

Piedmont Office Realty Trust, Inc.

Form 10-Q

November 10, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended September 30, 2010

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the transition period from _____ to _____

Commission file number 001-34626

PIEDMONT OFFICE REALTY TRUST, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation or organization)

58-2328421
(I.R.S. Employer Identification Number)

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11695 Johns Creek Parkway

Ste. 350

Johns Creek, Georgia 30097

(Address of principal executive offices)

(Zip Code)

(770) 418-8800

(Registrant's telephone number, including area code)

N/A

(Former name, former address, and former fiscal year, if changed since last report)

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated filer

Accelerated filer

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

Smaller reporting company

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

Yes No

Number of shares outstanding of the registrant's

classes of common stock, as of November 9, 2010:

Class A Common Stock 132,956,299 shares

Class B-3 Common Stock 39,702,190 shares

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Form 10-Q and other written or oral statements made by or on behalf of Piedmont Office Realty Trust, Inc. (Piedmont) may constitute forward-looking statements within the meaning of the federal securities laws. In addition, Piedmont, or its executive officers on Piedmont s behalf, may from time to time make forward-looking statements in reports and other documents Piedmont files with the Securities and Exchange Commission or in connection with oral statements made to the press, potential investors, or others. Statements regarding future events and developments and Piedmont s future performance, as well as management s expectations, beliefs, plans, estimates, or projections relating to the future, are forward-looking statements within the meaning of these laws. Forward-looking statements include statements preceded by, followed by, or that include the words may, will, expect, intend, anticipate, estimate, believe, continue, or similar words. Examples of such statements in this report include descriptions of our real estate, financing, and operating objectives; discussions regarding future dividends; and discussions regarding the potential impact of economic conditions on our portfolio.

These statements are based on beliefs and assumptions of Piedmont s management, which in turn are based on currently available information. Important assumptions relating to the forward-looking statements include, among others, assumptions regarding the demand for office space in the sectors in which Piedmont operates, competitive conditions, and general economic conditions. These assumptions could prove inaccurate. The forward-looking statements also involve risks and uncertainties, which could cause actual results to differ materially from those contained in any forward-looking statement. Many of these factors are beyond Piedmont s ability to control or predict. Such factors include, but are not limited to, the following:

Our ability to successfully identify and consummate suitable acquisitions;

If current market and economic conditions do not improve, our business, results of operations, cash flows, financial condition and access to capital may be adversely affected;

Lease terminations or lease defaults, particularly by one of Piedmont s larger tenants;

The impact of competition on Piedmont s efforts to renew existing leases or re-lease space on terms similar to existing leases;

Changes in the economies and other conditions of the office market in general and of the specific markets in which Piedmont operates, particularly in Chicago, Washington, D.C., and the New York metropolitan area;

Economic and regulatory changes, including accounting standards, that impact the real estate market generally;

Additional risks and costs associated with directly managing properties occupied by government tenants;

Adverse market and economic conditions and related impairments to Piedmont s real estate assets and other intangible assets;

The success of our real estate strategies and investment objectives;

Availability of financing and banks ability to honor existing line of credit commitments;

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Costs of complying with governmental laws and regulations;

Uncertainties associated with environmental and other regulatory matters;

Piedmont's ability to continue to qualify as a REIT under the Internal Revenue Code of 1986, as amended; and

Other factors, including the risk factors discussed under Item 1A. of Piedmont's Annual Report on Form 10-K for the year ended December 31, 2009, and Item 1A. of this Quarterly Report on Form 10-Q.

Management believes these forward-looking statements are reasonable; however, undue reliance should not be placed on any forward-looking statements, which are based on current expectations. Further, forward-looking statements speak only as of the date they are made, and management undertakes no obligation to update publicly any of them in light of new information or future events.

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PART I. FINANCIAL STATEMENTS

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

The information furnished in the accompanying consolidated balance sheets and related consolidated statements of operations, stockholders equity, and cash flows reflects all adjustments that are, in management's opinion, necessary for a fair and consistent presentation of financial position, results of operations, and cash flows in accordance with U.S. generally accepted accounting principles.

The accompanying financial statements should be read in conjunction with the notes to Piedmont's financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this report on Form 10-Q and with Piedmont's Annual Report on Form 10-K for the year ended December 31, 2009. Piedmont's results of operations for the three months and nine months ended September 30, 2010 are not necessarily indicative of the operating results expected for the full year.

