows.

### Net Income Per Common Share

Basic net income per common share is computed by dividing net income available for common shareholders by the weighted average number of common shares outstanding for the period. Diluted net income per common share is computed by dividing the sum of net income available for common shareholders and the minority interest in earnings allocable to Units not owned by us, by the sum of the weighted average number of common shares outstanding and minority Units outstanding, including any dilutive potential common equivalents for the period.



The following table reconciles the components of basic and diluted net income per common share (in thousands):

	2006	2005	2004
Basic net income available for common shareholders	<b>\$145,095</b>	\$309,183	\$151,279
Minority interest in earnings of common unitholders	<b>14,238</b>	29,649	14,966
Diluted net income available for common shareholders	<b>\$159,333</b>	\$338,832	\$166,245
Weighted average number of common shares outstanding	<b>134,883</b>	141,508	141,379
Weighted average partnership units outstanding	<b>13,186</b>	13,551	13,902
Weighted average conversion of Series D preferred shares (1)	—	—	877
Dilutive shares for stock-based compensation plans (2)	<b>1,324</b>	818	904
Weighted average number of common shares and potential dilutive common equivalents	<b>149,393</b>	155,877	157,062

(1) We called for the redemption of the Series D preferred shares as of March 16, 2004. Prior to the redemption date, nearly 5.3 million Series D preferred shares were converted to 4.9 million common shares. These shares represent the weighted effect, assuming the Series D preferred shares had been converted on January 1, 2004.

(2) Excludes (in thousands of shares) 719; 1,158; and 456 of anti-dilutive shares as of December 31, 2006, 2005 and 2004, respectively.

A joint venture partner in one of our unconsolidated companies has the option to convert a portion of its ownership to our common shares. The effect of this option on earnings per share was anti-dilutive for the years ended December 31, 2006, 2005 and 2004.

We issued Exchangeable Senior Notes ("Exchangeable Notes") in 2006. These Exchangeable Notes had no effect on diluted earnings per share, as the conversion option was not in the money.

## Federal Income Taxes

We have elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement to distribute at least 90% of our adjusted taxable income to our stockholders. Management intends to continue to adhere to these requirements and to maintain our REIT status. As a REIT, we are entitled to a tax deduction for some or all of the dividends we pay to shareholders. Accordingly, we generally will not be subject to federal income taxes as long as we distribute an amount equal to or in excess of our taxable income currently to shareholders. We are also generally subject to federal income taxes on any taxable income that is not currently distributed to its shareholders.

If we fail to qualify as a REIT in any taxable year, we will be subject to federal income taxes and may not be able to qualify as a REIT for four subsequent taxable years.

REIT qualification reduces, but does not eliminate, the amount of state and local taxes we pay. In addition, our financial statements include the operations of taxable corporate subsidiaries that are not entitled to a dividends paid deduction and are subject to corporate federal, state and local income taxes. As a REIT, we may also be subject to certain federal excise taxes if we engage in certain types of transactions.

The following table reconciles our net income to taxable income before the dividends paid deduction for the years ended December 31, 2006, 2005 and 2004 (in thousands):

	2006	2005	2004
Net income	<b>\$204,147</b>	\$355,662	\$188,701
Book/tax differences	<b>66,303</b>	116,152	53,817
Taxable income before adjustments	<b>270,450</b>	471,814	242,518
Less: capital gains	<b>(78,246)</b>	(270,854)	(38,655)
Adjusted taxable income subject to 90% dividend requirement	<b>\$192,204</b>	\$200,960	\$203,863





Our dividends paid deduction is summarized below (in thousands):

	2006	2005	2004
Cash dividends paid	\$311,615	\$455,606	\$292,889
Cash dividends declared and paid in subsequent year that apply to current year	(21,782)	21,782	—
Less: Capital gains distribution	(78,246)	(270,854)	(38,655)
Less: Return of capital	(15,018)	—	(46,694)
Total dividends paid deduction attributable to adjusted taxable income	\$196,569	\$206,534	\$207,540

A summary of the tax characterization of the dividends paid for the years ended December 31, 2006, 2005 and 2004 follows:

	2006	2005	2004
Common Shares			
Ordinary income	64.2%	44.2%	69.3%
Return of capital	5.3%	—	17.5%
Capital gains	30.5%	55.8%	13.2%
	100.0%	100.0%	100.0%
Preferred Shares			
Ordinary income	73.7%	44.2%	86.8%
Capital gains	26.3%	55.8%	13.2%
	100.0%	100.0%	100.0%

We recorded federal and state income taxes of \$6.8 million, \$5.6 million and \$5.2 million for 2006, 2005 and 2004, respectively, which were primarily attributable to the earnings of our taxable REIT subsidiaries. We paid federal and state income taxes of \$4.3 million, \$8.7 million and \$6.2 million for 2006, 2005 and 2004, respectively. The taxable REIT subsidiaries have no significant deferred income tax items.

### Stock Based Compensation

For all issuances of stock-based awards prior to 2002, we applied the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), and related interpretations, in accounting for our stock-based compensation.

Accordingly, for stock options granted prior to 2002, no compensation expense is reflected in net income as all options granted had an exercise price equal to the market value of the underlying common shares on the date of the grant.

Effective January 1, 2002, we prospectively adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), and applied SFAS 123 to all awards granted after January 1, 2002.

The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of SFAS 123 to all stock-based employee compensation for the years ended December 31, 2005 and 2004, respectively (in thousands, except per share data):

	2005	2004
Net income available for common shareholders, as reported	\$309,183	\$151,279
Add: Stock-based employee compensation expense included in net income determined under fair value method	1,116	455
Deduct: Total stock-based compensation expense determined under fair value method for all awards	(1,285)	(923)
Pro forma net income available for common shareholders	\$309,014	\$150,811
Basic net income per common share		
As reported	\$2.19	\$1.07
Pro forma	\$2.18	\$1.07
Diluted net income per common share		
As reported	\$2.17	\$1.06
Pro forma	\$2.17	\$1.06



Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123(R), *Share Based Payment*, (“SFAS 123(R)”), using the modified prospective application method. Under this method, as of January 1, 2006, we applied the provisions of SFAS 123(R) to new and modified awards, as well as to the nonvested portion of awards granted before the required effective date and outstanding at such time.

### Derivative Financial Instruments

We periodically enter into certain interest rate protection agreements to effectively convert or cap floating rate debt to a fixed rate, and to hedge anticipated future financing transactions, both of which qualify for cash flow hedge accounting treatment. Net amounts paid or received under these agreements are recognized as an adjustment to the interest expense of the corresponding debt. We do not utilize derivative financial instruments for trading or speculative purposes.

