

Terreno Realty Corp  
Form 10-Q  
August 12, 2010

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-Q**

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

**For the quarterly period ended June 30, 2010**

**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 001-34603**

**Terreno Realty Corporation**

*(Exact Name of Registrant as Specified in Its Charter)*

**Maryland**

*(State or Other Jurisdiction of  
Incorporation or Organization)*

**27-1262675**

*(I.R.S. Employer  
Identification No.)*

**16 Maiden Lane, Fifth Floor**

**San Francisco, CA**

*(Address of Principal Executive Offices)*

**94108**

*(Zip Code)*

**Registrant's telephone number, including area code: (415) 655-4580**

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

The registrant had 9,263,430 shares of its common stock, \$0.01 par value per share, outstanding as of August 12, 2010.

**Terreno Realty Corporation**  
**Table of Contents**

**PART I. FINANCIAL INFORMATION**

<b><u>Item 1. Financial Statements of Terreno Realty Corporation (unaudited)</u></b>	
<u>Condensed Consolidated Balance Sheets as of June 30, 2010 and December 31, 2009</u>	2
<u>Condensed Consolidated Statement of Operations for the three months ended June 30, 2010 and for the period from February 16, 2010 (commencement of operations) to June 30, 2010</u>	3
<u>Condensed Consolidated Statement of Equity for the period from February 16, 2010 (commencement of operations) to June 30, 2010</u>	4
<u>Condensed Consolidated Statement of Cash Flows for the period from February 16, 2010 (commencement of operations) to June 30, 2010</u>	5
<u>Notes to Condensed Consolidated Financial Statements of Terreno Realty Corporation</u>	6
<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	12
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	18
<b><u>Item 4. Controls and Procedures</u></b>	18

**PART II. OTHER INFORMATION**

<b><u>Item 1. Legal Proceedings</u></b>	18
<b><u>Item 1A. Risk Factors</u></b>	18
<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	18
<b><u>Item 3. Defaults Upon Senior Securities</u></b>	19
<b><u>Item 4. (Removed and Reserved)</u></b>	19
<b><u>Item 5. Other Information</u></b>	19
<b><u>Item 6. Exhibits</u></b>	19

**SIGNATURES**

**EXHIBIT INDEX**

<u>EX-10.1</u>
<u>EX-31.1</u>
<u>EX-31.2</u>
<u>EX-32.1</u>
<u>EX-32.2</u>

**Table of Contents**

**Terreno Realty Corporation**  
**Condensed Consolidated Balance Sheets**  
(in thousands except share and per share data)  
(Unaudited)

	<i>June 30,</i> <i>2010</i>	<i>December 31,</i> <i>2009</i>	
<b>ASSETS</b>			
Investments in real estate			
Land	\$ 6,182	\$	
Buildings and improvements	6,632		
Total investments in properties	12,814		
Accumulated depreciation and amortization	(209)		
Net investments in properties	12,605		
Cash and cash equivalents	162,304		1
Deferred financing costs, net	393		
Other assets, net	925		
Total assets	\$ 176,227	\$	1
<b>LIABILITIES AND EQUITY</b>			
Liabilities			
Security deposits	\$ 123	\$	
Deferred underwriting fee payable	7,000		
Accounts payable and other liabilities	822		
Total liabilities	7,945		
Equity			
Stockholders' equity			
Preferred stock: \$0.01 par value, 100,000,000 and no shares authorized, respectively, and no shares issued and outstanding			
Common stock: \$0.01 par value, 400,000,000 and 100,000 shares authorized, and 9,263,430 and 1,000 shares issued and outstanding, respectively	91		
Additional paid-in capital	170,279		1
Accumulated deficit	(2,088)		
Total stockholders' equity	168,282		1
Total liabilities and equity	\$ 176,227	\$	1

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Table of Contents**

**Terreno Realty Corporation**  
**Condensed Consolidated Statement of Operations**  
(in thousands except share and per share data)  
(Unaudited)

	<i>For the Three Months Ended June 30, 2010</i>	<i>Period from February 16, 2010 (Commencement of Operations) to June 30, 2010</i>
<b>REVENUES</b>		
Rental revenues	\$ 333	\$ 345
Total revenues	333	345
<b>COSTS AND EXPENSES</b>		
Property operating expenses	110	116
Depreciation and amortization	170	185
General and administrative	1,081	1,701
Acquisition costs	219	349
Total costs and expenses	1,580	2,351
<b>OTHER INCOME (EXPENSE)</b>		
Interest and other income	21	26
Interest expense	(105)	(108)
Total other income and expenses	(84)	(82)
Net loss available to common stockholders	\$ (1,331)	\$ (2,088)
Net loss available to common stockholders per share	\$ (0.15)	\$ (0.23)
<b>Basic and Diluted Weighted Average Common Shares Outstanding</b>	9,112,000	9,112,000

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Table of Contents**

**Terreno Realty Corporation**  
**Condensed Consolidated Statement of Equity**  
(in thousands except share and per share data)  
(unaudited)

	Common Stock		Additional Paid- in Capital	Accumulated Deficit	Total
	Number of Shares	Amount			
Balance as of February 16, 2010 (commencement of operations)	1,000	\$	\$ 1	\$	\$ 1
Net loss				(2,088)	(2,088)
Issuance of common stock	9,112,000	91	182,149		182,240
Equity issuance costs			(12,200)		(12,200)
Repurchase of common stock	(1,000)		(1)		(1)
Issuance of restricted stock, net	151,430				
Stock-based compensation amortization			330		330
Balance as of June 30, 2010	9,263,430	\$ 91	\$ 170,279	\$ (2,088)	\$ 168,282

