Piedmont Office Realty Trust, Inc.
Form 10-Q
August 13, 2009
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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 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	**58-2328421**
(State or other jurisdiction of incorporation or organization)	**(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 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).

Yes ¨ No x

Number of shares outstanding of the registrant s

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

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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 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, o 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

- 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.

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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 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.

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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

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

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PIEDMONT OFFICE REALTY TRUST, INC.

CONSOLIDATED STATEMENTS OF INCOME

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

	(Unaudited) Three Months Ended June 30, 2009	(Unaudited) Three Months Ended June 30, 2008	(Unaudited) Six Months Ended June 30, 2009	(Unaudited) Six Months Ended June 30, 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

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
Net income available to common stockholders	**$ 0.06**	$ 0.06	**$ 0.12**	$ 0.14
Weighted-average common shares outstanding basic	**474,566,162**	479,400,829	**476,828,426**	482,649,202
Weighted-average common shares outstanding diluted	**474,911,608**	479,687,981	**477,140,948**	482,896,359

See accompanying notes.

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PIEDMONT OFFICE REALTY TRUST, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2008

AND FOR THE SIX MONTHS ENDED JUNE 30, 2009 (UNAUDITED)

(in thousands, except per share amounts)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Cumulative Distributions in Excess of Earnings	Redeemable Common Stock	Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Stockholders Equity
Balance, December 31, 2007	488,974	$ 4,890	$ 3,568,801	$ (526,337)	$ (166,809)		$ 6,546	$ 2,887,091
Issuance of common stock	17,085	170	143,002					143,172
Redemptions of common stock	(27,422)	(274)	(229,530)					(229,804)
Redeemable common stock					53,882			53,882
Dividends ($0.5868 per share)				(279,303)			(115)	(279,418)
Premium on stock sales			2,725					2,725
Incremental purchase of 35 W. Wacker Building							(1,723)	(1,723)
Shares issued under the 2007 Omnibus Incentive Plan, net of tax	264	3	3,463					3,466
Net income attributable to noncontrolling interest							546	546
Components of comprehensive income:								
Net income				131,314				131,314
Change in value of interest rate swap						(8,957)		(8,957)
Comprehensive income								122,357
Balance, December 31, 2008	478,901	4,789	3,488,461	(674,326)	(112,927)	(8,957)	5,254	2,702,294
Issuance of common stock	**6,578**	**66**	**55,057**					**55,123**
Redemptions of common stock	**(12,789)**	**(128)**	**(107,043)**					**(107,171)**
Redeemable common stock					**60,697**			**60,697**
Dividends ($0.2100 per share)				**(99,637)**			**(8)**	**(99,645)**
Discount on stock sales			**8,641**					**8,641**
Shares issued under the 2007 Omnibus Incentive Plan, net of tax	**313**	**3**	**1,220**					**1,223**
Net income attributable to noncontrolling interest							**238**	**238**
Components of comprehensive income:								
Net income				**57,014**				**57,014**
Change in value of interest rate swap						**2,092**		**2,092**
Comprehensive income								**59,106**
Balance, June 30, 2009	**473,003**	**$ 4,730**	**$ 3,446,336**	**$ (716,949)**	**$ (52,230)**	**$ (6,865)**	**$ 5,484**	**$ 2,680,506**

See accompanying notes.