If a derivative qualifies as a cash flow hedge, the change in fair value of the derivative is recognized in other comprehensive income to the extent the hedge is effective, while the ineffective portion of the derivative’s change in fair value is recognized in earnings. We estimate the fair value of derivative instruments using standard market conventions and techniques such as discounted cash flow analysis, option pricing models and termination cost at each balance sheet date. For all hedging relationships, we formally document the hedging relationship and its risk-management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument’s effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method of measuring ineffectiveness.

### Use of Estimates

The preparation of the financial statements requires management to make a number of estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

### (3) Significant Acquisitions and Dispositions

In February 2006, we acquired the majority of a Washington, D.C. metropolitan area portfolio of suburban office and light industrial properties (the “Mark Winkler Portfolio”). The assets acquired for a purchase price of approximately \$867.6 million are comprised of 32 in-service properties with approximately 2.9 million square feet for rental, 166 acres of undeveloped land, as well as certain related assets of the Mark Winkler Company, a real estate management company. The acquisition was financed primarily through assumed mortgage loans and new borrowings.

The assets acquired and liabilities assumed were recorded at their estimated fair value at the date of acquisition, as summarized below:

Operating rental properties	\$602,011
Land held for development	154,300
Total real estate investments	<u>756,311</u>
Other assets	10,478
Lease related intangible assets	86,047
Goodwill	14,722
Total assets acquired	<u>867,558</u>
Debt assumed	(148,527)
Other liabilities assumed	(5,829)
Purchase price, net of assumed liabilities	<u>\$713,202</u>

In December 2006, we contributed 23 of these in-service properties acquired from the Mark Winkler Portfolio with a basis of \$381.6 million representing real estate investments and acquired lease related intangible assets to two new unconsolidated subsidiaries. The remaining nine in-service properties are classified and accounted for as held-for-sale. The results of operations of the acquired properties since the date of acquisition have been included in continuing operations, rather than discontinued operations, based on our intention to sell the majority of our ownership interest in the properties to entities in which we will retain a minority equity ownership interest.

In the third quarter of 2006, we finalized the purchase of a portfolio of industrial real estate properties in Savannah, Georgia. We completed a majority of the purchase in January 2006. The assets acquired for a purchase price of approximately \$196.2 million are comprised of 18 buildings with approximately 5.1 million square feet for rental as well as over 60 acres of undeveloped land. The acquisition was financed in part through assumed mortgage loans. The results of operations for the acquired



properties since the date of acquisition have been included in continuing rental operations in our consolidated financial statements.

We acquired total income producing real estate related assets of \$948.4 million, \$295.6 million, and \$246.2 million in 2006, 2005, and 2004, respectively.

On September 29, 2005, we completed the sale of a portfolio of 212 real estate properties, consisting of approximately 14.1 million square feet of primarily light distribution and service center properties and approximately 50 acres of undeveloped land (the "Industrial Portfolio Sale"). The purchase price totaled \$983 million, of which we received net proceeds of \$955.0 million after the settlement of certain liabilities and transaction costs. Portions of the proceeds were used to pay down \$423.0 million of outstanding debt on our \$500.0 million unsecured line of credit and the entire outstanding balance on our \$400.0 million term loan. The operations for 2005 and 2004 and the gain for 2005 associated with the properties in the Industrial Portfolio Sale have been reclassified to discontinued operations. As a result of the taxable income generated by the sale, a one-time special cash dividend of \$1.05 per share was paid to our common shareholders in the fourth quarter of 2005.

#### (4) Related Party Transactions

We provide property management, leasing, construction and other tenant related services to unconsolidated companies in which we have equity interests. For the years ended December 31, 2006, 2005 and 2004, we received management fees of \$4.4 million, \$4.8 million and \$4.9 million, leasing fees of \$2.9 million, \$4.3 million and \$2.6 million and construction and development fees of \$19.1 million, \$2.0 million and \$1.5 million, respectively, from these companies. These fees approximate market rates and we eliminated our ownership percentages of these fees in the consolidated financial statements.

#### (5) Investments in Unconsolidated Companies

We have equity interests ranging from 10%–67% in unconsolidated joint ventures that own and operate rental properties and hold land for development.

Combined summarized financial information for the unconsolidated companies as of December 31, 2006 and 2005, and for the years ended December 31, 2006 and 2005, and 2004, are as follows (in thousands):

	2006	2005	2004
Rental revenue	<b>\$157,186</b>	\$163,447	\$167,803
Net income	<b>\$65,985</b>	\$57,561	\$40,138
Cash distributions received	<b>\$36,096</b>	\$25,446	\$30,309
Land, buildings and tenant improvements, net	<b>\$1,510,970</b>	\$1,121,254	
Land held for development	<b>91,280</b>	47,936	
Other assets	<b>148,580</b>	73,084	
	<b>\$1,750,830</b>	<b>\$1,242,274</b>	
Property indebtedness	<b>\$417,970</b>	\$515,192	
Other liabilities	<b>170,168</b>	58,225	
	<b>588,138</b>	573,417	
Owners' equity	<b>1,162,692</b>	668,857	
	<b>\$1,750,830</b>	<b>\$1,242,274</b>	

Our share of the scheduled payments of long term debt for the unconsolidated joint ventures for each of the next five years and thereafter as of December 31, 2006, are as follows (in thousands):

Year	Future Repayments
2007	\$38,639
2008	1,765
2009	40,499
2010	113,439
2011	4,411
	<b>\$198,753</b>





## (6) Discontinued Operations and Assets Held for Sale

We classified the operations of 308 buildings as discontinued operations as of December 31, 2006. These 308 buildings consist of 273 industrial, 32 office and three retail properties. Of these properties, 21 were sold during

2006, 234 properties were sold during 2005, 41 properties were sold during 2004 and 12 operating properties are classified as held-for-sale at December 31, 2006.