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Table of Contents**

**Terreno Realty Corporation**  
**Condensed Consolidated Statement of Cash Flows**  
(in thousands)  
(Unaudited)

	<i>Period from February 16, 2010 (Commencement of Operations) to June 30, 2010</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Net loss	\$ (2,088)
Adjustments to net loss	
Straight-line rents	(8)
Amortization of lease intangibles	57
Depreciation and amortization	185
Deferred financing cost amortization	39
Stock-based compensation amortization	330
Changes in assets and liabilities	
Accounts receivable and other assets	(249)
Accounts payable and other liabilities	686
Net cash used in operating activities	(1,048)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Cash paid for property acquisitions	(12,690)
Deposits on property acquisitions	(380)
Additions to building, furniture, fixtures and equipment	(65)
Net cash used in investing activities	(13,135)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Issuance of common stock, net	176,933
Payment of financing fees	(432)
Deposits on financing fees	(15)
Net cash used in financing activities	176,486
Net increase in cash and cash equivalents	162,303
Cash and cash equivalents at beginning of period	1
Cash and cash equivalents at end of period	\$ 162,304
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>	
Non-cash transactions	
Deferred underwriting fee	\$ 7,000
Offering costs payable	\$ 134

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Contribution of fixed assets by Terreno Capital Partners LLC	\$	240
Acquisition of properties	\$	12,814
Assumption of other assets and liabilities		(124)
Net cash paid for property acquisitions	\$	12,690

The accompanying notes are an integral part of these condensed consolidated financial statements.

5

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**Table of Contents**

**Terreno Realty Corporation**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 1. Organization**

Terreno Realty Corporation ( Terreno , and together with its subsidiaries, the Company ) is an internally managed Maryland corporation focused on acquiring, owning and operating industrial real estate located in six major coastal U.S. markets: Los Angeles Area; Northern New Jersey/New York City; San Francisco Bay Area; Seattle Area; Miami Area; and Washington, D.C./Baltimore. As of June 30, 2010, the Company owned two industrial properties located in the San Francisco Bay Area aggregating approximately 212,000 square feet.

Terreno commenced operations upon completion of an initial public offering ( IPO ) of 8,750,000 shares of its common stock at a price of \$20.00 per share and a concurrent private placement of 350,000 shares of common stock at a price of \$20.00 per share on February 16, 2010. The net proceeds of the IPO and the concurrent private placement were approximately \$169.8 million. Prior to the completion of its IPO, Terreno had no assets other than cash. Terreno intends to elect to be taxed as a real estate investment trust ( REIT ) under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Code ), commencing with its taxable year ending December 31, 2010.

**Note 2. Significant Accounting Policies**

**Basis of Presentation.** The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In management s opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The condensed consolidated financial statements include all of the Company s accounts and its subsidiaries in accordance with GAAP and all intercompany balances and transactions have been eliminated in consolidation. The financial statements should be read in conjunction with the financial statement contained in the Company s 2009 Annual Report on Form 10-K and the notes thereto.

**Use of Estimates.** The preparation of the unaudited interim condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**Investments in Real Estate.** Investments in real estate are stated at cost, less accumulated depreciation, unless circumstances indicate that the cost cannot be recovered, in which case, an adjustment to the carrying value of the property is made to reduce it to its estimated fair value. The Company also reviews the impact of above and below-market leases, in-place leases and lease origination costs for acquisitions and records an intangible asset or liability accordingly.

**Property Acquisitions.** Upon acquisition of a property, the Company estimates the fair value of acquired tangible assets (consisting of land, buildings and improvements) and intangible assets and liabilities (consisting of the above and below market leases and the origination value of all in-place leases). The Company determines fair values using estimated cash flow projections and other valuation techniques and applying appropriate discount and capitalization rates based on available market information.

The fair value of the tangible assets is based on the value of the property as if it were vacant. The fair value of the above and below market leases is based on the present value of the difference between the contractual amounts to be received pursuant to the acquired leases and the Company s estimate of the market lease rates measured over a period equal to the remaining noncancelable term of the leases. The capitalized values of above market leases (acquired above market leases) and below market leases (acquired lease obligations) are amortized to rental revenue over the remaining noncancelable term of the respective leases. The origination value of in-place leases (acquired

**Table of Contents**

in-place leases) is based on costs to execute similar leases including commissions and other related costs. The origination value of in-place leases also includes real estate taxes, insurance and an estimate of lost rent revenue at market rates during the estimated time required to lease up the property from vacant to the occupancy level at the date of acquisition.

Carrying values for financial reporting purposes will be reviewed for impairment on a property-by-property basis whenever events or changes in circumstances indicate that the carrying value of a property may not be fully recoverable. When the carrying value of a property or land parcel is greater than its estimated fair value, based on the intended use and holding period, an impairment charge to earnings will be recognized for the excess over its estimated fair value less costs to sell. The intended use of an asset either held for sale or held for the long term, can significantly impact how impairment is measured. If an asset is intended to be held for the long term, the impairment analysis will be based on a two-step test. The first test measures estimated expected future cash flows over the holding period, including a residual value (undiscounted and without interest charges), against the carrying value of the property. If the asset fails the test, then the asset carrying value will be measured against the lower of cost or the present value of expected cash flows over the expected hold period. An impairment charge to earnings will be recognized for the excess of the asset's carrying value over the lower of cost or the present values of expected cash flows over the expected hold period. If an asset is intended to be sold, impairment will be determined using the estimated fair value less costs to sell. The estimation of expected future net cash flows is inherently uncertain and relies on assumptions, among other things, regarding current and future economic and market conditions and the availability of capital. The Company determines the estimated fair values based on its assumptions regarding rental rates, costs to complete, lease-up and holding periods, as well as sales prices. When available, current market information is used to determine capitalization and rental growth rates. When market information is not readily available, the inputs are based on the Company's understanding of market conditions and the experience of the Company's management team. Actual results could differ significantly from the Company's estimates. The discount rates used in the fair value estimates will represent a rate commensurate with the indicated holding period with a premium layered on for risk. In a few instances, current comparative sales values will be available and used to establish fair value.