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PIEDMONT OFFICE REALTY TRUST, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	(Unaudited) Six months ended June 30, 2009	2008
Cash Flows from Operating Activities:		
Net income	**$ 57,252**	$ 68,138
Operating distributions received from unconsolidated joint ventures	**2,175**	2,461
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**52,190**	48,500
Other amortization	**26,721**	32,183
Amortization of deferred financing costs and fair market value adjustments on notes payable	**1,394**	575
Accretion of notes receivable discount	**(1,293)**	(302)
Stock compensation expense	**1,535**	2,358
Equity in income of unconsolidated joint ventures	**(1,417)**	(1,076)
Changes in assets and liabilities:		
Decrease in tenant receivables, net	**3,381**	1,405
Increase in prepaid expenses and other assets	**(4,478)**	(4,833)
(Decrease) increase in accounts payable and accrued expenses	**(1,362)**	4,467
Increase (decrease) in deferred income	**3,492**	(3,863)
Net cash provided by operating activities	**139,590**	150,013
Cash Flows from Investing Activities:		
Investment in real estate and earnest money paid	**(16,245)**	(99,659)
Investment in internalization costs goodwill		(19)
Investment in mezzanine debt	**(10,000)**	(45,643)
Investment in unconsolidated joint ventures	**(57)**	
Investment in corporate tenant improvements	**(88)**	
Deferred lease costs paid	**(9,789)**	(15,311)
Net cash used in investing activities	**(36,179)**	(160,632)
Cash Flows from Financing Activities:		
Deferred financing costs paid	**(43)**	(2,017)
Proceeds from line of credit and notes payable	**146,000**	580,500
Repayments of line of credit and notes payable	**(109,100)**	(271,509)
Issuance of common stock	**46,474**	72,471
Redemptions of common stock	**(89,901)**	(157,601)
Dividends paid	**(99,645)**	(140,485)
Net cash (used in) provided by financing activities	**(106,215)**	81,359
Net (decrease) increase in cash and cash equivalents	**(2,804)**	70,740
Cash and cash equivalents, beginning of period	**20,333**	65,016
Cash and cash equivalents, end of period	**$ 17,529**	$ 135,756

See accompanying notes.

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PIEDMONT OFFICE REALTY TRUST, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

(unaudited)

1. Organization

Piedmont Office Realty Trust, Inc. (Piedmont) is a Maryland corporation that operates in a manner so as to qualify as a real estate investment trust (REIT) for federal income tax purposes and engages in the acquisition and ownership of commercial real estate properties throughout the United States, including properties that are under construction, are newly constructed, or have operating histories. Piedmont was incorporated in 1997 and commenced operations on June 5, 1998. Piedmont conducts business primarily through Piedmont Operating Partnership, LP (Piedmont OP), a Delaware limited partnership, as well as performing the management of its buildings through two wholly-owned subsidiaries, Piedmont Government Services, LLC and Piedmont Office Management, LLC. Piedmont is the sole general partner and possesses full legal control and authority over the operations of Piedmont OP. Piedmont OP owns a majority of its properties directly, through wholly owned subsidiaries, and a limited number through joint ventures with real estate limited partnerships with other third parties. References to Piedmont herein shall include Piedmont and all of its subsidiaries, including Piedmont OP, its subsidiaries, and consolidated joint ventures.

As of June 30, 2009, Piedmont owned interests in 84 buildings, either directly or through joint ventures, which are located in 22 states and the District of Columbia. Piedmont s wholly-owned buildings comprise approximately 21 million square feet, primarily of commercial office space, and are approximately 90% leased.

Since its inception, Piedmont has:

(1) completed four public offerings of common stock for sale at $10 per share which closed on July 25, 2004;

(2) registered an additional 100 million shares of common stock for issuance pursuant to its dividend reinvestment plan (the DRP) under a Registration Statement effective April 5, 2004; and

(3) registered 14 million shares of common stock for issuance under its 2007 Omnibus Incentive Plan effective April 30, 2007.

The combined proceeds from such offerings are approximately $5.7 billion. From these proceeds, Piedmont has paid costs related to the offerings of (1) approximately $171.1 million in acquisition and advisory fees and reimbursements of acquisition expenses; (2) approximately $451.7 million in commissions and discounts on stock sales and related dealer-manager fees; and (3) approximately $62.7 million in organization and other offering costs. In addition, since inception, Piedmont has used approximately $976.3 million to redeem shares pursuant to Piedmont s share redemption program or to repurchase shares. The remaining net offering proceeds of approximately $4.1 billion are invested in real estate.

Although Piedmont qualifies as a public company under the Securities Exchange Act of 1934, Piedmont s stock is not listed or actively traded on a national exchange. As such, Piedmont s charter requires Piedmont to announce a plan of orderly liquidation or a liquidity event to its stockholders by July 30, 2009 (the Liquidation Date), unless the board of directors, at its sole discretion, further extends the Liquidation Date from July 30, 2009 to January 30, 2011. On July 21, 2009, the board of directors unanimously determined to extend the Liquidation Date to January 30, 2011.