The following table illustrates operations of the buildings reflected in discontinued operations for the years ended December 31 (in thousands):

	2006	2005	2004
Revenues	\$40,852	\$129,239	\$173,746
Expenses:			
Operating	13,878	42,612	51,742
Interest	7,499	30,203	33,633
Depreciation and Amortization	10,139	38,770	56,818
General and Administrative	82	216	182
Operating Income	9,254	17,438	31,371
Minority interest expense	(825)	(1,524)	(2,808)
Income from discontinued operations, before gain on sales	8,429	15,914	28,563
Gain on sale of property, net of impairment adjustments	46,254	223,858	26,247
Minority interest expense—gain on sales	(4,121)	(19,565)	(2,349)
Gain on sale of property, net of impairment adjustments and minority interest	42,133	204,293	23,898
Income from discontinued operations	\$50,562	\$220,207	\$52,461

At December 31, 2006, we classified 12 properties as held-for-sale and included in discontinued operations. Additionally, we have classified nine of the remaining in-service properties from the Mark Winkler Portfolio, as well as six additional properties, as held-for-sale. However, the results of these 15 properties are included in continuing operations, either based on our present intention to sell the majority of our ownership interest in

the properties to entities in which we will retain a minority equity ownership interest or because the results of operations for the properties are immaterial. The following table illustrates the aggregate balance sheet of the aforementioned 12 properties included in discontinued operations, as well as the 15 held-for-sale properties whose results are included in continuing operations at December 31, 2006 (in thousands):

	Held-for-Sale and Included in Discontinued Operations	Held-for-Sale and Included in Continuing Operations	Total
Real estate investments, net	\$113,705	\$381,435	\$495,140
Other assets	10,818	6,967	17,785
Assets held-for-sale	\$124,523	\$388,402	\$512,925
Accrued expenses	\$3,742	\$664	\$4,406
Other liabilities	1,352	2,118	3,470
Secured debt	—	147,309	147,309
Liabilities held-for-sale	\$5,094	\$150,091	\$155,185

We allocate interest expense to discontinued operations and have included such interest expense in computing net income from discontinued operations. Interest expense allocable to discontinued operations includes interest on any debt on secured properties included in discontinued operations and an allocable share of our consolidated unsecured interest expense for unencumbered properties. The allocation of unsecured interest expense to

discontinued operations was based upon the gross book value of the discontinued operations unencumbered population as it related to our entire unencumbered population.

We recorded impairment adjustments on depreciable properties of \$266,000, \$3.7 million and \$180,000 in 2006, 2005 and 2004, respectively.



## (7) Indebtedness

Indebtedness at December 31 consists of the following (in thousands):

	2006	2005
Fixed rate secured debt, weighted average interest rate of 6.21% at December 31, 2006, and 6.13% at December 31, 2005, maturity dates ranging from 2007 to 2026	\$652,886	\$131,732
Variable rate secured debt, weighted average interest rate of 3.79% at December 31, 2006, and 5.75% at December 31, 2005, maturity dates ranging from 2014 to 2025	9,615	35,523
Fixed rate unsecured notes, weighted average interest rate of 5.67% at December 31, 2006, and 6.02% at December 31, 2005, maturity dates ranging from 2007 to 2028	3,125,157	1,800,396
Unsecured line of credit, interest rate of 5.82% at December 31, 2006, and 4.83% at December 31, 2005 maturity date of 2010	317,000	383,000
Variable rate unsecured debt, market rate of 6.2% at December 31, 2006, and 4.76% at December 31, 2005, maturity date of 2008	4,496	250,000
	<b>\$4,109,154</b>	<b>\$2,600,651</b>

The fair value of our indebtedness as of December 31, 2006, was \$4.2 billion. This fair value amount was calculated using current market rates and spreads available to us on debt instruments with similar terms and maturities.

As of December 31, 2006, the \$662.5 million of secured debt was collateralized by rental

properties with a carrying value of \$1.0 billion and by letters of credit in the amount of \$9.8 million.

We had one unsecured line of credit available at December 31, 2006, described as follows (dollars in thousands):

Description	Borrowing Capacity	Maturity Date	Interest Rate	Outstanding at December 31, 2006
Unsecured Line of Credit	\$1,000,000	January 2010	LIBOR + .525%	\$317,000

The line of credit provides us with an option to obtain borrowings from financial institutions that participate in the line, at rates lower than the stated interest rate, subject to certain restrictions. Interest rates on the amounts outstanding on the unsecured line of credit as of December 31, 2006 ranged from LIBOR+.17% to LIBOR+.525% (equal to 5.52% and 5.875% as of December 31, 2006).

The line of credit also contains various financial covenants that require us to meet financial ratios and defined levels of performance, including those related to variable rate indebtedness, consolidated net worth and debt-to-market capitalization. As of December 31, 2006, we were in compliance with all financial covenants under our line of credit.

We took the following actions during the year ended December 31, 2006, relevant to our indebtedness:

- In January 2006, we renewed our unsecured line of credit. The new facility provides borrowing capacity up to \$1.0 billion and, subject to certain conditions, may be increased to \$1.3 billion. Under the new facility, which replaced the previous unsecured line of credit agreement, the interest rate was reduced, the borrowing capacity was increased by \$500.0 million and the maturity date was extended to January 25, 2010.
- To finance the acquisition of the Mark Winkler Portfolio, we obtained a \$700.0 million term loan with an interest rate of LIBOR + .525%, secured by certain of the acquired real estate properties. This term loan was paid in full in August 2006 with proceeds from the issuance of senior unsecured debt as described below.
- In conjunction with our real estate acquisitions, we assumed \$221.6 million of mortgage loans, of which we received



\$10.5 million of proceeds directly. The assumed mortgage loans bear interest at rates ranging between 5.55% and 8.50% and have maturities ranging between 2011 and 2026. An adjustment of \$6.3 million was recorded to increase the assumed loans to fair value.

- In February and March 2006, we issued \$150.0 million of 5.50% senior unsecured notes due in 2016. A portion of the proceeds were used to retire our \$100.0 million of 6.72% unsecured notes. The remaining cash proceeds were used to fund costs associated with the issuance of the debt and to repay amounts outstanding under our line of credit.
- In August 2006, we issued \$450.0 million of 5.95% senior unsecured notes due in 2017 and \$250.0 million of 5.625% senior unsecured notes due in 2011. The proceeds from these issuances were used to pay off the \$700.0 million secured term loan that was obtained to finance the purchase of the Mark Winkler Portfolio.
- In November 2006, we issued \$319.0 million of 5.91% debt due in 2016 secured by certain of our in-service real estate properties.
- In November 2006, we issued \$575.0 million of 3.75% Exchangeable Senior Notes ("Exchangeable Notes"), which will pay interest semiannually at a rate of 3.75% per annum and mature in December 2011.

The Exchangeable Notes can be exchanged for shares of our common stock upon the occurrence of certain events as well as at any time beginning on August 1, 2011 and ending on the second business day prior to the maturity date. The Exchangeable Notes will have an initial exchange rate of approximately 20.4298 common shares per \$1,000 principal amount of the notes, representing an exchange price of approximately \$48.95 per share of Duke's common stock and an initial exchange premium of approximately 20.0% based on the price of \$40.79 per share of our common stock on the date of the original issuance. The initial exchange rate is subject to adjustment under certain circumstances including increases in our rate of dividends. Upon exchange the holders of the notes would receive (i) cash equal to the principal amount of the note and (ii) to

the extent the conversion value exceeds the principal amount of the note, either cash or shares of common stock at our option.