**Depreciation and Useful Lives of Real Estate Assets.** Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the related assets or liabilities. The following table reflects the standard depreciable lives typically used to compute depreciation and amortization. However, such depreciable lives may be different based on the estimated useful life of such assets or liabilities.

Description	Standard Depreciable Life
Land	Not depreciated
Building	40 years
Building and Land Improvements	5-40 years
Tenant Improvements	Shorter of lease term or useful life
Leasing Costs	Lease term
Above/Below Market Leases	Lease term

**Cash and Cash Equivalents.** Cash and cash equivalents is comprised of cash held in a major banking institution and other highly liquid short-term investments with original maturities of three months or less. Cash equivalents are generally invested in U.S. government securities, government agency securities or money market accounts.

**Revenue Recognition.** The Company records rental revenue from operating leases on a straight-line basis over the term of the leases and maintains an allowance for estimated losses that may result from the inability of its tenants to make required payments. If tenants fail to make contractual lease payments that are greater than the Company's allowance for doubtful accounts, security deposits and letters of credit, then the Company may have to recognize additional doubtful account charges in future periods. The Company monitors the liquidity and creditworthiness of its tenants on an on-going basis by reviewing their financial condition periodically as appropriate. Each period the Company reviews its outstanding accounts receivable, including straight-line rents, for doubtful accounts and provides allowances as needed. As of June 30, 2010, there was no allowance for doubtful accounts. The Company also records lease termination fees when a tenant has executed a definitive termination agreement with the Company and the

payment of the termination fee is not subject to any conditions that must be met or waived before the fee is due to the Company. If a tenant remains in the leased space following the execution

7

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**Table of Contents**

of a definitive termination agreement, the applicable termination will be deferred and recognized over the term of such tenant's occupancy.

Tenant expense reimbursement income includes payments and amounts due from tenants pursuant to their leases for real estate taxes, insurance and other recoverable property operating expenses and is recognized as rental revenues during the same period the related expenses are incurred. Tenant expense reimbursement income recognized as rental revenues for the three months ended June 30, 2010 and for the period from February 16, 2010 (commencement of operations) to June 30, 2010 was \$70,000 and \$73,000, respectively.

In connection with property acquisitions, the Company may acquire leases with rental rates above or below the market rental rates. Such differences are recorded as an intangible lease asset or liability, pursuant to Accounting Standards Codification (ASC) 805, *Business Combinations*, and amortized to rental revenues over the life of the related leases. The total net impact to rental revenues due to the amortization of above and below market rents, was a decrease of approximately \$55,000 and \$57,000, respectively, for the three months ended June 30, 2010 and for the period from February 16, 2010 (commencement of operations) to June 30, 2010.

**Income Taxes.** The Company intends to elect to be taxed as a REIT under the Code and intends to operate as such beginning with its taxable year ending December 31, 2010. The Company expects to have little or no taxable income prior to electing REIT status. To qualify as a REIT, the Company must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of its annual REIT taxable income to its stockholders (which is computed without regard to the dividends paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with GAAP). As a REIT, the Company generally will not be subject to federal income tax to the extent it distributes qualifying dividends to its stockholders. If it fails to qualify as a REIT in any taxable year, it will be subject to federal income tax on its taxable income at regular corporate income tax rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost unless the IRS grants it relief under certain statutory provisions. Such an event could materially adversely affect the Company's net income and net cash available for distribution to stockholders. However, the Company intends to organize and operate in such a manner as to qualify for treatment as a REIT.

**Fair Value of Financial Instruments.** ASC 820, *Fair Value Measurements and Disclosures*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also provides guidance for using fair value to measure financial assets and liabilities. The Codification requires disclosure of the level within the fair value hierarchy in which the fair value measurements fall, including measurements using quoted prices in active markets for identical assets or liabilities (Level 1), quote prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active (Level 2), and significant valuation assumptions that are not readily observable in the market (Level 3).

As of June 30, 2010 and December 31, 2009, the fair values of cash and cash equivalents, accounts payable and deferred underwriting fee payable approximated their carrying values because of the short-term nature of these investments or liabilities. Cash equivalents include short-term investments that are considered level 2 instruments.

**Note 3. Concentration of Credit Risk.** Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and cash equivalents. The Company may maintain deposits in federally insured financial institutions in excess of federally insured limits. However, the Company's management believes the Company is not exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held.

**Note 4. Investments in Real Estate.** On March 26, 2010, the Company acquired an industrial property located in Fremont, California comprised of two multi-tenant industrial buildings containing approximately 140,000 square feet, which was 50% leased to two tenants at the time of acquisition. Additionally, on March 30, 2010, the Company acquired an industrial property located in San Jose, California, comprised of one multi-tenant industrial building containing approximately 72,000 square feet, which was 100% leased to two tenants at the time of acquisition. The aggregate purchase price for both properties was approximately \$12.8 million. The properties were acquired from unrelated third parties using existing cash on hand and were accounted for as asset acquisitions.



