Piedmont Office Realty Trust, Inc.
Form 10-Q
October 31, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT of 1934

For the Quarterly Period Ended September 30, 2012

OR

o 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 001-34626

PIEDMONT OFFICE REALTY TRUST, INC.
(Exact name of registrant as specified in its charter)

Maryland	58-2328421
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

11695 Johns Creek Parkway
Ste. 350
Johns Creek, Georgia 30097
(Address of principal executive offices)
(Zip Code)
(770) 418-8800
(Registrant’s telephone number, including area code)
N/A
(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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 x No o

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

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

Number of shares outstanding of the Registrant's
common stock, as of October 30, 2012:
167,847,028 shares

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Form 10-Q and other written or oral statements made by or on behalf of Piedmont Office Realty Trust, Inc. ("Piedmont") may constitute forward-looking statements within the meaning of the federal securities laws. In addition, Piedmont, or its executive officers on Piedmont's behalf, may from time to time make forward-looking statements in reports and other documents Piedmont files with the Securities and Exchange Commission or in connection with oral statements made to the press, potential investors, or others. Statements regarding future events and developments and Piedmont's future performance, as well as management's expectations, beliefs, plans, estimates, or projections relating to the future, are forward-looking statements within the meaning of these laws. Forward-looking statements include statements preceded by, followed by, or that include the words "may," "will," "expect," "intend," "anticipate," "estimate," "believe," "continue," or other similar words. Examples of such statements report include descriptions of our real estate, financing, and operating objectives; discussions regarding future dividends and stock repurchases; and discussions regarding the potential impact of economic conditions on our portfolio.

These statements are based on beliefs and assumptions of Piedmont's management, which in turn are based on currently available information. Important assumptions relating to the forward-looking statements include, among others, assumptions regarding the demand for office space in the sectors in which Piedmont operates, competitive conditions, and general economic conditions. These assumptions could prove inaccurate. The forward-looking statements also involve risks and uncertainties, which could cause actual results to differ materially from those contained in any forward-looking statement. Many of these factors are beyond Piedmont's ability to control or predict. Such factors include, but are not limited to, the following:

- The success of our real estate strategies and investment objectives, including our ability to identify and consummate suitable acquisitions;
- The demand for office space, rental rates and property values may continue to lag the general economic recovery causing our business, results of operations, cash flows, financial condition and access to capital to be adversely affected or otherwise impact performance, including the potential recognition of impairment charges;
- Lease terminations or lease defaults, particularly by one of our large lead tenants;
- The impact of competition on our efforts to renew existing leases or re-let space on terms similar to existing leases;
- Changes in the economies and other conditions of the office market in general and of the specific markets in which we operate, particularly in Chicago, Washington, D.C., and the New York metropolitan area;
- Economic and regulatory changes, including accounting standards, that impact the real estate market generally;
- Additional risks and costs associated with directly managing properties occupied by government tenants;
- Adverse market and economic conditions may continue to negatively affect us and could cause us to recognize impairment charges or otherwise impact our performance;
- Availability of financing and our lending banks' ability to honor existing line of credit commitments;
- Costs of complying with governmental laws and regulations;
- Uncertainties associated with environmental and other regulatory matters;
- Potential changes in the political environment and reduction in federal and/or state funding of our government tenants;
- We are and may continue to be subject to litigation, which could have a material adverse effect on our financial condition;
- Piedmont's ability to continue to qualify as a REIT under the Internal Revenue Code (the "Code"); and
- Other factors, including the risk factors discussed under Item 1A. of Piedmont's Annual Report on Form 10-K for the year ended December 31, 2011.

Management believes these forward-looking statements are reasonable; however, undue reliance should not be placed on any forward-looking statements, which are based on current expectations. Further, forward-looking statements speak only as of the date they are made, and management undertakes no obligation to update publicly any of them in light of new information or future events.

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PART I. FINANCIAL STATEMENTS

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

The information presented in the accompanying consolidated balance sheets and related consolidated statements of operations, 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, 2011. Piedmont's results of operations for the nine months ended September 30, 2012 are not necessarily indicative of the operating results expected for the full year.