Concurrent with the issuance of the Exchangeable Notes, we purchased a capped call option on our common stock in a private transaction. This capped call option allows us to buy our common shares, up to a maximum of approximately 11.7 million shares, from counter parties equal to the amounts of common stock and/or cash related to the excess conversion value we would pay to the holders of the Exchangeable Notes upon conversion. The capped call option will terminate upon the earlier of the maturity date of the related Exchangeable Notes or the first day all of the related Exchangeable Notes are no longer outstanding due to conversion or otherwise. The capped call option, which cost \$27.0 million, was recorded as a reduction of shareholders' equity and effectively increased the conversion price to 40% above the stock price on the issuance date. The fair value of the capped call option was \$27.9 million at December 31, 2006.

- In December 2006, we repaid \$250.0 million of LIBOR + .26% Senior Unsecured Notes upon their maturity.

At December 31, 2006, the scheduled amortization and maturities of all indebtedness for the next five years and thereafter were as follows (in thousands):

Year	Amount
2007	\$227,660
2008	285,942
2009	287,185
2010	503,952
2011	1,024,124
Thereafter	<u>1,780,291</u>
	<u>\$4,109,154</u>

The amount of interest paid in 2006, 2005 and 2004 was \$198.1 million, \$151.3 million and \$136.2 million, respectively. The amount of interest capitalized in 2006, 2005 and 2004 was \$36.3 million, \$9.5 million and \$6.0 million, respectively.





## (8) Segment Reporting

We are engaged in three reportable operating segments, the first two of which consist of the ownership and rental of office and industrial real estate investments. The third segment consists of our build-to-suit for sale operations and providing various real estate services such as property management, maintenance, leasing, development and construction management to third-party property owners and joint ventures (“Service Operations”). Our reportable segments offer different products or services and are managed separately because each segment requires different operating strategies and management expertise.

The assets of the Service Operations business segment generally include properties under development. During the period between the completion of development, rehabilitation or repositioning of a Service Operations property and the date the property is contributed to a property fund or sold to a third party, the property and its associated rental income and rental expenses are included in the applicable property operations segment because the primary activity associated with the Service Operations property during that period is rental activities. Upon contribution or sale, the resulting gain or loss is part of the income of the Service Operations business segment.

Non-segment revenue consists mainly of equity in earnings of unconsolidated companies and other insignificant rental operations such as retail properties. Segment FFO information (FFO is defined below) is calculated by subtracting operating expenses attributable to the applicable segment from segment revenues. Non-segment assets consist of corporate assets including cash, deferred financing costs and investments in unconsolidated companies. Interest expense and other non-property specific revenues and expenses are not allocated to individual segments in determining our performance measure.

We assess and measure segment operating results based upon an industry performance measure referred to as Funds From Operations (“FFO”), which management believes is a useful indicator of our operating performance. FFO is used by industry analysts and investors as a supplemental operating performance measure of an equity real estate investment trust (“REIT”) like Duke. FFO is calculated in accordance with the definition that was adopted by the Board of Governors of the National Association of Real Estate Investment Trusts (“NAREIT”). NAREIT created FFO as a supplemental

measure of REIT operating performance that excludes historical cost depreciation, among other items, from net income determined in accordance with GAAP. FFO is a non-GAAP financial measure developed by NAREIT to compare the operating performance of REITs. The most comparable GAAP measure is net income (loss). FFO should not be considered as a substitute for net income or any other measures derived in accordance with GAAP and may not be comparable to other similarly titled measures of other companies.

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

Management believes that the use of FFO, combined with the required primary GAAP presentations, improves the understanding of operating results of REITs among the investing public and makes comparisons of REIT operating results more meaningful. Management considers FFO to be a useful measure for reviewing comparative operating and financial performance (although FFO should be reviewed in conjunction with net income which remains the primary measure of performance) because by excluding gains or losses related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization, FFO provides a useful comparison of the operating performance of our real estate between periods or as compared to different companies.

The following table shows (i) the revenues and FFO for each of the reportable segments and (ii) a reconciliation of net income available for common shareholders to the calculation of FFO for the years ended December 31 (in thousands):



	2006	2005	2004
<b>Revenues</b>			
Rental Operations:			
Office	\$562,903	\$462,939	\$419,068
Industrial	203,259	166,343	152,989
Service Operations	90,125	81,941	70,803
Total Segment Revenues	856,287	711,223	642,860
Non-Segment Revenue	52,513	39,325	31,764
Consolidated Revenue from continuing operations	908,800	750,548	674,624
Discontinued Operations	40,852	129,239	173,746
Consolidated Revenue	\$949,652	\$879,787	\$848,370
<b>Funds From Operations</b>			
Rental Operations:			
Office	\$351,818	\$284,807	\$268,520
Industrial	156,328	124,742	116,782
Services Operations	53,196	44,278	27,652
Total Segment FFO	561,342	453,827	412,954
Non-Segment FFO:			
Interest expense	(179,007)	(113,067)	(103,976)
Interest and other income, net	10,450	4,637	4,646
General and administrative expense	(35,834)	(31,003)	(29,481)
Gain on land sales, net of impairment	7,791	14,201	10,119
Other non-segment income (expense)	4,531	(541)	3,919
Minority interest	(10,007)	(10,404)	(12,027)
Minority interest share of FFO adjustments	(18,858)	(3,065)	(19,783)
Joint venture FFO	37,774	37,964	40,488
Dividends on preferred shares	(56,419)	(46,479)	(33,777)
Adjustment for redemption of preferred shares	(2,633)	—	(3,645)
Discontinued operations, net of minority interest	18,878	35,119	83,032
Consolidated basic FFO	338,008	341,189	352,469
Depreciation and amortization on continuing operations	(244,129)	(215,400)	(171,764)
Depreciation and amortization on discontinued operations	(10,139)	(38,770)	(56,818)
Company's share of joint venture adjustments	(18,394)	(19,510)	(18,901)
Earnings from depreciated property sales on discontinued operations	42,089	227,513	26,510
Earnings from depreciated property sales—share of joint venture	18,802	11,096	—
Minority interest share of FFO adjustments	18,858	3,065	19,783
Net income available for common shareholders	\$145,095	\$309,183	\$151,279

The assets for each of the reportable segments as of December 31 are as follows (in thousands):

	December 31, 2006	December 31, 2005
<b>Assets</b>		
Rental Operations:		
Office	\$4,081,917	\$3,396,985
Industrial	1,951,916	1,577,631
Service Operations	270,652	177,463
Total Segment Assets	6,304,485	5,152,079
Non-Segment Assets	934,110	495,481
Consolidated Assets	\$7,238,595	\$5,647,560



In addition to revenues and FFO, we also review our recurring capital expenditures in measuring the performance of our individual Rental Operations segments. These recurring capital expenditures consist of tenant improvements, leasing commissions and building improvements.