**Table of Contents**

**Note 5. Credit facility.** On March 24, 2010, the Company consummated a \$50.0 million senior revolving credit facility with KeyBank National Association as administrative agent, and KeyBanc Capital Markets Inc. in its capacity as the lead arranger that matures on March 22, 2013 (the Facility). The amount available under the Facility may be increased up to \$150 million, subject to the approval of the administrative agent and the identification of lenders willing to make available additional amounts. Interest on the Facility will generally be paid based upon, at the Company's option, either (i) LIBOR, subject to a floor of 1.50%, plus the applicable LIBOR margin or (ii) the applicable base rate which is the greater of the administrative agent's prime rate plus 1.00%, 0.50% above the fed funds effective rate, or thirty-day LIBOR (incorporating the floor of 1.50%) plus the applicable LIBOR margin for LIBOR rate loans under the Facility. The applicable LIBOR margin will range from 3.00% to 4.25%, depending on the ratio of the Company's outstanding consolidated indebtedness to the value of the Company's consolidated gross asset value. The Facility includes a series of financial and other covenants that the Company must comply with in order to borrow under the Facility. Terreno has agreed to guarantee the obligations of the borrower (a wholly-owned subsidiary) under the Facility. As of June 30, 2010, there were no borrowings outstanding under the Facility. The Company was in compliance with its financial covenants at June 30, 2010.

**Note 6. Stockholders Equity.** The Company's authorized capital stock consists of 400,000,000 shares of common stock, \$0.01 par value per share, and 100,000,000 shares of preferred stock, \$0.01 par value per share. As of June 30, 2010, 9,263,430 shares of common stock were issued and outstanding, including 151,430 non-vested restricted stock awards, and no shares of preferred stock were issued and outstanding.

During the period from February 16, 2010 (commencement of operations) through June 30, 2010, Terreno's executive officers, employees and directors were granted an aggregate of 151,430 shares of restricted common stock with an aggregate initial value of approximately \$3.0 million. The vesting period for the restricted shares is between one and five years.

In connection with the completion of the IPO on February 16, 2010, Terreno issued 12,000 shares of common stock to Terreno Capital Partners LLC, an entity owned by Terreno's executive officers, in exchange for the contribution of fixed assets to Terreno with a net book value of \$240,000.

As of June 30, 2010, there were approximately 303,570 shares of common stock available for issuance as restricted stock grants, unrestricted stock awards or performance shares under the Company's 2010 Equity Incentive Plan. As of June 30, 2010, approximately 151,430 non-vested stock awards were outstanding under the plan. The grant date fair value per share of restricted stock awards as of the grant dates of the awards issued during the period from February 16, 2010 (commencement of operations) to June 30, 2010 ranged from \$19.65 to \$20.00. The grant date fair value of the restricted stock was determined using the initial public offering price of \$20.00 for grants made on February 16, 2010 (commencement of operations) and for all grants made after the commencement of operations, the grant date fair value is the closing price of the Company's stock on the date of grant. As of June 30, 2010, the Company had approximately \$2.6 million of total unrecognized compensation cost related to restricted stock issuances, which is expected to be recognized over a weighted average period of approximately 4.5 years.

**Note 7. Net Loss Per Share.** Pursuant to ASC 260-10-45, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, unvested share-based payment awards that contain non-forfeitable rights to dividends are participating securities and are included in the computation of earnings per share pursuant to the two-class method. The two-class method of computing earnings per share allocates earnings per share for common stock and any participating securities according to dividends declared (whether paid or unpaid) and participation rights in undistributed earnings. Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings to common stockholders and undistributed earnings allocated to common stockholders by the weighted average number of common shares outstanding for the period. Our nonvested restricted stock are considered participating securities since these share-based awards contain non-forfeitable rights to dividends irrespective of whether the awards ultimately vest or expire. The Company had no dilutive restricted stock awards outstanding for the three months ended June 30, 2010 and for the period from February 16, 2010 (commencement of operations) to June 30, 2010.

**Table of Contents****Note 8. Commitments and Contingencies**

***Deferred Underwriting Commissions.*** Underwriting commissions incurred in connection with Terreno's IPO are reflected as a reduction of additional paid in capital in the amount of \$10.5 million. The underwriters deferred approximately \$7.0 million of their underwriting commissions until such time as Terreno purchases assets in accordance with its investment strategy described in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 with an aggregate price (including the amount of any outstanding indebtedness assumed or incurred by Terreno) at least equal to the net proceeds from the IPO. The deferred underwriting commissions and other unpaid offering costs are reflected in deferred underwriting fee payable. As of June 30, 2010, the Company had paid approximately \$3.5 million in underwriting commissions.

***Litigation.*** The Company is not involved in any material litigation nor, to its knowledge, is any material litigation threatened against it. In the normal course of business, from time to time, the Company may be involved in legal actions relating to the ownership and operations of its properties. Management does not expect that the liabilities, if any, that may ultimately result from such legal actions will have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company.

***Environmental Matters.*** The industrial properties that the Company owns and will acquire will be subject to various federal, state and local environmental laws. Under these laws, courts and government agencies have the authority to require the Company, as owner of a contaminated property, to clean up the property, even if it did not know of or was not responsible for the contamination. These laws also apply to persons who owned a property at the time it became contaminated, and therefore it is possible the Company could incur these costs even after the Company sells some of the properties it acquires. In addition to the costs of cleanup, environmental contamination can affect the value of a property and, therefore, an owner's ability to borrow using the property as collateral or to sell the property. Under applicable environmental laws, courts and government agencies also have the authority to require that a person who sent waste to a waste disposal facility, such as a landfill or an incinerator, pay for the clean-up of that facility if it becomes contaminated and threatens human health or the environment.