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PIEDMONT OFFICE REALTY TRUST, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except for share and per share amounts)

	(Unaudited) September 30, 2012	December 31, 2011
Assets:		
Real estate assets, at cost:		
Land	$627,812	$640,196
Buildings and improvements, less accumulated depreciation of $857,993 and $792,342 as of September 30, 2012 and December 31, 2011, respectively	2,902,854	2,967,254
Intangible lease assets, less accumulated amortization of $79,640 and $119,419 as of September 30, 2012 and December 31, 2011, respectively	59,076	79,248
Construction in progress	22,808	17,353
Total real estate assets	3,612,550	3,704,051
Investments in unconsolidated joint ventures	37,369	38,181
Cash and cash equivalents	20,763	139,690
Tenant and notes receivable, net of allowance for doubtful accounts of $346 and $631 as of September 30, 2012 and December 31, 2011, respectively	160,215	129,523
Due from unconsolidated joint ventures	533	788
Restricted cash and escrows	23,001	9,039
Prepaid expenses and other assets	13,552	9,911
Goodwill	180,097	180,097
Deferred financing costs, less accumulated amortization of $9,887 and $9,214 as of September 30, 2012 and December 31, 2011, respectively	7,022	5,977
Deferred lease costs, less accumulated amortization of $115,640 and $120,358 as of September 30, 2012 and December 31, 2011, respectively	230,729	230,577
Total assets	$4,285,831	$4,447,834
Liabilities:		
Line of credit and notes payable	$1,436,025	$1,472,525
Accounts payable, accrued expenses, and accrued capital expenditures	109,125	122,986
Deferred income	24,110	27,321
Intangible lease liabilities, less accumulated amortization of $39,451 and $63,981 as of September 30, 2012 and December 31, 2011, respectively	42,375	49,037
Interest rate swaps	8,916	2,537
Total liabilities	1,620,551	1,674,406
Commitments and Contingencies	—	—
Stockholders’ Equity:		
Shares-in-trust, 150,000,000 shares authorized; none outstanding as of September 30, 2012 or December 31, 2011	—	—
Preferred stock, no par value, 100,000,000 shares authorized; none outstanding as of September 30, 2012 or December 31, 2011	—	—
Common stock, $.01 par value, 750,000,000 shares authorized; 168,044,328 and 172,629,748 shares issued and outstanding as of September 30, 2012 and December 31, 2011, respectively	1,680	1,726
Additional paid-in capital	3,665,870	3,663,662
Cumulative distributions in excess of earnings	(994,967)	(891,032)
Other comprehensive loss	(8,916)	(2,537)
Piedmont stockholders’ equity	2,663,667	2,771,819

Noncontrolling interest	1,613	1,609
Total stockholders’ equity	2,665,280	2,773,428
Total liabilities and stockholders’ equity	$4,285,831	$4,447,834

See accompanying notes

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PIEDMONT OFFICE REALTY TRUST, INC.
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except for share and per share amounts)

	(Unaudited) Three Months Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues:				
Rental income	$106,826	$104,121	$317,177	$306,450
Tenant reimbursements	27,470	28,234	81,120	85,703
Property management fee revenue	520	110	1,719	1,303
Other rental income	75	13	287	4,415
	134,891	132,478	400,303	397,871
Expenses:				
Property operating costs	51,645	50,707	157,835	152,207
Depreciation	28,489	25,891	83,252	76,193
Amortization	15,302	14,808	39,474	39,098
General and administrative	5,508	4,731	15,629	18,868
	100,944	96,137	296,190	286,366
Real estate operating income	33,947	36,341	104,113	111,505
Other income (expense):				
Interest expense	(16,247)	(16,236)	(48,727)	(49,638)
Interest and other income (expense)	383	(91)	765	3,130
Equity in income of unconsolidated joint ventures	322	485	739	1,032
Litigation settlement expense	(7,500)	—	(7,500)	—
Gain on consolidation of variable interest entity	—	—	—	1,532
	(23,042)	(15,842)	(54,723)	(43,944)
Income from continuing operations	10,905	20,499	49,390	67,561
Discontinued operations:				
Operating income	184	3,775	1,805	11,715
Gain/(loss) on sale of real estate assets	(254)	26,756	27,583	26,756
Income/(loss) from discontinued operations	(70)	30,531	29,388	38,471
Net income	10,835	51,030	78,778	106,032
Less: Net income attributable to noncontrolling interest	(4)	(4)	(12)	(12)
Net income attributable to Piedmont	$10,831	$51,026	$78,766	$106,020
Per share information – basic:				
Income from continuing operations	$0.06	$0.12	$0.29	$0.39
Income from discontinued operations	—	0.18	0.17	0.22
Net income available to common stockholders	$0.06	$0.30	$0.46	$0.61
Per share information – diluted:				
Income from continuing operations	$0.06	$0.12	$0.29	$0.39
Income from discontinued operations	—	0.17	0.17	0.22
Net income available to common stockholders	$0.06	$0.29	$0.46	$0.61
Weighted-average common shares outstanding – basic	168,805,589	172,826,869	171,162,281	172,755,805
Weighted-average common shares outstanding – diluted	168,929,039	173,045,192	171,295,098	172,995,849

See accompanying notes.