We review these expenditures to determine the costs associated with re-leasing vacant space and maintaining the condition of our properties. Our recurring capital expenditures by segment are summarized as follows for the years ended December 31 (in thousands):

	2006	2005	2004
<b>Recurring Capital Expenditures</b>			
Office	<b>\$53,048</b>	\$66,890	\$68,535
Industrial	<b>13,734</b>	42,083	39,096
Non-segment	<b>341</b>	67	22
Total	<b>\$67,123</b>	\$109,040	\$107,653

### (9) Leasing Activity

Future minimum rents due to us under non-cancelable operating leases at December 31, 2006, are as follows (in thousands):

Year	Amount
2007	\$622,631
2008	592,653
2009	529,424
2010	456,919
2011	365,683
Thereafter	<u>1,097,812</u>
	<u>\$3,665,122</u>

In addition to minimum rents, certain leases require reimbursements of specified operating expenses that amounted to \$161.7 million, \$151.4 million, and \$137.9 million for the years ended December 31, 2006, 2005 and 2004, respectively.

### (10) Employee Benefit Plans

We maintain a 401(k) plan for full-time employees. We make matching contributions up to an amount equal to three percent of the employee's salary and may also make annual discretionary contributions. The total expense recognized for this plan was \$3.9 million, \$3.3 million and \$2.2 million for the years ended December 31, 2006, 2005 and 2004, respectively.

We make contributions to a contributory health and welfare plan as necessary to fund claims not covered by employee contributions. The total expense we recognized related to this plan was \$9.4 million, \$8.1 million and \$7.2 million for 2006, 2005 and 2004, respectively. These expense amounts include estimates based upon the historical experience of claims incurred but not reported as of year-end.

### (11) Shareholders' Equity

We periodically access the public equity markets to fund the development and acquisition of additional rental properties or to pay down debt. The proceeds of these offerings are contributed to DRLP in exchange for an additional interest in DRLP. In January 2006, we issued \$184.0 million of 6.95% Series M Cumulative Redeemable Preferred Shares, from which a portion of the net proceeds were used to redeem our \$75.0 million of outstanding 8.45% Series I Cumulative Redeemable Preferred Shares. Offering costs of \$2.6 million were charged against net income available to common shareholders in conjunction with the redemption of the Series I Cumulative Redeemable Preferred Shares. In June 2006, we issued \$110.0 million of 7.25% Series N Cumulative Redeemable Preferred Shares.

The following series of preferred shares were outstanding as of December 31, 2006 (in thousands, except percentage data):

Description	Shares Outstanding	Dividend Rate	Redemption Date	Liquidation Preference
Series B Preferred	265	7.990%	September 30, 2007	\$132,250
Series J Preferred	400	6.625%	August 29, 2008	100,000
Series K Preferred	600	6.500%	February 13, 2009	150,000
Series L Preferred	800	6.600%	November 30, 2009	200,000
Series M Preferred	736	6.950%	January 31, 2011	184,000
Series N Preferred	440	7.250%	June 30, 2011	110,000





The dividend rate on the Series B preferred shares increases to 9.99% after September 12, 2012.

All series of preferred shares require cumulative distributions and have no stated maturity date (although we may redeem all such preferred shares on or following their optional redemption dates at our option, in whole or in part).

Pursuant to the \$750 million share repurchase plan that was approved by our board of directors, we paid approximately \$91.9 million and \$297.1 million for the redemption of 2,266,684 and 8,995,775 of our common shares at an average price of \$40.55 and \$33.02 per share during the years ended December 31, 2006 and 2005, respectively. From time to time, management may repurchase additional common shares pursuant to our share repurchase plan.

## (12) Stock Based Compensation

We are authorized to issue up to 10,462,147 shares of our common stock under our stock based employee and non-employee compensation plans.

Some of our stock-based compensation awards, including both stock options and restricted stock units, have a retirement eligible provision, whereby awards granted to an employee who has reached certain age and service criteria, automatically vest upon such employee's retirement. We have previously accounted for this type of arrangement by recognizing compensation cost (for both pro forma and expense recognition purposes) over the full stated vesting period of the award and, if the employee retired before the end of the vesting period, recognizing any remaining unrecognized compensation cost at the date of retirement. Upon adoption of SFAS 123(R), expense on new

awards is recognized over a period up until when the awards are no longer contingent upon future service. Had we applied this method of vesting to all existing unvested awards issued to retirement eligible employees prior to January 1, 2006, we would have recognized an additional \$1.0 million in stock-based employee compensation expense for the year ended December 31, 2006.

An additional requirement of SFAS 123(R) is that estimated forfeitures be considered in determining compensation expense. As previously permitted, we recorded forfeitures when they occurred. The effect of this accounting change on existing nonvested stock compensation was insignificant.

The effect of adopting SFAS 123(R) was not significant to earnings or cash flows.

Cash flows resulting from tax deductions in excess of recognized compensation cost from the exercise of stock options (excess tax benefits) were not significant in any period presented.

## Fixed Stock Option Plans

We had options outstanding under six fixed stock option plans as of December 31, 2006. Additional grants may be made under one of those plans. Stock option awards granted under our stock based employee and non-employee compensation plans generally vest over five years at 20% per year and have contractual lives of ten years. The exercise price for stock option grants is set at the fair value of our common stock on the day of grant.

The following table summarizes transactions under our stock option plans as of December 31, 2006:

	2006			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life	Aggregate Intrinsic Value (1) (in Millions)
Outstanding, beginning of year	3,828,157	\$25.50		
Granted	861,591	\$34.19		
Exercised	(714,524)	\$22.40		
Forfeited	(126,299)	\$30.71		
Outstanding, end of year	3,848,925	\$27.85	6.3	\$50.2
Options exercisable, end of year	1,985,742	\$24.26	4.6	\$33.0

(1) The aggregate intrinsic value represents the total pre-tax intrinsic value, based on the closing stock price of \$40.90 at December 31, 2006, which would have been received by the option holders had all option holders exercised their options as of that date. This amount changes continuously based on the market prices of the stock.



Options granted in the years ended December 31, 2006, 2005, and 2004, respectively, had a weighted average fair value per option of \$3.60, \$3.04, and \$2.84. As of December 31, 2006, there was \$3.4 million of total unrecognized compensation expense related to stock options granted under the plans, which is expected to be recognized over a weighted average remaining period of 2.97 years. The total intrinsic value of options exercised during the years ended December 31, 2006, 2005, and 2004 respectively, was \$11.3 million, \$3.4 million, and \$8.5 million.

