

Piedmont Office Realty Trust, Inc.
Form 10-Q
November 14, 2007
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 September 30, 2007

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 0-25739

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)

6200 The Corners Parkway

Ste. 500

Norcross, Georgia 30092

(Address of principal executive offices)

(Zip Code)

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

(770) 325-3700

(Registrant's telephone number, including area code)

Wells Real Estate Investment Trust, Inc.

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (check one).

Large Accelerated filer Accelerated filer Non-Accelerated filer

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 October 31, 2007: 492,566,961 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 September 30, 2007 (unaudited) and December 31, 2006</u>	5
<u>Consolidated Statements of Income for the Three Months and Nine Months Ended September 30, 2007 (unaudited) and 2006 (unaudited)</u>	6
<u>Consolidated Statements of Stockholders' Equity for the Year Ended December 31, 2006 and the Nine Months Ended September 30, 2007 (unaudited)</u>	7
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2007 (unaudited) and 2006 (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>	22
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	34
Item 4. <u>Controls and Procedures</u>	34
PART II. Other Information	
Item 1. <u>Legal Proceedings</u>	35
Item 1A. <u>Risk Factors</u>	37
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	53
Item 3. <u>Defaults Upon Senior Securities</u>	53
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	53
Item 5. <u>Other Information</u>	53
Item 6. <u>Exhibits</u>	53

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Form 10-Q of Piedmont Office Realty Trust, Inc. (Piedmont), formerly known as Wells Real Estate Investment Trust, Inc., other than historical facts may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). We intend for all such forward-looking statements to be covered by the applicable safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act and Section 21E of the Exchange Act, as applicable. Such statements include, in particular, statements about our plans, strategies, and prospects and are subject to certain risks and uncertainties, including known and unknown risks, which could cause actual results to differ materially from those projected or anticipated. Therefore, such statements are not intended to be a guarantee of our performance in future periods. Such forward-looking statements can generally be identified by our use of forward-looking terminology such as may, will, expect, intend, anticipate, estimate, believe, continue, or other similar words. Readers are cautioned against undue reliance on these forward-looking statements, which speak only as of the date this report is filed with the Securities and Exchange Commission. We cannot guarantee the accuracy of any such forward-looking statements contained in this Form 10-Q, and we do not intend to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Any such forward-looking statements are subject to risks, uncertainties, and other factors and are based on a number of assumptions involving judgments with respect to, among other things, future economic, competitive, and market conditions, all of which are difficult or impossible to predict accurately. To the extent that our assumptions differ from actual results, our ability to meet such forward-looking statements, including our ability to generate positive cash flow from operations, provide dividends to stockholders, and maintain the value of our real estate properties, may be significantly hindered. See Item 1A. of Part II of this report on Form 10-Q for a discussion of some, although not all, of the risks and uncertainties that could cause actual results to differ materially from those presented in our forward-looking statements.