Furthermore, various court decisions have established that third parties may recover damages for injury caused by property contamination. For instance, a person exposed to asbestos at one of our properties may seek to recover damages if he or she suffers injury from the asbestos. Lastly, some of these environmental laws restrict the use of a property or place conditions on various activities. An example would be laws that require a business using chemicals to manage them carefully and to notify local officials that the chemicals are being used.

The Company could be responsible for any of the costs discussed above. The costs to clean up a contaminated property, to defend against a claim, or to comply with environmental laws could be material and could adversely affect the funds available for distribution to our stockholders. The Company generally expects to obtain Phase I environmental site assessments, or ESAs, on each property prior to acquiring it. However, these ESAs may not reveal all environmental costs that might have a material adverse effect on the Company's business, assets, results of operations or liquidity and may not identify all potential environmental liabilities.

The Company utilizes local third party property managers for day-to-day property management and will rely on these third parties to operate its industrial properties in compliance with applicable federal, state and local environmental laws in their daily operation of the respective properties and to promptly notify the Company of any environmental contaminations or similar issues.

As a result, the Company may become subject to material environmental liabilities of which it is unaware. The Company can make no assurances that (1) future laws or regulations will not impose material environmental liabilities on it, or (2) the environmental condition of the Company's industrial properties will not be affected by the condition of the properties in the vicinity of its industrial properties (such as the presence of leaking underground storage tanks) or by third parties unrelated to the Company.

***General Uninsured Losses.*** The Company carries property and rental loss, liability and terrorism insurance. The Company believes that the policy terms, conditions, limits and deductibles are adequate and appropriate under the circumstances, given the relative risk of loss, the cost of such coverage and current industry practice. In addition, the Company's properties are located, or may in the future be located, in areas that are subject to earthquake and flood activity. As a result, the Company has obtained or anticipates that it will obtain, as applicable, limited earthquake and

flood insurance on those properties. There are, however, certain types of



**Table of Contents**

extraordinary losses, such as those due to acts of war, that may be either uninsurable or not economically insurable. Although the Company has obtained coverage for certain acts of terrorism, with policy specifications and insured limits that it believes are commercially reasonable, there can be no assurance that the Company will be able to collect under such policies. Should an uninsured loss occur, the Company could lose its investment in, and anticipated profits and cash flows from, a property.

**Contractual Commitments.** As of June 30, 2010, the Company had entered into two separate contracts with the respective sellers to acquire one property consisting of 18 buildings located in Northern New Jersey and one property consisting of two buildings located in the San Francisco Bay Area. These properties aggregate approximately 664,000 square feet for a combined purchase price of approximately \$36.6 million. As part of these transactions, the Company expects to assume two mortgage loans with a total principal amount of approximately \$17.2 million with a weighted average fixed annual interest rate of 5.19%. There is no assurance that the Company will acquire these properties because the proposed acquisitions are subject to a variety of factors, including the satisfaction of customary closing conditions and the consent of the respective mortgage lenders.

Subsequent to June 30, 2010, the Company entered into two separate contracts with the respective sellers to acquire one industrial property consisting of one building located in Northern New Jersey and one industrial property consisting of two buildings in the Los Angeles Area. These properties aggregate approximately 329,500 square feet for a combined purchase price of approximately \$28.6 million. There is no assurance that the Company will acquire these properties because the proposed acquisitions are subject to a variety of factors, including the satisfaction of customary closing conditions.

Including the contracts the Company entered into subsequent to June 30, 2010, the following table sets forth certain contractual obligation information with respect to the properties described above the Company has agreed to acquire, subject to a variety of factors, including those factors described above:

<b>Market</b>	<b>Number of Buildings</b>	<b>Square Feet</b>	<b>Purchase Price (in thousands)</b>	<b>Assumed Debt (in thousands)</b>
Los Angeles Area	2	121,500	\$ 12,110	\$
Miami Area				
Northern New Jersey/New York	19	791,500	43,500	15,500
San Francisco Bay Area	2	80,500	9,620	1,700
Seattle Area				
Washington, D.C/Baltimore				
Total/Weighted Average	23	993,500	\$ 65,230	\$ 17,200

**Table of Contents**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, 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 caution investors that forward-looking statements are based on management's beliefs and on assumptions made by, and information currently available to, management. When used, the words anticipate , believe , estimate , expect , intend , may , might , project , result , should , will , and similar expressions which do not relate solely to historical matters are intended to identify forward-looking statements. These statements are subject to risks, uncertainties, and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties, and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or projected. We expressly disclaim any responsibility to update our forward-looking statements, whether as a result of new information, future events, or otherwise. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

Some of the risks and uncertainties that may cause our actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements include, among others, the following: the factors included under the heading Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 and in the Company's other public filings;

our limited operating history;

our ability to identify and acquire industrial properties on terms favorable to us;

general volatility of the capital markets and the market price of our common stock;

adverse economic or real estate conditions or developments in the industrial real estate sector and/or in the markets in which we acquire properties;

our dependence on key personnel;

our ability to source off-market deal flow in the future;

availability of investment opportunities in the industrial real estate sector;

our reliance on third parties to property manage our industrial properties;

general economic conditions;

our dependence upon tenants;

our inability to comply with the laws, rules and regulations applicable to companies, and in particular, public companies;

our inability to manage our growth effectively;

defaults on or non-renewal of leases by tenants;

decreased rental rates or increased vacancy rates;



**Table of Contents**

tenant bankruptcies;

increased interest rates and operating costs;

declining real estate valuations and impairment charges;

our expected leverage;

estimates related to our ability to make distributions to our stockholders;

our failure to obtain necessary outside financing;

future debt service obligations;

our failure to successfully hedge against interest rate increases;

our failure to successfully operate acquired properties and operations;

our failure to qualify or maintain our status as a REIT;

possible adverse changes to tax laws;

uninsured or underinsured losses relating to our properties;

environmental uncertainties and risks related to natural disasters;

financial market fluctuations; and

changes in real estate and zoning laws and increases in real property tax rates.