	2006	2005	2004
Dividend yield	6.25%	6.25%	6.50%
Volatility	20.0%	20.0%	20.0%
Risk-free interest rate	4.5%	3.8%	3.6%
Expected life	6 years	6 years	6 years

The risk free interest rate assumption is based upon observed interest rates appropriate for the term of our employee stock options. The dividend yield assumption is based on the history of and our present expectation of future dividend payouts. Our computation of expected volatility for the valuation of stock options granted in the years ended December 31, 2006, 2005, and 2004 is based on historic volatility over a period of time equal to the expected term. The expected life of employee stock options represents the weighted average period the stock options are expected to remain outstanding.

### Performance Share Plan

Performance shares were granted under the 2000 Performance Share Plan, with each performance share economically equivalent to one share of our common stock.

2000 Performance Share Plan	Vested	Unvested	Total
Performance Share Plan units at			
December 31, 2005	84,466	99,001	183,467
Granted	—	—	—
Vested	25,487	(25,487)	—
Forfeited	—	(3,746)	(3,746)
Dividend reinvestments	8,378	—	8,378
Disbursements	(15,076)	—	(15,076)
Total Performance Share Plan units			
outstanding at December 31, 2006	103,255	69,768	173,023

Compensation expense recognized for Performance Share Plan units was \$1.2 million, \$1.3 million, and \$1.7 million for 2006, 2005,

and 2004, respectively. The total vest date fair value of shares vesting during the year ended December 31, 2006 was \$918,000.

Compensation expense recognized for fixed stock option plans was \$1.7 million, \$1.1 million, and \$853,000 for the years ended December 31, 2006, 2005, and 2004, respectively. The fair value of options vested during the years ended December 31, 2006, 2005, and 2004 was \$1.6 million, \$1.2 million, and \$1.1 million, respectively.

The fair values of the options were determined using the Black-Scholes option-pricing model with the following assumptions:

The performance shares vest over a five-year period with the vesting percentage for a year dependent upon our attainment of certain predefined levels of earnings growth for such year. The performance shares have a contractual life of five years.

In April 2006, the 2000 Performance Share Plan was amended to provide that awards would be settled in shares of common stock rather than cash. The fair value of existing awards was fixed at the date of the amendment and the fair value of subsequent awards will be fixed at the fair value of our common stock at the date of grant.

The following table summarizes transactions for our performance shares for the year ended December 31, 2006:



### Shareholder Value Plan Awards

Our 2005 Shareholder Value Plan ("2005 SVP Plan"), a sub-plan of our 2005 Long-Term Incentive Plan, was approved by our shareholders in April 2005. Upon vesting, payout of the 2005 Shareholder Value Plan awards will be made in shares of our common stock. Under the 2005 SVP Plan, shareholder value awards fully vest three years after the date of grant. The number of common shares to be issued may range from 0%-300% of the target shares awarded and will be based upon our total shareholder return for such three-year period as compared to the S&P

500 Index and the NAREIT Real Estate 50 Index. Each index is weighted at 50%.

Awards made under the 2005 SVP Plan are measured at fair value, which is determined using a Monte Carlo simulation model that was developed to accommodate the unique features of the 2005 SVP Plan. Compensation cost recognized under the 2005 SVP Plan was \$879,000 and \$438,000 for the years ended December 31, 2006 and 2005, respectively.

The following table summarizes transactions for our awards under the 2005 SVP Plan for 2006:

	Number of SVP Units	Weighted Average Grant Date Fair Value
<b>2005 Shareholder Value Plan Awards</b>		
SVP awards at December 31, 2005	75,678	\$30.64
Granted	90,844	\$34.13
Forfeited	(5,169)	\$31.54
SVP awards at December 31, 2006	<u>161,353</u>	\$32.58

As of December 31, 2006, there was \$1.7 million of total unrecognized compensation expense related to nonvested SVP Plan awards granted under the 2005 SVP Plan, which will be recognized over a weighted average period of 1.75 years. All 2005 SVP Plan awards have a contractual life of three years.

### Restricted Stock Units

Under our 2005 Long-Term Incentive Plan and our 2005 Non-Employee Directors Compensation Plan approved by our shareholders in April 2005, restricted stock units ("RSUs") may be granted to non-employee directors, executive officers

and selected management employees. An RSU is economically equivalent to one share of our common stock. RSUs granted prior to January 1, 2006 vest 20% per year over five years, have contractual lives of five years and are payable in shares of our common stock. RSUs granted to existing non-employee directors subsequent to January 1, 2006 vest 100% over one year, and have contractual lives of one year. We recognize the value of the granted RSUs over this vesting period as expense.

The following table summarizes transactions for our RSUs, excluding dividend equivalents, for 2006:

	Number of RSUs	Weighted Average Grant Date Fair Value
<b>Restricted Stock Units</b>		
RSUs at December 31, 2005	172,095	\$32.19
Granted	108,452	\$34.18
Vested	(33,084)	\$33.83
Forfeited	(11,859)	\$32.51
RSUs at December 31, 2006	<u>235,604</u>	\$33.98

Compensation cost recognized for RSUs totaled \$2.1 million and \$478,000 for the years ended December 31, 2006 and 2005, respectively.

As of December 31, 2006, there was \$5.5 million of total unrecognized compensation expense related to nonvested RSUs granted under the Plan, which is expected to be recognized over a weighted average period of 4 years.



### (13) Financial Instruments

We are exposed to capital market risk, such as changes in interest rates. In order to manage the volatility relating to interest rate risk, we may enter into interest rate hedging arrangements from time to time. We do not utilize derivative financial instruments for trading or speculative purposes.

In August 2005, we entered into \$300.0 million of cash flow hedges through forward-starting interest rate swaps to hedge interest rates on \$300.0 million of anticipated debt offerings in 2007. The swaps qualify for hedge accounting, with any changes in fair value recorded in Accumulated Other Comprehensive Income ("OCI"). At December 31, 2006, the fair value of these swaps was approximately \$9.9 million in an asset position as the effective rates of the swaps were lower than current interest rates at December 31, 2006.

In March 2005, we entered into \$300.0 million of cash flow hedges through forward-starting interest rate swaps to hedge interest rates on \$300.0 million of anticipated debt offerings in 2006. The swaps qualified for hedge accounting, with any changes in fair value recorded in OCI. In March 2006, we issued \$150.0 million of 5.5% senior unsecured notes due 2016 and terminated a corresponding amount of the cash flow hedges designated for this transaction. The settlement amount paid of approximately \$800,000 will be recognized to earnings through interest expense ratably over the life of the senior unsecured notes and the ineffective portion of the hedge was insignificant. In August 2006, we issued \$450.0 million of 5.95% senior unsecured notes due 2017 and \$250.0 million of 5.63% senior unsecured notes due 2011 and terminated the remaining \$150 million of cash flow hedges. The settlement amount received of approximately \$1.6 million will be recognized to earnings through a reduction of interest expense ratably over the lives of the senior unsecured notes. The ineffective portion of the hedge was insignificant.