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PIEDMONT OFFICE REALTY TRUST, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	(Unaudited) Three Months Ended September 30, 2012	2011	(Unaudited) Nine Months Ended September 30, 2012	2011
Net income attributable to Piedmont	$10,831	$51,026	$78,766	$106,020
Other comprehensive income/(loss):				
Effective portion of loss on derivative instruments that are designated and qualify as cash flow hedges (See Note 6)	(2,756)	—	(8,628)	(204)
Less: reclassification of previously recorded loss included in net income (See Note 6)	762	44	2,249	895
Other comprehensive income/(loss)	(1,994)	44	(6,379)	691
Comprehensive income attributable to Piedmont	$8,837	$51,070	$72,387	$106,711

See accompanying notes

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PIEDMONT OFFICE REALTY TRUST, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2011
AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 (UNAUDITED)
(in thousands, except per share amounts)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Cumulative Distributions in Excess of Earnings	Other Comprehensive Loss	Non-controlling Interest	Total Stockholders' Equity
Balance, December 31, 2010	172,658	$1,727	$3,661,308	$(895,122)	$(691)	$6,232	$2,773,454
Share repurchases as part of an announced program	(199)	(2)	—	(3,242)	—	—	(3,244)
Offering costs associated with the issuance of common stock	—	—	(479)	—	—	—	(479)
Attribution of asset sales proceeds to noncontrolling interest	—	—	—	—	—	(2,684)	(2,684)
Dividends to common stockholders ($1.26 per share), distributions to noncontrolling interest, and dividends reinvested	—	—	(249)	(217,709)	—	(2,407)	(220,365)
Shares issued under the 2007 Omnibus Incentive Plan, net of tax	171	1	3,082	—	—	—	3,083
Net income attributable to noncontrolling interest	—	—	—	—	—	468	468
Net income attributable to Piedmont	—	—	—	225,041	—	—	225,041
Other comprehensive loss	—	—	—	—	(1,846)	—	(1,846)
Balance, December 31, 2011	172,630	1,726	3,663,662	(891,032)	(2,537)	1,609	2,773,428
Share repurchases as part of an announced program	(4,764)	(48)	—	(80,082)	—	—	(80,130)
Dividends to common stockholders ($0.60 per share), distributions to noncontrolling interest, and dividends reinvested	—	—	(143)	(102,619)	—	(8)	(102,770)
Shares issued under the 2007 Omnibus Incentive Plan, net of tax	178	2	2,351	—	—	—	2,353
Net income attributable to noncontrolling interest	—	—	—	—	—	12	12
Net income attributable to Piedmont	—	—	—	78,766	—	—	78,766
Other comprehensive loss	—	—	—	—	(6,379)	—	(6,379)
Balance, September 30, 2012	168,044	$1,680	$3,665,870	$(994,967)	$(8,916)	$1,613	$2,665,280

See accompanying notes

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PIEDMONT OFFICE REALTY TRUST, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	(Unaudited) Nine Months Ended September 30,	
	2012	2011
Cash Flows from Operating Activities:		
Net income	$78,778	$106,032
Operating distributions received from unconsolidated joint ventures	1,805	2,289
Adjustments to reconcile net income to net cash provided by operating activities:		
Income attributable to noncontrolling interest- discontinued operations	—	366
Depreciation	84,100	82,660
Amortization of deferred financing costs	2,056	4,126
Other amortization	38,895	43,316
Accretion of notes receivable discount	—	(482)
Stock compensation expense	1,492	2,975
Equity in income of unconsolidated joint ventures	(740)	(1,032)
Gain on sale of real estate assets, net	(27,583)	(26,756)
Gain on consolidation of variable interest entity	—	(1,532)
Changes in assets and liabilities:		
Increase in tenant receivables, net	(15,358)	(9,690)
Increase in restricted cash and escrows	(13,813)	(15,792)
Increase in prepaid expenses and other assets	(3,335)	(4,864)
(Decrease)/increase in accounts payable and accrued expenses	(483)	1,823
Decrease in deferred income	(3,211)	(7,250)
Net cash provided by operating activities	142,603	176,189
Cash Flows from Investing Activities:		
Investments in real estate assets and related intangibles	(74,436)	(175,322)
Cash assumed upon consolidation of variable interest entity	—	5,063
Net sales proceeds from wholly-owned properties	74,845	68,041
Net sales proceeds from unconsolidated joint ventures	—	3,036
Investments in unconsolidated joint ventures	—	(151)
Deferred lease costs paid	(39,319)	(27,409)
Net cash used in investing activities	(38,910)	(126,742)
Cash Flows from Financing Activities:		
Deferred financing costs paid	(2,991)	(1,401)
Proceeds from line of credit and notes payable	365,000	469,000
Repayments of line of credit and notes payable	(401,500)	(392,000)
Costs of issuance of common stock	(229)	—
Share repurchases as part of an announced program	(80,130)	—
Dividends paid and discount on dividend reinvestments	(102,770)	(165,636)
Net cash used in financing activities	(222,620)	(90,037)
Net decrease in cash and cash equivalents	(118,927)	(40,590)
Cash and cash equivalents, beginning of period	139,690	56,718
Cash and cash equivalents, end of period	$20,763	$16,128
Supplemental Disclosures of Significant Noncash Investing and Financing Activities:		
Change in accrued offering costs related to issuance of common stock	$—	$479
Accrued capital expenditures and deferred lease costs	$11,177	$9,395