**Overview**

Terreno Realty Corporation ( Terreno , and together with its subsidiaries, we , us , our , our company , or the co is an internally managed Maryland corporation focused on acquiring, owning and operating industrial real estate located in six major coastal U.S. markets: Los Angeles Area; Northern New Jersey/New York City; San Francisco Bay Area; Seattle Area; Miami Area; and Washington, D.C./Baltimore. We intend to invest in several types of industrial real estate, including warehouse/distribution, flex (including light manufacturing and R&D) and trans-shipment. We target functional buildings in infill locations that may be shared by multiple tenants and that cater to customer demand within the various submarkets in which we operate. As of June 30, 2010, we owned two industrial properties located in the San Francisco Bay Area totaling approximately 212,000 square feet that were approximately 66.9% leased. We intend to elect to be taxed as a REIT under Sections 856 through 860 of the Code, commencing with our taxable year ending December 31, 2010.

The following table summarizes the properties owned by us as of June 30, 2010:

**Table of Contents**

Market	Number of Buildings	Square Feet	% of Total Rentable Square Feet	Occupancy		% of Total Annualized Base Rent
				Percentage as of June 30, 2010	Annualized Base Rent (000 \$)	
Los Angeles Area						
Miami Area						
Northern New Jersey/New York						
San Francisco Bay Area	3	212,000	100%	66.9%	1,237	100%
Seattle Area						
Washington, D.C/Baltimore						
Total/Weighted Average	3	212,000	100%	66.9%	\$ 1,237	100%

<sup>1</sup> Annualized base rent is calculated as monthly base rent per the leases, as of June 30, 2010, multiplied by 12.

**Financial Condition and Results of Operations**

We commenced operations upon the completion of our initial public offering and the concurrent private placement on February 16, 2010.

*Revenue.* We earned rental revenues of approximately \$333,000 and \$345,000 for the three months ended June 30, 2010 and for the period from February 16, 2010 (commencement of operations) to June 30, 2010, respectively, representing income from the acquisition of two properties, which we acquired on March 26, 2010 and March 30, 2010, respectively. We recognized straight-line rents and amortization of lease intangibles of \$(47,000) and \$(49,000) for the three months ended June 30, 2010 and for the period from February 16, 2010 (commencement of operations) to June 30, 2010, respectively.

*General and administrative expenses.* We recorded general and administrative expenses of approximately \$1.1 million and \$1.7 million for the three months ended June 30, 2010 and for the period from February 16, 2010 to June 30, 2010, respectively, which represents overhead costs of the company and includes stock compensation amortization of approximately \$224,000 and \$330,000, respectively.

*Acquisition costs.* We recorded acquisition costs of approximately \$219,000 and \$349,000 for the three months ended June 30, 2010 and for the period from February 16, 2010 to June 30, 2010, respectively, which consisted of costs incurred in the pursuit and acquisition of properties.

We incurred a net loss of \$1.3 million and \$2.1 million for the three months ended June 30, 2010 and for the period from February 16, 2010 (commencement of operations) to June 30, 2010, respectively.

**Recent Developments**

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On February 16, 2010, we completed both our initial public offering of 8,750,000 shares of our common stock and a concurrent private placement of an aggregate of 350,000 shares of our common stock to our executive officers at a price per share of \$20. The net proceeds of our initial public offering were approximately \$162.8 million after deducting the full underwriting discount of approximately \$10.5 million and other estimated offering expenses of approximately \$1.7 million. The underwriters agreed to forego the receipt of payment of \$0.80 per share, or approximately \$7.0 million in the aggregate, until such time as we purchase assets in accordance with our investment strategy described in our Annual Report on Form 10-K for the year ended December 31, 2009, with an aggregate purchase price (including the amount of any outstanding indebtedness assumed or incurred by us) at least equal to the net proceeds from our initial public offering (after deducting the full underwriting discount and other estimated offering expenses payable by us), at which time, we have agreed to pay the underwriters the remainder of the underwriting discount. We received net proceeds of approximately \$7.0 million from our concurrent private placement. In the aggregate, we had approximately \$169.8 million in cash available to execute

**Table of Contents**

our business strategy upon completion of our initial public offering and the concurrent private placement on February 16, 2010.

On March 26, 2010, we acquired an industrial property located in Fremont, California, comprised of two multi-tenant industrial buildings containing approximately 140,000 square feet, which was 50% leased to two tenants at the time of acquisition. Additionally, on March 30, 2010, we acquired an industrial property located in San Jose, California comprised of one multi-tenant industrial building containing approximately 72,000 square feet, which was 100% leased to two tenants at the time of acquisition. The aggregate purchase price for both properties was approximately \$12.8 million. The properties were acquired from unrelated third parties using existing cash on hand. The following table sets forth the industrial properties we acquired during the period from February 16, 2010 (commencement of operations) to June 30, 2010:

<b>Property Name</b>	<b>Location</b>	<b>Number of Buildings</b>	<b>Square Feet</b>	<b>Acquisition Cost (in thousands)</b>
Warm Springs I and II	Fremont, CA	2	140,000	\$ 7,264
Fortune/Qume	San Jose, CA	1	72,000	5,550
Total		3	212,000	\$ 12,814

On March 24, 2010, we consummated a three-year, \$50.0 million senior revolving credit facility (the Facility) with KeyBank National Association, as administrative agent, and KeyBanc Capital Markets Inc., in its capacity as the lead arranger, to finance acquisitions and for working capital requirements. Terreno has agreed to guarantee the obligations of the borrower (a wholly-owned subsidiary) under the Facility. There are currently no amounts outstanding under the Facility.

