Piedmont Office Realty Trust, Inc. Form 10-Q November 10, 2010 Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x 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) Edgar Filing: Piedmont Office Realty Trust, Inc. - Form 10-Q

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 x 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 x
 (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).
 Smaller reporting company "

Yes "No x

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

FORM 10-Q

PIEDMONT OFFICE REALTY TRUST, INC.

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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, o words. Examples of such statements in this report include descriptions of our real estate, financing, and operating objectives; 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;

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.

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.

PIEDMONT OFFICE REALTY TRUST, INC.

CONSOLIDATED BALANCE SHEETS

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

Real estate assets, at cost: i 462,072 \$ 642,073 Land \$ 642,073 \$ 641,073 Buildings and improvements, less accumulated depreciation of \$727,307 and \$653,839 as of 2,902,704 2,906,667 Intangible lease assets, less accumulated amortization of \$145,139 and \$147,043 as of September 30, 2010 77,813 96,269 Construction in progress 11,839 17,059 62,559 Total real estate assets held for sale, net 3,689,428 3,763,527 Investments in unconsolidated joint ventures 44,591 43,940 Cash and cash equivalents 66,671 58,739 10,004 Tenant receivables, net of allowance for doubtful accounts of \$626 and \$559 as of September 30, 2010 129,955 128,087 Notes receivable 60,671 58,739 180,097 180,097 Due from unconsolidated joint ventures 1,085 1,083 1,083 1,083 Pengid expenses and other assets 3,6802 2,1456 606,071 58,739 7,205 Deferred financing costs, less accumulated amortization of \$13,220 and \$9,285 as of September 30, 2010 1,80,997 180		(Unaudited) September 30, 2010	December 31, 2009
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Redeemable Common Stock 75,164 Stockholders Equity: 75,164 Shares-in-trust, 150,000,000 shares authorized, none outstanding as of September 30, 2010 or 75,164	Total liabilities	1,591,653	1,713,299
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Shares-in-trust, 150,000,000 shares authorized, none outstanding as of September 30, 2010 or	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

of December 51, 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 stockholders equity	4,171,754	2,000,882
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Total liabilities, redeemable common stock, and stockholders equity	\$ 4,389,585	\$ 4,395,345

See accompanying notes

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)	