Accrued deferred financing costs	$110	$—
Net assets assumed upon consolidation of variable interest entity, net of notes receivable previously recorded	$—	$188,283
Liabilities assumed upon consolidation of variable interest entity	$—	$191,814

See accompanying notes

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PIEDMONT OFFICE REALTY TRUST, INC.
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2012
(unaudited)

1.Organization

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

As of September 30, 2012, Piedmont owned interests in 74 consolidated office properties, plus five buildings owned through unconsolidated joint ventures. Our 74 consolidated office properties are located in 17 metropolitan areas across the United States. These office properties comprise approximately 20.5 million square feet of primarily Class A commercial office space, and were approximately 87.0% leased as of September 30, 2012.

2.Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements of Piedmont have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”), including the instructions to Form 10-Q and Article 10 of Regulation S-X, and do not include all of the information and footnotes required by U.S. generally accepted accounting principles (“GAAP”) for complete financial statements. In the opinion of management, the statements for the unaudited interim periods presented include all adjustments, which are of a normal and recurring nature, necessary for a fair presentation of the results for such periods. Results for these interim periods are not necessarily indicative of a full year’s results and certain prior period amounts have been reclassified to conform to the current period financial statement presentation, specifically relating to the required presentation of income from discontinued operations for the Eastpointe Corporate Center in Issaquah, Washington (sold in July 2011); the 5000 Corporate Court building in Holtsville, New York (sold in August 2011); the 35 West Wacker Drive building in Chicago, IL (sold in December 2011); the Deschutes building, the Rhein building, the Rogue building, the Willamette building, and 18.19 acres of adjoining, undeveloped land in Beaverton, Oregon (collectively the "Portland Portfolio" sold in March 2012); the 26200 Enterprise Way building in Lake Forest, California (sold in May 2012); and the 110 and 112 Hidden Lake Circle buildings in Duncan, South Carolina (sold in September 2012). More information on Piedmont's current year property sales is included in Note 10. Piedmont’s consolidated financial statements include the accounts of Piedmont, Piedmont’s wholly-owned subsidiaries, any variable interest entity of which Piedmont or any of its wholly-owned subsidiaries is considered the primary beneficiary, or any entity in which Piedmont or any of its wholly-owned subsidiaries owns a controlling interest. For further information, refer to the financial statements and footnotes included in Piedmont’s Annual Report on Form 10-K for the year ended December 31, 2011.

Further, Piedmont has formed special purpose entities to acquire and hold real estate. Each special purpose entity is a separate legal entity and consequently the assets of the special purpose entities are not available to all creditors of Piedmont. The assets owned by these special purpose entities are being reported on a consolidated basis with

Piedmont's assets for financial reporting purposes only.

Income Taxes

Piedmont has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"), and has operated as such, beginning with its taxable year ended December 31, 1998. To qualify as a REIT, Piedmont must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of its annual REIT taxable income. As a REIT, Piedmont is generally not subject to federal income taxes. Piedmont is subject to certain taxes related to the operations of properties in certain locations, as well as operations conducted by its taxable REIT subsidiary, which have been provided for in the financial statements.

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Goodwill

Goodwill is the excess of cost of an acquired entity over the amounts specifically assigned to assets acquired and liabilities assumed in purchase accounting for business combinations. Piedmont tests the carrying value of its goodwill for impairment on an annual basis, or on an interim basis if an event occurs or circumstances change that would indicate the carrying amount may be impaired. Such interim circumstances may include, but are not limited to, significant adverse changes in legal factors or in the general business climate, adverse action or assessment by a regulator, unanticipated competition, the loss of key personnel, or persistent declines in an entity's stock price below carrying value of the entity. In accordance with GAAP, Piedmont has the option, should it chose to do so, to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of the reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, Piedmont concludes that the estimated fair value is greater than the carrying amount, then performing a further two-step impairment test is unnecessary. However, if Piedmont chooses to forgo the availability of the qualitative analysis, the test prescribed by authoritative accounting guidance is a two-step test. The first step involves comparing the estimated fair value of the entity to its carrying value, including goodwill. Fair value is determined by adjusting the trading price of the stock for various factors including, but not limited to: (i) liquidity or transferability considerations, (ii) control premiums, and/or (iii) fully distributed premiums, if necessary, multiplied by the common shares outstanding. If such calculated fair value exceeds the carrying value, no further procedures or analysis is required. However, if the carrying value exceeds the calculated fair value, goodwill is potentially impaired and step two of the analysis would be required. Step two of the test involves calculating the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets of the entity from the entity's fair value calculated in step one of the test. If the implied value of the goodwill (the remainder left after deducting the fair values of the entity from its calculated overall fair value in step one of the test) is less than the carrying value of goodwill, an impairment loss would be recognized.

