

Piedmont Office Realty Trust, Inc.
Form 10-Q
August 13, 2009
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 June 30, 2009

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 000-25739

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 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

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

Accelerated filer

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

only class of common stock, as of July 31, 2009: 472,373,109 shares

Table of Contents

FORM 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 June 30, 2009 (unaudited) and December 31, 2008</u>	5
<u>Consolidated Statements of Income for the Three Months and Six Months Ended June 30, 2009 (unaudited) and 2008 (unaudited)</u>	6
<u>Consolidated Statements of Stockholders' Equity for the Year Ended December 31, 2008 and the Six Months Ended June 30, 2009 (unaudited)</u>	7
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2009 (unaudited) and 2008 (unaudited)</u>	8
<u>Condensed Notes to Consolidated Financial Statements (unaudited)</u>	9
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	26
Item 4T. <u>Controls and Procedures</u>	27
PART II. Other Information	
Item 1. <u>Legal Proceedings</u>	27
Item 1A. <u>Risk Factors</u>	28
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	29
Item 3. <u>Defaults Upon Senior Securities</u>	29
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	29
Item 5. <u>Other Information</u>	29
Item 6. <u>Exhibits</u>	29

Table of Contents

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 the 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; descriptions of our share redemption program and our ability to purchase additional shares under such program; 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:

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-let 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;

Potential development and construction delays and resultant increased costs and risks;

The success of Piedmont s real estate strategies and investment objectives;

Costs of complying with governmental laws and regulations;

Uncertainties associated with environmental and other regulatory matters;

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

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

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

Other factors, including the risk factors discussed under Item 1A. of this Form 10-Q and Piedmont's Annual Report on Form 10-K for the year ended December 31, 2008.

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 furnished in the accompanying consolidated balance sheets and related consolidated statements of 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, 2008. Piedmont's results of operations for the three months and six months ended June 30, 2009 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) June 30, 2009	December 31, 2008
Assets:		
Real estate assets, at cost:		
Land	\$ 659,637	\$ 659,637
Buildings and improvements, less accumulated depreciation of \$615,665 and \$564,940 as of June 30, 2009 and December 31, 2008, respectively	3,060,760	3,098,657
Intangible lease assets, less accumulated amortization of \$170,460 and \$154,997 as of June 30, 2009 and December 31, 2008, respectively	113,832	130,517
Construction in progress	16,396	19,259
Total real estate assets	3,850,625	3,908,070
Investments in unconsolidated joint ventures	47,408	48,240
Cash and cash equivalents	17,529	20,333
Tenant receivables, net of allowance for doubtful accounts of \$925 and \$969 as of June 30, 2009 and December 31, 2008, respectively	123,191	126,407
Notes receivable	57,990	46,914
Due from unconsolidated joint ventures	1,198	1,067
Prepaid expenses and other assets	20,448	21,788
Goodwill	180,097	180,390
Deferred financing costs, less accumulated amortization of \$7,892 and \$6,499 as of June 30, 2009 and December 31, 2008, respectively	8,547	9,897
Deferred lease costs, less accumulated amortization of \$126,053 and \$110,967 as of June 30, 2009 and December 31, 2008, respectively	187,451	194,224
Total assets	\$ 4,494,484	\$ 4,557,330
Liabilities:		
Line of credit and notes payable	\$ 1,560,525	\$ 1,523,625
Accounts payable, accrued expenses, and accrued capital expenditures	98,803	111,411
Deferred income	28,412	24,920
Intangible lease liabilities, less accumulated amortization of \$69,940 and \$63,886 as of June 30, 2009 and December 31, 2008, respectively	67,143	73,196
Interest rate swap	6,865	8,957
Total liabilities	1,761,748	1,742,109
Commitments and Contingencies		
Redeemable Common Stock	52,230	112,927
Stockholders Equity:		
Common stock, \$.01 par value; 900,000,000 shares authorized; 473,002,902 shares issued and outstanding as of June 30, 2009; and 478,900,699 shares issued and outstanding at December 31, 2008	4,730	4,789
Additional paid-in capital	3,446,336	3,488,461
Cumulative distributions in excess of earnings	(716,949)	(674,326)
Redeemable common stock	(52,230)	(112,927)
Other comprehensive loss	(6,865)	(8,957)
Piedmont stockholders equity	2,675,022	2,697,040

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

Noncontrolling interest	5,484	5,254
Total stockholders' equity	2,680,506	2,702,294
Total liabilities, redeemable common stock, and stockholders' equity	\$ 4,494,484	\$ 4,557,330

See accompanying notes

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

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

	(Unaudited) Three Months Ended June 30,		(Unaudited) Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues:				
Rental income	\$ 111,994	\$ 113,903	\$ 224,941	\$ 228,313
Tenant reimbursements	36,059	36,578	76,164	75,733
Property management fee revenue	744	883	1,441	1,636
Other rental income	782	797	781	5,572
	149,579	152,161	303,327	311,254
Expenses:				
Property operating costs	54,552	55,401	113,746	112,691
Asset and property management fees	511	455	981	956
Depreciation	26,561	24,431	52,190	48,500
Amortization	13,695	15,595	27,136	32,128
General and administrative	8,818	9,168	16,657	16,316
	104,137	105,050	210,710	210,591
Real estate operating income	45,442	47,111	92,617	100,663
Other income (expense):				
Interest expense	(17,465)	(18,056)	(34,924)	(35,362)
Interest and other income	1,294	1,119	1,954	1,778
Equity in income of unconsolidated joint ventures	753	464	1,417	1,076
Loss on interest rate swap	(1,928)	(27)	(3,812)	(27)
	(17,346)	(16,500)	(35,365)	(32,535)
Income from continuing operations	28,096	30,611	57,252	68,128
Discontinued operations:				
Operating Income		1		10
Income from discontinued operations		1		10
Net income	28,096	30,612	57,252	68,138
Less: Net income attributable to noncontrolling interest	(120)	(142)	(238)	(306)
Net income attributable to Piedmont	\$ 27,976	\$ 30,470	\$ 57,014	\$ 67,832
Per share information basic:				
Income from continuing operations	\$ 0.06	\$ 0.06	\$ 0.12	\$ 0.14
Income from discontinued operations	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Income attributable to noncontrolling interest	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Net income available to common stockholders	\$ 0.06	\$ 0.06	\$ 0.12	\$ 0.14

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

Per share information diluted:

Income from continuing operations	\$ 0.06	\$ 0.06	\$ 0.12	\$ 0.14
Income from discontinued operations	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Income attributable to noncontrolling interest	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00