**Liquidity and Capital Resources**

The primary objective of our financing strategy is to maintain financial flexibility with a conservative capital structure using retained cash flows, long-term debt and the issuance of common and perpetual preferred stock to finance our growth. We intend to:

limit the sum of the outstanding principal amount of our consolidated indebtedness and the liquidation preference of any outstanding perpetual preferred stock to less than 40% of our total enterprise value;

maintain a fixed charge coverage ratio in excess of 2.0x;

over the long-term, limit the principal amount of our outstanding floating rate debt to less than 20% of our total consolidated indebtedness; and

have staggered debt maturities that are aligned to our expected average lease term (5-7 years), positioning us to re-price parts of our capital structure as our rental rates change with market conditions.

We intend to preserve a flexible capital structure with a long-term goal to obtain an investment grade rating and be in a position to issue unsecured debt and perpetual preferred stock. Prior to attaining an investment grade rating, we intend to primarily utilize non-recourse debt secured by individual properties or pools of properties with a targeted maximum loan-to-value of 60% at the time of financing. We may also assume debt in connection with property acquisitions.

We expect to meet our short-term liquidity requirements generally through net cash provided by operations, existing cash balances and, if necessary, short-term borrowings under the Facility. We believe that our net cash provided by operations will be adequate to fund operating requirements, pay interest on any borrowings and fund

distributions in accordance with the REIT requirements of the federal income tax laws. In the near-term, we intend to fund future investments in properties with the net proceeds of our initial public offering and the concurrent private placement. We expect to meet our long-term liquidity requirements, including with respect to other investments in industrial properties, property acquisitions and scheduled debt maturities, through the cash we have available from our initial public offering and the concurrent private placement and borrowings under our credit facility and periodic



**Table of Contents**

issuances of common stock, perpetual preferred stock, and long-term secured and unsecured debt. The success of our acquisition strategy may depend, in part, on our ability to obtain and borrow under our credit facility and to access additional capital through issuances of equity and debt securities.

On February 16, 2010, we completed our initial public offering with the issuance of 8,750,000 shares of our common stock at a price of \$20.00 per share and a concurrent private placement of 350,000 shares of our common stock at a price of \$20.00 per share. The net proceeds were approximately \$169.8 million.

As of June 30, 2010, our market equity capitalization was as follows:

Market Equity Capitalization as of June 30, 2010				
Shares				
	Security	Outstanding <sup>1</sup>	Market Price <sup>2</sup>	Market Value
Common Stock		9,263,430	\$ 17.71	\$ 164,055,345

<sup>1</sup> Includes 151,430 shares of unvested restricted stock

<sup>2</sup> Closing price of our shares of common stock on the New York Stock Exchange on June 30, 2010 in dollars per share

We have a \$50.0 million Facility that matures on March 22, 2013. The amount available under the Facility may be increased up to \$150 million, subject to the approval of the administrative agent and the identification of lenders willing to make available additional amounts. Interest on the Facility will generally be paid based upon, at our option, either (i) LIBOR, subject to a floor of 1.50%, plus the applicable LIBOR margin or (ii) the applicable base rate which is the greater of the administrative agent's prime rate plus 1.00%, 0.50% above the fed funds effective rate, or thirty-day LIBOR (incorporating the floor of 1.50%) plus the applicable LIBOR margin for LIBOR rate loans under the Facility. The applicable LIBOR margin will range from 3.00% to 4.25%, depending on the ratio of our outstanding consolidated indebtedness to the value of our consolidated gross asset value. The Facility includes a series of financial and other covenants that we must comply with in order to borrow under the Facility. We have agreed to guarantee the obligations of the borrower (a wholly-owned subsidiary) under the senior revolving credit facility. As of June 30, 2010, there were no borrowings outstanding under the Facility. We were in compliance with our financial covenants under the Facility at June 30, 2010.

As of June 30, 2010, the Company had no outstanding debt and held cash and cash equivalents totaling approximately \$162.3 million.

**Critical Accounting Policies**

A summary of our accounting policies is set forth under Note 2 Significant Accounting Policies to the Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements other than an operating lease for office space.

**Contractual Obligations**

As described above, the full amount of the underwriting discount in connection with our initial public offering was approximately \$10.5 million. The underwriters agreed to forego the receipt of payment of \$0.80 per share, or

approximately \$7.0 million in the aggregate, until such time as we purchase assets in accordance with our investment strategy described in our Annual Report on Form 10-K for the year ended December 31, 2009 with an aggregate purchase price (including the amount of any outstanding indebtedness assumed or incurred by us) at least equal to the net proceeds from our initial public offering (after deducting the full underwriting discount and other estimated offering expenses payable by us), at which time, we have agreed to pay the underwriters the remainder of the underwriting discount.

**Table of Contents**

As of June 30, 2010, we had entered into two separate contracts with the respective sellers to acquire one property consisting of 18 buildings located in Northern New Jersey and one property consisting of two buildings located in the San Francisco Bay Area. These properties aggregate approximately 664,000 square feet for a combined purchase price of approximately \$36.6 million. As part of these transactions, we expect to assume two mortgage loans with a total principal amount of approximately \$17.2 million with a weighted average fixed annual interest rate of 5.19%. There is no assurance that we will acquire these properties because the proposed acquisitions are subject to a variety of factors, including the satisfaction of customary closing conditions and the consent of the respective mortgage lenders.