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, 2006. Piedmont's results of operations for the three months and nine months ended September 30, 2007 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,	December 31,
	2007	2006
Assets:		
Real estate assets, at cost:		
Land	\$ 634,681	\$ 638,733
Buildings and improvements, less accumulated depreciation of \$451,772 and \$395,110 as of September 30, 2007 and December 31, 2006, respectively	3,025,292	3,114,171
Intangible lease assets, less accumulated amortization of \$162,337 and \$142,977 as of September 30, 2007 and December 31, 2006, respectively	191,668	223,085
Construction in progress	35,321	28,032
Total real estate assets	3,886,962	4,004,021
Investments in unconsolidated joint ventures	52,542	56,789
Cash and cash equivalents	58,847	44,131
Tenant receivables, net of allowance for doubtful accounts of \$2,200 and \$1,678 as of September 30, 2007 and December 31, 2006, respectively	120,372	107,243
Due from unconsolidated joint ventures	1,112	1,230
Prepaid expenses and other assets	26,215	22,423
Goodwill	180,117	
Deferred financing costs, less accumulated amortization of \$5,726 and \$6,885 as of September 30, 2007 and December 31, 2006, respectively	9,926	9,485
Deferred lease costs, less accumulated amortization of \$95,981 and \$77,695 as of September 30, 2007 and December 31, 2006, respectively	201,030	205,368
Total assets	\$ 4,537,123	\$ 4,450,690
Liabilities:		
Lines of credit and notes payable	\$ 1,188,197	\$ 1,243,203
Accounts payable, accrued expenses, and accrued capital expenditures	108,731	92,023
Due to affiliates		1,232
Deferred income	24,014	24,117
Intangible lease liabilities, less accumulated amortization of \$49,324 and \$42,738 as of September 30, 2007 and December 31, 2006, respectively	87,933	97,239
Total liabilities	1,408,875	1,457,814
Commitments and Contingencies		
Minority Interest	6,372	6,050
Redeemable Common Stock	196,275	136,129
Stockholders Equity:		
Common stock, \$.01 par value; 900,000,000 shares authorized; 492,565,335 shares issued and outstanding at September 30, 2007; and 465,880,274 shares issued and outstanding at December 31, 2006	4,925	4,659
Additional paid-in capital	3,597,156	3,358,933
Cumulative distributions in excess of earnings	(480,205)	(376,766)
Redeemable common stock	(196,275)	(136,129)

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

Total stockholders' equity	2,925,601	2,850,697
Total liabilities, minority interest, redeemable common stock, and stockholders' equity	\$ 4,537,123	\$ 4,450,690

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)		(Unaudited)	
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Revenues:				
Rental income	\$ 110,982	\$ 109,037	\$ 333,094	\$ 324,558
Tenant reimbursements	37,815	34,171	108,555	97,462
Property management fee revenue	682		1,111	
Gain on sale of real estate assets			50	
Other rental income	382	8,439	1,429	9,784
	149,861	151,647	444,239	431,804
Expenses:				
Property operating costs	55,678	50,327	160,722	145,960
Asset and property management fees:				
Related party		6,158	8,452	18,028
Other	489	1,202	3,632	3,945
Depreciation	24,026	22,724	70,915	67,163
Amortization	17,531	18,918	52,181	53,020
General and administrative	8,402	5,491	21,245	15,190
Casualty and impairment losses on real estate assets				100
	106,126	104,820	317,147	303,406
Real estate operating income	43,735	46,827	127,092	128,398
Other income (expense):				
Interest expense	(15,616)	(15,582)	(47,282)	(45,121)
Interest and other income	806	949	3,657	1,930
Equity in income of unconsolidated joint ventures	485	461	3,168	1,623
Loss on extinguishment of debt	(104)		(164)	
	(14,429)	(14,172)	(40,621)	(41,568)
Income from continuing operations before minority interest	29,306	32,655	86,471	86,830
Minority interest in earnings of consolidated entities	(163)	(158)	(530)	(492)
Income from continuing operations	29,143	32,497	85,941	86,338
Discontinued operations:				
Operating income	6	2,317	861	7,033
Gain on sale of real estate assets	10	13,434	20,680	14,618
Income from discontinued operations	16	15,751	21,541	21,651

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

Net income	\$	29,159	\$	48,248	\$	107,482	\$	107,989
Per share information basic:								
Income from continuing operations	\$	0.06	\$	0.07	\$	0.18	\$	0.19
Income from discontinued operations	\$		\$	0.03	\$	0.04	\$	0.04
Net income available to common stockholders	\$	0.06	\$	0.10	\$	0.22	\$	0.23
Per share information diluted:								
Income from continuing operations	\$	0.06	\$	0.07	\$	0.18	\$	0.19
Income from discontinued operations	\$		\$	0.03	\$	0.04	\$	0.04
Net income available to common stockholders	\$	0.06	\$	0.10	\$	0.22	\$	0.23
Weighted-average common shares outstanding								
basic		488,623,792		459,656,041		478,682,376		461,554,301
Weighted-average common shares outstanding diluted		488,831,780		459,656,041				