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements of Piedmont have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the SEC), including the instructions to Form 10-Q and Article 10 of Regulation S-X, and do not include all of the information and footnotes required by U.S. generally accepted accounting principles (GAAP) for complete financial statements. In the opinion of management, the statements for the unaudited interim periods presented include all adjustments, which are of a normal and recurring nature, necessary for a fair presentation of the results for such periods. Results for these interim periods are not necessarily indicative of a full year s results. Piedmont s consolidated financial statements include the accounts of Piedmont, Piedmont OP, and certain entities in which Piedmont or Piedmont OP has a controlling financial interest. For further information, refer to the financial statements and footnotes included in Piedmont s Annual Report on Form 10-K for the year ended December 31, 2008.

Further, Piedmont has formed numerous special purpose entities to acquire and hold real estate including the entities listed on Exhibit 21 (List of Subsidiaries of the Company) to Piedmont s Annual Report on Form 10-K for the year ended December 31, 2008. Each special purpose entity is a separate legal entity and is the sole owner of its assets and liabilities. The assets of the special purpose entities are not available to pay, or otherwise satisfy obligations to, the creditors of any owner or affiliate of the special purpose entity, except to the extent that any such assets may be made available by any such special purpose entity pursuant to Piedmont s cash management system. The assets owned by these special purpose entities are being reported on a consolidated basis with Piedmont s assets for financial reporting purposes only.

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Redeemable Common Stock

Subject to certain limitations, shares of Piedmont s common stock are contingently redeemable at the option of the stockholder. Such limitations include, but are not limited to, the following: (i) during any calendar year Piedmont may not redeem in excess of 5% of the weighted-average common shares outstanding during the prior calendar year; and (ii) in no event shall the life-to-date aggregate amount paid for redemptions under the Piedmont share redemption program exceed the aggregate amount of proceeds received from the sale of shares pursuant to the DRP. In addition, the board of directors has limited the dollar amount of shares that may be redeemed for the year ending December 31, 2009 to the estimated proceeds from the dividend reinvestment plan anticipated to be received during 2009 (approximately $100.0 million). Accordingly, Piedmont has recorded redeemable common stock equal to the aggregate fund-to-date amount of proceeds received under the DRP, less the aggregate fund-to-date amount incurred to redeem shares under Piedmont s share redemption program of approximately $52.2 million and $112.9 million as of June 30, 2009 and December 31, 2008, respectively. Further, upon being tendered for redemption by the holder, Piedmont reclassifies redeemable common shares from mezzanine equity to a liability at settlement value.

Income Taxes

Piedmont has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the Code), and has operated as such, beginning with its taxable year ended December 31, 1998. To qualify as a REIT, Piedmont must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of its annual REIT taxable income. As a REIT, Piedmont is generally not subject to federal income taxes. Accordingly, neither a provision nor a benefit for federal income taxes has been made in the accompanying consolidated financial statements. Piedmont is subject to certain state and local taxes related to the operations of properties in certain locations, which have been provided for in the consolidated financial statements.

Recent Accounting Pronouncements

In June 2009, the FASB issued Statement of Financial Account Standards (SFAS) No. 166, *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140* (SFAS 166). SFAS 166 amends FASB Statement No. 140 to remove the concept of a qualifying special-purpose entity, as well as clarifying derecognition of transferred financial assets. SFAS 166 is effective for annual periods beginning after November 15, 2009, with early adoption prohibited. Piedmont does not expect the provisions of SFAS 166 to have a material effect on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS 167). SFAS 167 amends FASB Interpretation No. 46(R) (FIN 46(R)) to require entities to perform ongoing assessments of whether an enterprise is the primary beneficiary of a variable interest entity (VIE), as opposed to FIN 46(R) which required reconsideration only when specific events occurred. Additionally, SFAS 167 revises certain guidance in FIN 46(R) for determining whether an entity is a VIE. SFAS 167 is effective for annual periods beginning after November 15, 2009, with early adoption prohibited. Piedmont will continue to assess the provisions and evaluate the financial impact of SFAS 167 on its consolidated financial statements.