Table of Contents**PIEDMONT OFFICE REALTY TRUST, INC.****CONSOLIDATED BALANCE SHEETS**

(in thousands, except for share and per share amounts)

	(Unaudited) September 30, 2010	December 31, 2009
Assets:		
Real estate assets, at cost:		
Land	\$ 642,072	\$ 641,073
Buildings and improvements, less accumulated depreciation of \$727,307 and \$653,839 as of September 30, 2010 and December 31, 2009, respectively	2,902,704	2,946,567
Intangible lease assets, less accumulated amortization of \$145,139 and \$147,043 as of September 30, 2010 and December 31, 2009, respectively	77,813	96,269
Construction in progress	11,839	17,059
Real estate assets held for sale, net	55,000	62,559
Total real estate assets	3,689,428	3,763,527
Investments in unconsolidated joint ventures	42,591	43,940
Cash and cash equivalents	67,539	10,004
Tenant receivables, net of allowance for doubtful accounts of \$626 and \$559 as of September 30, 2010 and December 31, 2009, respectively	129,955	128,087
Notes receivable	60,671	58,739
Due from unconsolidated joint ventures	1,085	1,083
Prepaid expenses and other assets	36,802	21,456
Goodwill	180,097	180,097
Deferred financing costs, less accumulated amortization of \$11,280 and \$9,285 as of September 30, 2010 and December 31, 2009, respectively	5,878	7,205
Deferred lease costs, less accumulated amortization of \$136,219 and \$126,678 as of September 30, 2010 and December 31, 2009, respectively	175,474	180,832
Other assets held for sale	65	375
Total assets	\$ 4,389,585	\$ 4,395,345
Liabilities:		
Line of credit and notes payable	\$ 1,402,525	\$ 1,516,525
Accounts payable, accrued expenses, and accrued capital expenditures	99,872	97,747
Deferred income	33,882	34,506
Intangible lease liabilities, less accumulated amortization of \$81,462 and \$75,945 as of September 30, 2010 and December 31, 2009, respectively	51,807	60,655
Interest rate swap	1,028	3,866
Other liabilities held for sale	2,539	
Total liabilities	1,591,653	1,713,299
Commitments and Contingencies		
Redeemable Common Stock		75,164
Stockholders Equity:		
Shares-in-trust, 150,000,000 shares authorized, none outstanding as of September 30, 2010 or December 31, 2009		

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Preferred stock, no par value, 100,000,000 shares authorized, none outstanding as of September 30, 2010 or December 31, 2009

Class A common stock, \$.01 par value; 600,000,000 shares authorized; 93,254,160 shares issued and outstanding as of September 30, 2010; and 39,729,201 shares issued and outstanding at December 31, 2009	932	397
Class B-1 common stock, \$.01 par value; 50,000,000 shares authorized; none outstanding as of September 30, 2010; and 39,729,201 shares issued and outstanding at December 31, 2009		397
Class B-2 common stock, \$.01 par value; 50,000,000 shares authorized; 39,702,139 shares issued and outstanding as of September 30, 2010; and 39,729,202 shares issued and outstanding at December 31, 2009	397	397
Class B-3 common stock, \$.01 par value; 50,000,000 shares authorized; 39,702,190 shares issued and outstanding as of September 30, 2010; and 39,729,202 shares issued and outstanding at December 31, 2009	397	398
Additional paid-in capital	3,660,551	3,477,168
Cumulative distributions in excess of earnings	(869,434)	(798,561)
Redeemable common stock		(75,164)
Other comprehensive loss	(1,028)	(3,866)
Piedmont stockholders' equity	2,791,815	2,601,166
Noncontrolling interest	6,117	5,716
Total stockholders' equity	2,797,932	2,606,882
Total liabilities, redeemable common stock, and stockholders' equity	\$ 4,389,585	\$ 4,395,345

See accompanying notes

Table of Contents**PIEDMONT OFFICE REALTY TRUST, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except for share and per share amounts)

	(Unaudited) Three Months Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues:				
Rental income	\$ 110,776	\$ 111,280	\$ 331,910	\$ 333,032
Tenant reimbursements	29,690	36,922	98,147	113,085
Property management fee revenue	806	742	2,265	2,183
Other rental income	4,230		5,205	782
	145,502	148,944	437,527	449,082
Expenses:				
Property operating costs	46,612	57,592	157,470	173,308
Depreciation	26,011	26,403	77,285	77,815
Amortization	11,018	13,991	33,409	41,127
General and administrative	6,806	5,656	21,378	21,097
Impairment loss on real estate assets		35,063		35,063
	90,447	138,705	289,542	348,410
Real estate operating income	55,055	10,239	147,985	100,672
Other income (expense):				
Interest expense	(17,359)	(19,518)	(55,383)	(58,255)
Interest and other income	993	1,989	2,998	3,798
Equity in income/(loss) of unconsolidated joint ventures	619	(1,985)	2,003	(568)
	(15,747)	(19,514)	(50,382)	(55,025)
Income/(loss) from continuing operations	39,308	(9,275)	97,603	45,647
Discontinued operations:				
Operating income, excluding impairment loss	1,434	1,136	4,072	3,466
Impairment loss			(9,587)	