

Piedmont Office Realty Trust, Inc.
Form 10-Q
April 29, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT
of 1934

For the Quarterly Period Ended March 31, 2015

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)

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

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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
common stock, as of April 28, 2015:

154,391,509 shares

Table of ContentsFORM 10-Q
PIEDMONT OFFICE REALTY TRUST, INC.
TABLE OF CONTENTS

	Page No.
PART I. Financial Statements	
Item 1. <u>Consolidated Financial Statements</u>	4
<u>Consolidated Balance Sheets—March 31, 2015 (unaudited) and December 31, 2014</u>	5
<u>Consolidated Statements of Income for the Three Months Ended March 31, 2015 (unaudited) and 2014 (unaudited)</u>	6
<u>Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2015 (unaudited) and 2014 (unaudited)</u>	7
<u>Consolidated Statements of Stockholders' Equity for the Three Months Ended March 31, 2015 (unaudited) and the Year Ended December 31, 2014</u>	8
<u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2015 (unaudited) and 2014 (unaudited)</u>	9
<u>Condensed Notes to Consolidated Financial Statements (unaudited)</u>	10
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	42
Item 4. <u>Controls and Procedures</u>	43
PART II. Other Information	
Item 1. <u>Legal Proceedings</u>	44
Item 1A. <u>Risk Factors</u>	44
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	44
Item 3. <u>Defaults Upon Senior Securities</u>	44
Item 4. <u>Mine Safety Disclosures</u>	44
Item 5. <u>Other Information</u>	45
Item 6. <u>Exhibits</u>	45

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Form 10-Q may constitute forward-looking statements within the meaning of the federal securities laws. In addition, Piedmont Office Realty Trust, Inc. ("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 other written or 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," "con" or other similar words. Examples of such statements in this report include descriptions of our real estate, financings, 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 information available at the time the statements are made. Important assumptions relating to the forward-looking statements include, among others, assumptions regarding the demands for office space in the markets 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:

Economic, regulatory, and/or socio-economic changes (including accounting standards) that impact the real estate market generally, or that could affect patterns of use of commercial office space, may cause our operating results to suffer and decrease the value of our real estate properties;

The impact of competition on our efforts to renew existing leases or re-let space on terms similar to existing leases; Changes in the economies and other conditions affecting the office sector in general and the specific markets in which we operate, particularly in Chicago, Washington, D.C., and the New York metropolitan area, where we have high concentrations of office properties;

Lease terminations or lease defaults, particularly by one of our large lead tenants;

- Adverse market and economic conditions may negatively affect us and could cause us to recognize impairment charges on both our long-lived assets or goodwill or otherwise impact our performance;

The success of our real estate strategies and investment objectives, including our ability to identify and consummate suitable acquisitions;

The illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our properties;

Acquisitions of properties may have unknown risks and other liabilities at the time of acquisition;

Development and construction delays and resultant increased costs and risks may negatively impact our operating results;

Our real estate development strategies may not be successful;

Future terrorist attacks in the major metropolitan areas in which we own properties could significantly impact the demand for, and value of, our properties;

Costs of complying with governmental laws and regulations;

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

Future offerings of debt or equity securities may adversely affect the market price of our common stock;

Changes in market interest rates may have an effect on the value of our common stock;

Uncertainties associated with environmental and other regulatory matters;

Potential changes in political environment and reduction in federal and/or state funding of our governmental tenants;

We may be subject to litigation, which could have a material adverse effect on our financial condition;

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Changes in tax laws impacting REITs and real estate in general, as well as Piedmont's ability to continue to qualify as a REIT under the Internal Revenue Code (the "Code"); 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, 2014.

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.

Table of Contents

PART I. FINANCIAL STATEMENTS

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

The information presented in the accompanying consolidated balance sheets and related consolidated statements of operations, comprehensive income, 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, 2014. Piedmont's results of operations for the three months ended March 31, 2015 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) March 31, 2015	December 31, 2014
Assets:		
Real estate assets, at cost:		
Land	\$707,340	\$702,800
Buildings and improvements, less accumulated depreciation of \$1,118,327 and \$1,088,062 as of March 31, 2015 and December 31, 2014, respectively	3,234,495	3,224,178
Intangible lease assets, less accumulated amortization of \$84,212 and \$79,860 as of March 31, 2015 and December 31, 2014, respectively	69,254	70,177
Construction in progress	83,853	63,393
Real estate assets held for sale	—	14,544
Total real estate assets	4,094,942	4,075,092
Investments in and amounts due from unconsolidated joint ventures	7,820	7,798
Cash and cash equivalents	7,479	12,306
Tenant receivables, net of allowance for doubtful accounts of \$106 and \$231 as of March 31, 2015 and December 31, 2014, respectively	30,132	27,711
Straight-line rent receivables	175,340	169,532
Restricted cash and escrows	671	5,679
Prepaid expenses and other assets	26,879	27,820
Goodwill	180,097	180,097
Interest rate swaps	520	430
Deferred financing costs, less accumulated amortization of \$6,607 and \$6,067 as of March 31, 2015 and December 31, 2014, respectively	7,391	7,667
Deferred lease costs, less accumulated amortization of \$152,161 and \$142,915 as of March 31, 2015 and December 31, 2014, respectively	288,591	280,105
Other assets held for sale	—	1,264
Total assets	\$4,819,862	\$4,795,501
Liabilities:		
Unsecured debt, net of discount of \$5,682 and \$5,456 as of March 31, 2015 and December 31, 2014, respectively	\$1,877,318	\$1,828,544
Secured debt, inclusive of premium of \$3,137 and \$3,258 as of March 31, 2015 and December 31, 2014, respectively	448,791	449,045
Accounts payable, accrued expenses, and accrued capital expenditures	119,466	133,988
Deferred income	25,970	22,215
Intangible lease liabilities, less accumulated amortization of \$39,682 and \$37,964 as of March 31, 2015 and December 31, 2014, respectively	42,978	43,277
Interest rate swaps	19,416	6,417
Total liabilities	2,533,939	2,483,486
Commitments and Contingencies	—	—
Stockholders' Equity:		
Shares-in-trust, 150,000,000 shares authorized; none outstanding as of March 31, 2015 or December 31, 2014	—	—
Preferred stock, no par value, 100,000,000 shares authorized; none outstanding as of March 31, 2015 or December 31, 2014	—	—
	1,543	1,543

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Common stock, \$.01 par value, 750,000,000 shares authorized; 154,339,507 and 154,324,089 shares issued and outstanding as of March 31, 2015 and December 31, 2014, respectively

Additional paid-in capital	3,667,574	3,666,182
Cumulative distributions in excess of earnings	(1,378,786) (1,365,620)
Other comprehensive income	(5,437) 8,301
Piedmont stockholders' equity	2,284,894	2,310,406
Noncontrolling interest		