

COLUMBIA PROPERTY TRUST, INC.
Form 10-Q
October 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 September 30, 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 001-36113

COLUMBIA PROPERTY TRUST, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation or organization)

20-0068852

(I.R.S. Employer Identification Number)

One Glenlake Parkway, Suite 1200

Atlanta, GA 30328

(Address of principal executive offices)

(Zip Code)

(404) 465-2200

(Registrant's telephone number, including area code)

(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 definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one).

Large accelerated filer

Accelerated filer

Non-accelerated filer (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

Number of shares outstanding of the registrant's
only class of common stock, as of October 23, 2015: 124,363,587 shares

Table of Contents

FORM 10-Q
COLUMBIA PROPERTY TRUST, INC.
TABLE OF CONTENTS

<u>PART I. FINANCIAL INFORMATION</u>		Page No.
Item 1.	<u>Condensed Consolidated Financial Statements</u>	<u>Page 4</u>
	<u>Consolidated Balance Sheets as of September 30, 2015 (unaudited) and December 31, 2014 (unaudited)</u>	<u>Page 5</u>
	<u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2015 (unaudited) and 2014 (unaudited)</u>	<u>Page 6</u>
	<u>Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2015 (unaudited) and 2014 (unaudited)</u>	<u>Page 7</u>
	<u>Consolidated Statements of Equity for the Nine Months Ended September 30, 2015 (unaudited) and 2014 (unaudited)</u>	<u>Page 8</u>
	<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2015 (unaudited) and 2014 (unaudited)</u>	<u>Page 9</u>
	<u>Condensed Notes to Consolidated Financial Statements (unaudited)</u>	<u>Page 10</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>Page 34</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>Page 46</u>
Item 4.	<u>Controls and Procedures</u>	<u>Page 47</u>
<u>PART II. OTHER INFORMATION</u>		
Item 1.	<u>Legal Proceedings</u>	<u>Page 48</u>
Item 1A.	<u>Risk Factors</u>	<u>Page 48</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>Page 48</u>
Item 3.	<u>Defaults Upon Senior Securities</u>	<u>Page 48</u>
Item 4.	<u>Mine Safety Disclosures</u>	<u>Page 48</u>
Item 5.	<u>Other Information</u>	<u>Page 48</u>
Item 6.	<u>Exhibits</u>	<u>Page 48</u>

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q of Columbia Property Trust, Inc. ("Columbia Property Trust," "the Company," "we," "our," or "us") other than historical facts may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend for all such forward-looking statements to be covered by the applicable safe harbor provisions for forward-looking statements contained in those acts. 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 not to place undue reliance on these forward-looking statements, which speak only as of the date this report is filed with the U.S. Securities and Exchange Commission ("SEC"). We make no representations or warranties (express or implied) about 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 conditions, our ability to accurately anticipate results expressed in such forward-looking statements, including our ability to generate positive cash flow from operations, make distributions to stockholders, and maintain the value of our real estate properties, may be significantly hindered. See Item 1A in Columbia Property Trust's Annual Report on Form 10-K for the year ended December 31, 2014 for a discussion of some of the risks and uncertainties that could cause actual results to differ materially from those presented in our forward-looking statements. The risk factors described in our Annual Report are not the only ones we face, but do represent those risks and uncertainties that we believe are material to us. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also harm our business.

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The information furnished in the accompanying consolidated balance sheets, and related consolidated statements of operations, comprehensive income, equity, and cash flows, reflects all normal and recurring adjustments that are, in management's opinion, necessary for a fair and consistent presentation of the aforementioned financial statements.

The accompanying consolidated financial statements should be read in conjunction with the condensed notes to Columbia Property Trust's financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Quarterly Report on Form 10-Q, and with Columbia Property Trust's Annual Report on Form 10-K filed for the year ended December 31, 2014. Columbia Property Trust's results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the operating results expected for the full year.