3.Acquisitions

On June 28, 2012, Piedmont purchased undeveloped land adjacent to the Medici building in Atlanta, Georgia for a purchase price of approximately $2.5 million. The undeveloped land consists of approximately 2.01 acres, is zoned for office and accessory use, and has a site plan approved for approximately 249,000 square feet.

On October 15, 2012, Piedmont purchased undeveloped land adjacent to the Glenridge Highlands II building in Atlanta, Georgia for a purchase price of approximately $1.7 million. The land consists of approximately 3.0 acres, is zoned for office use, and has a site plan approved for approximately 113,000 square feet.

4. Tenant and Notes Receivable

Tenant and notes receivables as of September 30, 2012 and December 31, 2011, respectively, were comprised of the following (in thousands):

	September 30, 2012	December 31, 2011
Tenant receivables, net of allowance for doubtful accounts of $346 and $631 as of September 30, 2012 and December 31, 2011, respectively	$ 24,768	$24,722
Cumulative rental revenue recognized on a straight-line basis in excess of cash received in accordance with lease terms	116,447	104,801
Notes receivable received in conjunction with real estate asset sale (See Note 10)	19,000	—
Tenant and notes receivable, net	$ 160,215	$129,523

5.Line of Credit and Notes Payable
Replacement of $500 Million Unsecured Facility

During the three months ended September 30, 2012, Piedmont OP entered into a new $500 million unsecured line of credit facility (the “$500 Million Unsecured Line of Credit”) with a consortium of lenders to replace its expiring $500 Million Unsecured Facility. The term of the $500 Million Unsecured Line of Credit is four years with a maturity date of August 19, 2016; however, Piedmont may extend the term for up to one additional year (through two available six month extensions) to a final extended maturity date of August 21, 2017 provided Piedmont is not then in default and subject to payment of extension fees. Additionally, under certain terms of the agreement, Piedmont may increase the new facility by up to an additional $500 million (to an aggregate size of $1.0 billion); however, none of the existing lenders have any obligation to participate in such increase. Piedmont paid customary fees

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to the lenders in connection with the closing of the new $500 Million Unsecured Line of Credit.

The $500 Million Unsecured Line of Credit has the option to bear interest at varying levels based on (i) the London Interbank Offered Rate ("LIBOR") or Base Rate, defined as the greater of the prime rate, the federal funds rate plus 0.5%, or LIBOR for a one-month period plus one percent, (ii) the credit rating for Piedmont, and (iii) for LIBOR loans, an interest period selected by Piedmont of one, two, three, or six months, or to the extent available from all lenders in each case, one year or periods of less than one month. The stated interest rate spread over LIBOR can vary from 1.00% to 1.75% based upon the then current credit rating of Piedmont. As of September 30, 2012, the current stated LIBOR spread on the $500 Million Unsecured Line of Credit was 1.175%.

Under the $500 Million Unsecured Line of Credit, Piedmont is subject to certain financial covenants that require, among other things, the maintenance of an unencumbered interest coverage ratio of at least 1.75, an unencumbered leverage ratio of at least 1.60, a fixed charge coverage ratio of at least 1.50, a leverage ratio of no more than 0.60, and a secured debt ratio of no more than 0.40. As of September 30, 2012, Piedmont had met all of the financial covenant requirements.

Other Financing Activity

During the nine months ended September 30, 2012, Piedmont fully repaid its $140 Million mortgage which had been secured by the 500 W. Monroe building and its $45.0 Million loan which had been secured by the 4250 N. Fairfax building.

Additionally, during the nine months ended September 30, 2012, Piedmont incurred net borrowings of approximately $148.5 million on its $500 Million Unsecured Facility prior to its expiration. Piedmont also made interest payments on all debt facilities, including interest rate swap cash settlements related to certain of its debt facilities, totaling approximately $15.7 million and $16.8 million for the three months ended September 30, 2012 and September 30, 2011, respectively, and approximately $47.1 million and $50.1 million for the nine months ended September 30, 2012 and 2011, respectively.