In June 2004, we simultaneously entered into three forward-starting interest rate swaps aggregating \$144.3 million, which effectively fixed the rate on financing expected in 2004 at 5.346%, plus our credit spread over the swap rate. The swaps qualified for hedge accounting; therefore, changes in the fair value were recorded in OCI. In August 2004, we settled these three swaps when we issued \$250.0 million of senior unsecured notes with an effective interest rate of 6.33%, due in 2014. We paid \$6.9 million

to unwind the swaps, which is amortized from OCI into interest expense over the life of the new 6.33% senior unsecured notes.

The effectiveness of our hedges will be evaluated throughout their lives using the hypothetical derivative method under which the change in fair value of the actual swap designated as the hedging instrument is compared to the change in fair value of a hypothetical swap.

### (14) Recent Accounting Pronouncements

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on description, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 becomes effective on January 1, 2007 and is not anticipated to have a material effect on our 2007 financial position, results of operations, or liquidity.

In September 2006, the Securities Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB 108"). SAB 108 provides guidance regarding the process of quantifying the materiality of financial statement misstatements. We adopted SAB 108 in the fourth quarter of 2006 with no effect to our financial statements.

### (15) Commitments and Contingencies

We have guaranteed the repayment of \$79.6 million of economic development bonds issued by various municipalities in connection with certain commercial developments. We will be required to make payments under our guarantees to the extent that incremental taxes from specified developments are not sufficient to pay the bond debt service. Management does not believe that it is probable that we will be required to make any significant payments in satisfaction of these guarantees.

We also have guaranteed the repayment of secured and unsecured loans of four of our unconsolidated subsidiaries. At December 31,





2006, the outstanding balance on these loans was approximately \$129.0 million. Management believes that the value of the real estate exceeds the loan balance and that we will not be required to satisfy these guarantees.

We have entered into agreements, subject to the completion of due diligence requirements, resolution of certain contingencies and completion of customary closing conditions, for the future acquisition of land totaling \$36.1 million.

In October 2000, we sold or contributed industrial properties and undeveloped land with a fair value of \$487 million to a joint venture (Dugan Realty LLC) in which we have a 50% interest and recognized a net gain of \$35.2 million. In connection with this transaction, the joint venture partners were given an option to put up to a \$50 million interest in the joint venture to us in exchange for our common stock or cash (at our option), subject to certain timing and other restrictions. As a result of this put option, we deferred \$10.2 million of gain on

sale of depreciated property and recorded a \$50 million liability.

We renewed all of our major insurance policies in 2006. These policies include coverage for acts of terrorism for our properties. We believe that this insurance provides adequate coverage against normal insurance risks and that any loss experienced would not have a significant impact on our liquidity, financial position, or results of operations.

We are subject to various legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of any ultimate liability with respect to these actions will not materially affect our consolidated financial statements or results of operations.

### (16) Subsequent Events

#### *Declaration of Dividends*

The Company's board of directors declared the following dividends at its January 31, 2007, regularly scheduled board meeting:

<b>Class</b>	<b>Quarterly Amount/Share</b>	<b>Record Date</b>	<b>Payment Date</b>
Common	\$0.4750	February 14, 2007	February 28, 2007
Preferred (per depositary share):			
Series B	\$0.998750	March 16, 2007	March 30, 2007
Series J	\$0.414063	February 14, 2007	February 28, 2007
Series K	\$0.406250	February 14, 2007	February 28, 2007
Series L	\$0.412500	February 14, 2007	February 28, 2007
Series M	\$0.434375	March 16, 2007	March 30, 2007
Series N	\$0.453125	March 16, 2007	March 30, 2007



Selected quarterly information for the years ended December 31, 2006 and 2005 is as follows (in thousands, except per share amounts):

	Quarter Ended			
	December 31	September 30	June 30	March 31
<b>2006</b>				
Revenues from continuing Rental Operations	\$218,014	\$204,663	\$203,662	\$192,336
Revenues from continuing Service Operations	47,927	22,474	9,718	10,006
Net income available for common shareholders	\$50,196	\$61,734	\$21,717	\$11,448
Basic income per common share	\$0.37	\$0.46	\$0.16	\$0.08
Diluted income per common share	\$0.37	\$0.45	\$0.16	\$0.08
Weighted average common shares	134,665	135,117	134,969	134,781
Weighted average common shares and potential dilutive common equivalents	149,020	150,947	149,364	149,265
Funds From Operations (1)	\$102,788	\$88,787	\$78,756	\$67,677
<b>2005</b>				
Revenues from continuing Rental Operations	\$175,686	\$167,740	\$167,803	\$157,378
Revenues from continuing Service Operations	13,914	22,584	23,748	21,695
Net income available for common shareholders	30,055	213,348	40,299	25,481
Basic income per common share	\$0.22	\$1.50	\$0.28	\$0.18
Diluted income per common share	\$0.22	\$1.48	\$0.28	\$0.18
Weighted average common shares	136,855	142,663	143,480	143,089
Weighted average common shares and potential dilutive common equivalents	151,145	158,468	157,696	157,720
Funds From Operations (1)	\$84,548	\$87,175	\$87,841	\$81,625

(1) Funds From Operations ("FFO") is used by industry analysts and investors as a supplemental operating performance measure of an equity real estate investment trust ("REIT") like Duke. FFO is calculated in accordance with the definition that was adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"). NAREIT created FFO as a supplemental measure of REIT operating performance that excludes historical cost depreciation, among other items, from net income determined in accordance with United States generally accepted accounting principles ("GAAP"). FFO is a non-GAAP financial measure developed by NAREIT to compare the operating performance of REITs. The most comparable GAAP measure is net income (loss). FFO should not be considered as a substitute for net income or any other measures derived in accordance with GAAP and may not be comparable to other similarly titled measures of other companies.

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

Management believes that the use of FFO, combined with the required primary GAAP presentations, has improved the understanding of operating results of REITs among the investing public and made comparisons of REIT operating results more meaningful. Management considers FFO to be a useful measure for reviewing comparative operating and financial performance (although FFO should be reviewed in conjunction with net income which remains the primary measure of performance) because by excluding gains or losses related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization, FFO provides a useful comparison of the operating performance of our real estate between periods or as compared to different companies.