Table of ContentsCOLUMBIA PROPERTY TRUST, INC.
CONSOLIDATED BALANCE SHEETS

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

	(Unaudited) September 30, 2015	December 31, 2014
Assets:		
Real estate assets, at cost:		
Land	\$1,056,275	\$785,101
Buildings and improvements, less accumulated depreciation of \$648,405 and \$660,098, as of September 30, 2015 and December 31, 2014, respectively	3,322,241	3,026,431
Intangible lease assets, less accumulated amortization of \$266,454 and \$313,822, as of September 30, 2015 and December 31, 2014, respectively	280,049	247,068
Construction in progress	45,623	17,962
Total real estate assets	4,704,188	4,076,562
Cash and cash equivalents	44,823	149,790
Tenant receivables, net of allowance for doubtful accounts of \$1 and \$3 as of September 30, 2015 and December 31, 2014	10,818	6,945
Straight-line rent receivable	112,750	116,489
Prepaid expenses and other assets	29,636	52,143
Deferred financing costs, less accumulated amortization of \$17,494 and \$15,205, as of September 30, 2015 and December 31, 2014, respectively	13,719	8,426
Intangible lease origination costs, less accumulated amortization of \$181,420 and \$219,626, as of September 30, 2015 and December 31, 2014, respectively	87,710	105,528
Deferred lease costs, less accumulated amortization of \$39,845 and \$36,589, as of September 30, 2015 and December 31, 2014, respectively	99,035	102,995
Investment in development authority bonds	120,000	120,000
Total assets	\$5,222,679	\$4,738,878
Liabilities:		
Line of credit, term loans, and notes payable	\$1,659,387	\$1,430,884
Bonds payable, net of discounts of \$1,096 and \$818, as of September 30, 2015 and December 31, 2014, respectively	598,904	249,182
Accounts payable, accrued expenses, and accrued capital expenditures	110,103	106,276
Deferred income	25,232	24,753
Intangible lease liabilities, less accumulated amortization of \$83,736 and \$84,935, as of September 30, 2015 and December 31, 2014, respectively	66,753	74,305
Obligations under capital leases	120,000	120,000
Total liabilities	2,580,379	2,005,400
Commitments and Contingencies (Note 6)	—	—
Equity:		
Common stock, \$0.01 par value, 225,000,000 shares authorized, 124,510,229 and 124,973,304 shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively	1,245	1,249
Additional paid-in capital	4,591,204	4,601,808
Cumulative distributions in excess of earnings	(1,945,731)	(1,867,611)

Cumulative other comprehensive loss	(4,418	) (1,968)
Total equity	2,642,300	2,733,478	
Total liabilities and equity	\$5,222,679	\$4,738,878	
See accompanying notes.			

Table of Contents

COLUMBIA PROPERTY TRUST, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per-share amounts)

	(Unaudited) Three Months Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues:				
Rental income	\$ 107,011	\$ 104,938	\$ 332,736	\$ 309,326
Tenant reimbursements	22,627	23,861	77,395	70,528
Hotel income	6,941	6,732	18,898	17,298
Other property income	1,140	1,450	4,357	5,754
	137,719	136,981	433,386	402,906
Expenses:				
Property operating costs	46,538	41,144	144,375	118,956
Hotel operating costs	5,331	5,039	15,069	13,869
Asset and property management fees	472	682	1,372	1,646
Depreciation	32,441	29,980	100,261	87,453
Amortization	20,276	19,476	67,233	58,218
Impairment loss on real estate assets	—	—	—	14,982
General and administrative	6,797	7,836	21,921	23,194
Acquisition expenses	1,680	7,996	3,675	14,098
	113,535	112,153	353,906	332,416
Real estate operating income	24,184	24,828	79,480	70,490
Other income (expense):				
Interest expense	(22,012)	(19,273)	(66,261)	(56,043)
Interest and other income	1,808	1,803	5,448	5,415
Loss on interest rate swaps	(1,102)	(28)	(1,110)	(363)
Loss on early extinguishment of debt	(2,672)	—	(3,149)	—
	(23,978)	(17,498)	(65,072)	(50,991)
Income from continuing operations before income tax expense, and gain on sale of real estate	206	7,330	14,408	19,499
Income tax expense	(245)	(409)	(140)	(416)
Income (loss) from continuing operations before gain on sale of real estate	(39)	6,921	14,268	19,083
Gain on sale of real estate assets	20,182	18,607	20,182	18,607
Income from continuing operations	20,143	25,528	34,450	37,690
Discontinued operations:				
Operating loss from discontinued operations	—	(540)	—	(303)
Loss on disposition of discontinued operations	—	—	—	(978)
Loss from discontinued operations	—	(540)	—	(1,281)
Net income	\$ 20,143	\$ 24,988	\$ 34,450	\$ 36,409
Per-share information – basic:				
Income from continuing operations	\$ 0.16	\$ 0.20	\$ 0.28	\$ 0.30
Loss from discontinued operations	\$ 0.00	\$ 0.00	\$ 0.00	\$ (0.01)
Net income	\$ 0.16	\$ 0.20	\$ 0.28	\$ 0.29
	124,359	124,863	124,359	124,858

Weighted-average common shares outstanding –
basic

Per-share information – diluted:

Income from continuing operations	\$0.16	\$0.20	\$0.28	\$0.30	
Loss from discontinued operations	\$0.00	\$0.00	\$0.00	\$(0.01)
Net income	\$0.16	\$0.20	\$0.28	\$0.29	
Weighted-average common shares outstanding – diluted	124,460	124,938	124,445	124,921	
Dividends per share	\$0.30	\$0.30	\$0.90	\$0.90	

See accompanying notes.