See Note 8 for a description of Piedmont's estimated fair value of debt as of September 30, 2012.

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The following table summarizes the terms of Piedmont's indebtedness outstanding as of September 30, 2012 and December 31, 2011 (in thousands):

Facility	Collateral	Rate[1]		Maturity	Amount Outstanding as of September 30, 2012	December 31, 2011
Secured (Fixed)						
$45.0 Million Fixed-Rate Loan	4250 N. Fairfax	5.20	%	6/1/2012	$—	$45,000
$200.0 Million Mortgage Note	Aon Center	4.87	%	5/1/2014	200,000	200,000
$25.0 Million Mortgage Note	Aon Center	5.70	%	5/1/2014	25,000	25,000
$350.0 Million Secured Pooled Facility	Nine Property Collateralized Pool [2]	4.84	%	6/7/2014	350,000	350,000
$105.0 Million Fixed-Rate Loan	US Bancorp Center	5.29	%	5/11/2015	105,000	105,000
$125.0 Million Fixed-Rate Loan	Four Property Collateralized Pool [3]	5.50	%	4/1/2016	125,000	125,000
$42.5 Million Fixed-Rate Loan	Las Colinas Corporate Center I & II	5.70	%	10/11/2016	42,525	42,525
$140.0 Million WDC Mortgage Notes	1201 & 1225 Eye Street	5.76	%	11/1/2017	140,000	140,000
$140.0 Million 500 W. Monroe Mortgage Loan	500 W. Monroe	LIBOR + 1.008%		8/9/2012	—	140,000
Subtotal/Weighted Average [4]		5.17	%		987,525	1,172,525
Unsecured (Variable)						
$300 Million Unsecured Term Loan		LIBOR + 1.45%	[5]	11/22/2016	300,000	300,000
$500 Million Unsecured Line of Credit		1.40	% [6]	8/19/2016	148,500	—
Subtotal/Weighted Average [4]		2.26	%		448,500	300,000
Total/ Weighted Average [4]		4.26	%		$1,436,025	$1,472,525

(1) All of Piedmont's outstanding debt as of September 30, 2012 and December 31, 2011 is interest-only debt.

(2) Nine property collateralized pool includes: 1200 Crown Colony Drive, Braker Pointe III, 2 Gatehall Drive, One and Two Independence Square, 2120 West End Avenue, 400 Bridgewater Crossing, 200 Bridgewater Crossing, and Fairway Center II.

(3) Four property collateralized pool includes 1430 Enclave Parkway, Windy Point I and II, and 1055 East Colorado Boulevard.

(4) Weighted average is based on contractual balance of outstanding debt and interest rates in the table as of September 30, 2012.

(5) The $300 Million Unsecured Term Loan has a stated variable rate; however, Piedmont entered into interest rate swap agreements which effectively fix, exclusive of changes to Piedmont's credit rating, the rate on this facility to 2.69%.

(6) Piedmont may select from multiple interest rate options with each draw, including the prime rate and various-length LIBOR locks. All LIBOR selections are subject to an additional spread (1.175% as of September 30, 2012) over the selected rate based on Piedmont's current credit rating. The outstanding balance as of September 30, 2012 consisted of LIBOR draws at 0.22% (subject to the additional spread mentioned above).

6.Derivative Instruments

Risk Management Objective of Using Derivatives

In addition to operational risks which arise in the normal course of business, Piedmont is exposed to economic risks such as interest rate, liquidity, and credit risk. In certain situations, Piedmont has entered into derivative financial instruments such as interest rate swap agreements and interest rate cap agreements to manage interest rate risk exposure arising from variable rate debt transactions

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that result in the receipt or payment of future known and uncertain cash amounts, the value of which is determined by interest rates. Piedmont's objective in using interest rate derivatives is to add stability to interest expense and to manage its exposure to interest rate movements.

Cash Flow Hedges of Interest Rate Risk

Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for Piedmont making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

During the nine months ended September 30, 2012, Piedmont used interest rate swap agreements to hedge the variable cash flows associated with its $300 Million Unsecured Term Loan. Piedmont's interest rate swap agreements outstanding as of September 30, 2012 were as follows:

Interest Rate Derivative	Notional Amount (in millions)	Effective Date	Maturity Date
Interest rate swap	$125	11/22/2011	11/22/2016
Interest rate swap	75	11/22/2011	11/22/2016
Interest rate swap	50	11/22/2011	11/22/2016
Interest rate swap	50	11/22/2011	11/22/2016
Total	$300		