## Board of Directors

**Dennis D. Oklak**  
Chairman of the Board and  
Chief Executive Officer  
Duke Realty Corporation

**Barrington H. Branch**  
President  
The Branch-Shelton  
Company, LLC

**Geoffrey Button**  
Independent Real Estate  
and Financing Consultant

**William Cavanaugh III**  
Chairman  
World Association of  
Nuclear Operations

**Ngaire E. Cuneo**  
Partner  
Red Associates, LLC

**Charles R. Eitel**  
Chairman and Chief  
Executive Officer  
The Simmons Company

**Dr. R. Glenn Hubbard**  
Dean and Russell L. Carson  
Professor of Finance and  
Economics  
Columbia University,  
Graduate School of Business

**Dr. Martin C. Jischke**  
President  
Purdue University

**L. Ben Lytle**  
Independent Management  
and Healthcare Industry  
Consultant

**William O. McCoy**  
Partner  
Franklin Street Partners

**Jack R. Shaw**  
Vice President and  
Treasurer  
The Regenstrief Foundation

**Robert J. Woodward, Jr.**  
Chairman  
Palmer-Donavin  
Manufacturing Co.

## Board Committees

### *Audit*

Jack R. Shaw (Chair)  
Geoffrey Button  
Ngaire E. Cuneo  
Robert J. Woodward, Jr.

### *Corporate Governance*

L. Ben Lytle (Chair)  
William Cavanaugh III  
William O. McCoy

### *Executive Compensation*

Charles R. Eitel (Chair)  
Barrington H. Branch  
Dr. R. Glenn Hubbard  
Dr. Martin C. Jischke

### *Finance*

Robert J. Woodward, Jr.  
(Chair)  
Geoffrey Button  
Ngaire E. Cuneo  
Jack R. Shaw

## Executive Committee

**Dennis D. Oklak**  
Chairman and Chief  
Executive Officer

**Robert M. Chapman**  
Senior Executive Vice  
President, Head of Real  
Estate Operations

**Matthew A. Cohoat**  
Executive Vice President  
and Chief Financial Officer

**James B. Connor**  
Executive Vice President,  
Central Region

**Denise K. Dank**  
Senior Vice President  
Human Resources

**Howard L. Feinsand**  
Executive Vice President,  
General Counsel and  
Corporate Secretary

**H. Andrew Kelton**  
Regional Senior Vice  
President, Mid-Atlantic  
Region

**Donald J. Hunter**  
Executive Vice President,  
Mid-East Region

**Steve R. Kennedy**  
Executive Vice President,  
Construction

**Sam O'Briant**  
Regional Senior Vice  
President, Southeast Region

**Paul R. Quinn**  
Senior Vice President  
Chief Information Officer

**Kevin T. Rogus**  
Executive Vice President,  
West Region

**Chris L. Seger**  
Executive Vice President,  
National Group



## How to Reach Us

Corporate Headquarters  
600 East 96th Street, Suite 100  
Indianapolis, IN 46240  
317.808.6000

## Transfer Agent and Registrar

American Stock Transfer & Trust Company  
59 Maiden Lane  
New York, NY 10038  
800.937.5449 or 212.936.5100  
www.amstock.com

## Investor Relations

Direct Investor Inquiries to:  
Duke Realty Corporation  
Attn: Investor Relations  
600 East 96th Street, Suite 100  
Indianapolis, IN 46240  
317.808.6005 or 800.875.3366  
317.808.6770 Fax  
IR@dukerealty.com  
www.dukerealty.com

## General Information

### Dividend Reinvestment and Stock Purchase Plan

Duke's Dividend Reinvestment and Stock Purchase Plan provides shareholders with an opportunity to conveniently acquire the Company's common stock. Shareholders may have all or a portion of their dividends and distributions automatically reinvested, and may make optional cash payments toward the purchase of additional common shares. Information regarding the Plan may be obtained from the Company's transfer agent, which administers the Plan.

### Electronic Deposit of Dividends

Registered holders of our common stock may have their quarterly dividends deposited to their checking or savings account free of charge. Call Investor Relations to sign up for this service.

## Market Price and Dividends

The Company's common shares are listed for trading on the New York Stock Exchange under the symbol "DRE." The following table sets forth the high, low and closing sales prices of the common stock for the periods indicated and the dividend paid per share during such period.

2006				
Quarter Ended	High	Low	Close	Dividend
December 31	\$ 44.05	\$ 36.98	\$ 40.90	\$ 0.475
September 30	38.50	34.60	37.35	0.475
June 30	37.90	32.88	35.15	0.470
March 31	38.55	33.32	37.95	0.470

2005				
Quarter Ended	High	Low	Close	Dividend
December 31	\$ 35.09	\$ 31.22	\$ 33.40	\$ 0.470
September 30	34.30	30.77	33.88	0.470
June 30	32.25	29.28	31.66	0.465
March 31	34.37	29.45	29.85	0.465

On January 31, 2007, the company declared a quarterly cash dividend of \$0.475 per share, payable on February 28, 2007, to common shareholders of record on February 14, 2007.

### Management Certifications

In accordance with Section 303A.12(a) of the NYSE Listed Company Manual, the CEO of the Company provided a Section 12(a) annual certification, which stated that he was not aware of any violations by the Company of the NYSE corporate governance listing standards. In accordance with Section 302 of the Sarbanes-Oxley Act of 2002, the CEO and CFO of the Company also provided Section 302 certifications, which were filed with the SEC as exhibits to the Company's Annual Report on Form 10-K.

When used in the Annual Report, the words "believes," "expects," "estimates" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially. In particular, among the factors that could cause actual results to differ materially are continued qualification as a real estate investment trust, general business and economic conditions, competition, increases in real estate construction costs, interest rates, accessibility of debt and equity capital markets and other risks inherent in real estate business including tenant defaults, potential liability relating to environmental matters and liquidity of real estate investments. This list of risks and uncertainties, however, is only a summary of some of the most important factors and is not intended to be exhaustive. Additional information regarding risk factors that may affect us is included under the caption "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005, which we filed with the SEC on March 7, 2006, and is updated by us from time to time in Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other filings that we make with the SEC.



**CORPORATE HEADQUARTERS**  
600 East 96th Street, Suite 100  
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317.808.6000



ATLANTA | BALTIMORE | CHICAGO | CINCINNATI | CLEVELAND | COLUMBUS | DALLAS | FT. LAUDERDALE  
HOUSTON | INDIANAPOLIS | MINNEAPOLIS - ST. PAUL | NASHVILLE | ORLANDO | PHOENIX | RALEIGH  
SAVANNAH | ST. LOUIS | TAMPA | WASHINGTON, DC

Additional information about Duke Realty Corporation can be found on the Company's website at [www.dukerealty.com](http://www.dukerealty.com).