Table of Contents

COLUMBIA PROPERTY TRUST, INC.
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (in thousands)

	(Unaudited) Three Months Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$20,143	\$24,988	\$34,450	\$36,409
Settlement of interest rate swap	1,102	—	1,102	—
Market value adjustments to interest rate swaps	(4,147	) 850	(3,552	) 1,061
Comprehensive income	\$17,098	\$25,838	\$32,000	\$37,470

See accompanying notes.

Table of Contents

COLUMBIA PROPERTY TRUST, INC.
CONSOLIDATED STATEMENTS OF EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014 (UNAUDITED)
(in thousands, except per-share amounts)

	Stockholders' Equity Common Stock		Additional Paid-In Capital	Cumulative Distributions in Excess of Earnings	Cumulative Other Comprehensive Income (Loss)	Total Equity
	Shares	Amount				
Balance, December 31, 2014	124,973	\$1,249	\$4,601,808	\$(1,867,611)	\$ (1,968)	\$2,733,478
Redemptions of common stock	(570)	(5)	(12,802)	—	—	(12,807)
Common stock issued to employees and directors, and amortized (net of 107 amounts withheld for income taxes)		1	2,198	—	—	2,199
Distributions to common stockholders (\$0.90 per share)	—	—	—	(112,570)	—	(112,570)
Net income	—	—	—	34,450	—	34,450
Settlement of interest rate swap	—	—	—	—	1,102	1,102
Market value adjustment to interest rate swaps	—	—	—	—	(3,552)	(3,552)
Balance, September 30, 2015	124,510	\$1,245	\$4,591,204	\$(1,945,731)	\$ (4,418)	\$2,642,300
	Stockholders' Equity Common Stock		Additional Paid-In Capital	Cumulative Distributions in Excess of Earnings	Cumulative Other Comprehensive Income (Loss)	Total Equity
	Shares	Amount				
Balance, December 31, 2013	124,830	\$1,248	\$4,600,166	\$(1,810,284)	\$ (3,307)	\$2,787,823
Common stock issued to employees and directors, and amortized (net of amounts withheld for income taxes)	139	1	1,197	—	—	1,198
Distributions to common stockholders (\$0.90 per share)	—	—	—	(112,471)	—	(112,471)
Net income	—	—	—	36,409	—	36,409
Market value adjustment to interest rate swap	—	—	—	—	1,061	1,061
Balance, September 30, 2014	124,969	\$1,249	\$4,601,363	\$(1,886,346)	\$ (2,246)	\$2,714,020

See accompanying notes.

Table of Contents

COLUMBIA PROPERTY TRUST, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	(Unaudited)	
	Nine Months Ended	
	September 30,	
	2015	2014
Cash Flows from Operating Activities:		
Net income	\$34,450	\$36,409
Adjustments to reconcile net income to net cash provided by operating activities:		
Straight-line rental income	(11,300	) (7,366
Depreciation	100,261	87,453
Amortization	59,880	56,087
Impairment loss on real estate assets	—	14,982
Noncash interest expense	3,138	2,297
Loss on early extinguishment of debt	3,149	—
Gain on interest rate swaps	(1,532	) (3,624
Gain on sale of real estate	(20,182	) (17,629
Stock-based compensation expense	2,925	1,511
Changes in assets and liabilities, net of acquisitions:		
Increase in tenant receivables, net	(3,205	) (1,533
Decrease in prepaid expenses and other assets	377	2,252
Increase (decrease) in accounts payable and accrued expenses	6,539	(4,195
Increase in deferred income	479	4,482
Net cash provided by operating activities	174,979	171,126
Cash Flows from Investing Activities:		
Net proceeds from the sale of real estate	422,125	131,028
Real estate acquisitions	(1,062,031	) (335,986
Capital improvements	(64,086	) (41,615
Deferred lease costs paid	(15,403	) (12,057
Net cash used in investing activities	(719,395	) (258,630
Cash Flows from Financing Activities:		
Financing costs paid	(9,607	) (1,482
Costs paid to prepay debt and settle interest rate swap	(3,165) —
Proceeds from lines of credit and notes payable	1,854,000	283,000
Repayments of lines of credit and notes payable	(1,625,187	) (134,965
Proceeds from issuance of bonds payable	349,507	—
Distributions paid to stockholders	(112,570	) (112,471
Redemptions of common stock	(13,529) —
Net cash provided by financing activities	439,449	34,082
Net decrease in cash and cash equivalents	(104,967	) (53,422
Cash and cash equivalents, beginning of period	149,790	99,855
Cash and cash equivalents, end of period	\$44,823	\$46,433
See accompanying notes.		

Table of Contents

COLUMBIA PROPERTY TRUST, INC.
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
(unaudited)
1. Organization