All of Piedmont's interest rate swap agreements outstanding for the periods presented were designated as cash flow hedges of interest rate risk. The effective portion of changes in the fair value of derivatives designated as, and that qualify as, cash flow hedges is recorded in other comprehensive income ("OCI") and is reclassified into earnings as interest expense in the period that the hedged forecasted transaction affects earnings. The effective portion of Piedmont's interest rate swaps that was recorded in the accompanying consolidated statements of income for the three and nine months ended September 30, 2012 and 2011, respectively, was as follows:

Derivative in Cash Flow Hedging Relationships (Interest Rate Swaps) (in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Amount of loss recognized in OCI on derivative	$2,756	$—	$8,628	$204
Amount of previously recorded loss reclassified from accumulated OCI into interest expense	$(762)	$(44)	$(2,249)	$(895)

Piedmont estimates that approximately $3.1 million will be reclassified from accumulated other comprehensive loss to interest expense over the next twelve months; however Piedmont's total exposure to interest rate expense related to the swaps and the associated debt facility is limited to 2.69% (exclusive of changes to Piedmont's credit rating). No gain or loss was recognized related to hedge ineffectiveness or to amounts excluded from effectiveness testing on Piedmont's cash flow hedges during the three and nine months ended September 30, 2012 or 2011, respectively. Please see the accompanying statements of comprehensive income for a rollforward of Piedmont's Other Comprehensive Loss account. Additionally, see Note 8 for fair value disclosures of Piedmont's interest rate swap derivatives.

Credit-risk-related Contingent Features

Piedmont has agreements with its derivative counterparties that contain a provision whereby if Piedmont defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then Piedmont could also be declared in default on its derivative obligations. If Piedmont were to breach any of the contractual provisions of the derivative contracts, it would be required to settle its obligations under the agreements at their termination value of the fair values plus accrued interest, or approximately $9.2 million.

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7.Variable Interest Entities

Variable interest holders who have the power to direct the activities of the VIE that most significantly impact the entity's economic performance and have the obligation to absorb the majority of losses of the entity or the right to receive significant benefits of the entity are considered to be the primary beneficiary and must consolidate the VIE. A summary of Piedmont's interests in and consolidation treatment of its VIEs as of September 30, 2012 is as follows (net carrying amount in millions):

Entity	Piedmont's % Ownership of Entity	Related Building	Consolidated/ Unconsolidated	Net Carrying Amount as of September 30, 2012	Net Carrying Amount as of December 31, 2011	Primary Beneficiary Considerations
1201 Eye Street NW Associates, LLC	49.5%	1201 Eye Street	Consolidated	$(4.4)	$(3.4)	In accordance with the partnership's governing documents, Piedmont is entitled to 100% of the cash flow of the entity and has sole discretion in directing the management and leasing activities of the building.
1225 Eye Street NW Associates, LLC	49.5%	1225 Eye Street	Consolidated	$0.8	$0.6	In accordance with the partnership's governing documents, Piedmont is entitled to 100% of the cash flow of the entity and has sole discretion in directing the management and leasing activities of the building.
Wells REIT Multi-State Owner, LLC	100%	1200 Crown Colony Drive	Consolidated	$32.4	$28.0	In accordance with a tenant's lease, if Piedmont sells the property on or before March 2013, then the tenant would be entitled to an equity participation fee.
Piedmont 500 W. Monroe Fee, LLC	100%	500 W. Monroe	Consolidated	$194.5	$76.9	The Omnibus Agreement with the previous owner includes equity participation rights for the previous owner, if certain financial returns are achieved; however, Piedmont has sole decision making authority and is entitled to the economic benefits of the property until such returns are met.
	100%		Consolidated	$7.5	$7.7	

Suwanee Gateway One, LLC		Suwanee Gateway One				The fee agreement includes equity participation rights for the incentive manager, if certain returns on investment are achieved; however, Piedmont has sole decision making authority and is entitled to the economic benefits of the property until such returns are met.
Medici Atlanta, LLC	100%	The Medici	Consolidated	$13.9	$13.0	The fee agreement includes equity participation rights for the incentive manager, if certain returns on investment are achieved; however, Piedmont has sole decision making authority and is entitled to the economic benefits of the property until such returns are met.
400 TownPark, LLC	100%	400 TownPark	Consolidated	$23.6	$23.7	The fee agreement includes equity participation rights for the incentive manager, if certain returns on investment are achieved; however, Piedmont has sole decision making authority and is entitled to the economic benefits of the property until such returns are met.

Each of the VIEs described above has the sole purpose of holding office buildings and their resulting operations, and are classified in the accompanying consolidated balance sheets in the same manner as Piedmont’s wholly-owned properties.