Subsequent to June 30, 2010, we entered into two separate contracts with the respective sellers to acquire one industrial property consisting of one building located in Northern New Jersey and one industrial property consisting of two buildings in the Los Angeles Area. These properties aggregate approximately 329,500 square feet for a combined purchase price of approximately \$28.6 million. There is no assurance that we will acquire these properties because the proposed acquisitions are subject to a variety of factors, including the satisfaction of customary closing conditions.

Including the contracts we entered into subsequent to June 30, 2010, the following table sets forth certain contractual obligation information with respect to the properties described above we have agreed to acquire, subject to a variety of factors, including those factors described above:

<b>Market</b>	<b>Number of Buildings</b>	<b>Square Feet</b>	<b>Purchase Price (in thousands)</b>	<b>Assumed Debt (in thousands)</b>
Los Angeles Area	2	121,500	\$ 12,110	\$
Miami Area				
Northern New Jersey/New York	19	791,500	43,500	15,500
San Francisco Bay Area	2	80,500	9,620	1,700
Seattle Area				
Washington, D.C/Baltimore				
Total/Weighted Average	23	993,500	\$ 65,230	\$ 17,200

**Non-GAAP Financial Measures**

We use the following non-GAAP financial measure that we believe is useful to investors as a key measure of our operating performance: funds from operations, or FFO. FFO should not be considered in isolation or as a substitute for measures of performance in accordance with GAAP.

We compute FFO in accordance with standards established by the National Association of Real Estate Investment Trusts ( NAREIT ), which defines FFO as net income (loss) (determined in accordance with GAAP), excluding gains (losses) from sales of property, plus depreciation and amortization on real estate assets and after adjustments for unconsolidated partnerships and joint ventures (which are calculated to reflect FFO on the same basis). We believe that presenting FFO provides useful information to investors regarding our operating performance because it is a measure of our operations without regard to specified non-cash items, such as real estate depreciation and amortization and gain or loss on sale of assets.

The following table reflects the calculation of FFO reconciled from net loss available to common stockholders for the three months ended June 30, 2010 and for the period from February 16, 2010 (commencement of operations) to June 30, 2010:

*Period from  
February  
16, 2010  
(Commencement  
of*

*For the Three*

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	<i>Months Ended</i> <i>June</i> <i>30, 2010</i> <i>(Unaudited)</i>	<i>Operations) to</i> <i>June 30, 2010</i> <i>(Unaudited)</i>
Net loss available to common stockholders	\$ (1,331)	\$ (2,088)
Depreciation and amortization		
Total depreciation and amortization	170	185
Non-real estate depreciation	(19)	(28)
Funds from operations	\$ (1,180)	\$ (1,931)
Basic and diluted FFO per common share	\$ (0.13)	\$ (0.21)
Weighted average basic and diluted common shares	9,112,000	9,112,000

**Table of Contents**

**Item 3. Quantitative and Qualitative Disclosure About Market Risk**

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. In pursuing our business strategies, the primary market risk which we expect to be exposed to in the future is interest rate risk. We may be exposed to interest rate changes primarily as a result of debt used to maintain liquidity, fund capital expenditures and expand our investment portfolio and operations. We will seek to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. We expect that some of our outstanding debt will have variable interest rates. We may use interest rate caps to manage our interest rate risks relating to our variable rate debt. We expect to replace variable rate debt on a regular basis with fixed rate, long-term debt to finance our assets and operations.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2010. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of June 30, 2010, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

**Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting during the period ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. *Legal Proceedings***

As of June 30, 2010, there were no material pending legal proceedings to which the Company is a party or of which any of its properties is the subject, the determination of which the company anticipates would have a material effect upon its financial condition and results of operations.

**Item 1A. *Risk Factors***

There have been no material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K for the period ended December 31, 2009.

**Item 2. *Unregistered Sale of Equity Securities and Use of Proceeds***

**Table of Contents**

On February 9, 2010, the Securities and Exchange Commission declared effective the Company's Registration Statement on Form S-11 (File No. 333-163016) in connection with the Company's initial public offering, pursuant to which the Company registered and sold 8,750,000 shares of the Company's common stock. The offering was completed on February 16, 2010. The Company will invest the net proceeds of its initial public offering and concurrent private placement in industrial properties in accordance with its investment strategy as described in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 and for general business purposes.

Prior to the full investment of the net offering proceeds in industrial properties, the Company will continue to invest the net proceeds in interest-bearing short-term U.S. government and government agency securities, which are consistent with our intention to qualify as a REIT. These initial investments are expected to provide a lower net return than the Company will seek to achieve from investments in industrial properties.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. (Removed and Reserved)**

**Item 5. Other Information**

None.

**Item 6. Exhibits**

**Exhibit  
Number**

**Exhibit Description**

10.1*	Agreement of Sale, dated as of May 17, 2010, between Advance at Middlebrook Crossroads, LLC and Terreno Realty LLC
31.1*	Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	*Certification of Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Filed herewith.

\*\* Furnished  
herewith.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Terreno Realty Corporation

August 12, 2010

By: /s/ W. Blake Baird  
W. Blake Baird  
Chairman and Chief Executive Officer

August 12, 2010

By: /s/ Michael A. Coke  
Michael A. Coke  
President and Chief Financial Officer

20

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**Table of Contents**

**Exhibit Index**

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