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8.Fair Value Measurement of Financial Instruments

Piedmont considers its cash, accounts receivable, notes receivable, restricted cash and escrows, accounts payable and accrued expenses, interest rate swap agreements, and line of credit and notes payable to meet the definition of financial instruments. The following table sets forth the carrying and estimated fair value for each of Piedmont's financial instruments as of September 30, 2012 and December 31, 2011 (in thousands):

	As of September 30, 2012			As of December 31, 2011	
Financial Instrument	Carrying Value	Estimated Fair Value	Level Within Fair Value Hierarchy	Carrying Value	Estimated Fair Value
Assets:					
Cash and cash equivalents[1]	$20,763	$ 20,763	Level 1	$139,690	$ 139,690
Tenant and notes receivable, net[1]	$160,215	$ 160,215	Level 1	$129,523	$ 129,523
Restricted cash and escrows[1]	$23,001	$ 23,001	Level 1	$9,039	$ 9,039
Liabilities:					
Accounts payable and accrued expenses[1]	$22,719	$ 22,719	Level 1	$14,637	$ 14,637
Interest rate swap agreements	$8,916	$ 8,916	Level 2	$2,537	$ 2,537
Line of credit and notes payable	$1,436,025	$ 1,488,131	Level 2	$1,472,525	$ 1,529,811

(1) For the periods presented, the carrying value approximates estimated fair value due to its short-term maturity.

Piedmont's line of credit and notes payable were carried at book value as of September 30, 2012; however, Piedmont's estimate of their fair value is disclosed in the table above. Piedmont uses widely accepted valuation techniques including discounted cash flow analysis based on the contractual terms of the debt facilities, including the period to maturity of each instrument, and uses observable market-based inputs for similar debt facilities which have transacted recently in the market. Therefore, the fair values determined are considered to be based on significant other observable inputs (Level 2). Scaling adjustments are made to these inputs to make them applicable to the remaining life of Piedmont's outstanding debt. Piedmont has not changed its valuation technique for estimating the fair value of its line of credit and notes payable.

Piedmont's interest rate swap agreements discussed in Note 6 above are classified as "Interest rate swap" liabilities in the accompanying consolidated balance sheets and were carried at fair value as of September 30, 2012, and December 31, 2011. The valuation of these derivative instruments was determined using widely accepted valuation techniques including discounted cash flow analysis based on the contractual terms of the derivatives, including the period to maturity of each instrument, and uses observable market-based inputs, including interest rate curves and implied volatilities. Therefore, the fair values determined are considered to be based on significant other observable inputs (Level 2). In addition, Piedmont considered both its own and the respective counterparties' risk of nonperformance in determining the fair value of its derivative financial instruments by estimating the current and potential future exposure under the derivative financial instruments that both Piedmont and the counterparties were at risk for as of the valuation date. The credit risk of Piedmont and its counterparties was factored into the calculation of the estimated fair value of the interest rate swaps; however, as of September 30, 2012 and December 31, 2011, this credit valuation adjustment did not comprise a material portion of the estimated fair value. Therefore, Piedmont believes that any unobservable inputs used to determine the fair values of its derivative financial instruments are not significant to the fair value measurements in their entirety, and does not consider any of its derivative financial instruments to be Level 3 liabilities.

9.Commitments and Contingencies

Commitments Under Existing Agreements

Certain lease agreements include provisions that, at the option of the tenant, may obligate Piedmont to provide funding for capital improvements. Under its existing lease agreements, Piedmont may be required to fund significant tenant improvements, leasing commissions, and building improvements. In addition, certain agreements contain provisions that require Piedmont to issue corporate or property guarantees to provide funding for capital improvements or other financial obligations. Further, Piedmont classifies such tenant and building improvements into two classes: (i) improvements which incrementally enhance the building's asset value by expanding its revenue generating capacity ("incremental capital expenditures") and (ii) improvements which maintain the building's existing asset value and its revenue generating capacity ("non-incremental capital expenditures"). As of September 30, 2012, Piedmont anticipates funding potential non-incremental capital expenditures for tenant improvements of approximately $122.0 million related to its existing lease portfolio over the respective lease terms, the majority of which Piedmont

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estimates may be required to be funded over the next several years. For most of Piedmont's leases, the timing of the actual funding of these tenant improvements is largely dependent upon tenant requests for reimbursement. In some cases, these obligations may expire with the leases without further recourse to Piedmont.

Additionally, as of September 30, 2012, commitments for incremental capital expenditures associated with new leases, primarily at value-add properties, totals approximately $63.1 million.

Contingencies Related to Tenant Audits/Disputes

Certain lease agreements include provisions that grant tenants the right to engage independent auditors to audit their annual operating expense reconciliations. Such audits may result in the re-interpretation of language in the lease agreements which could result in the refund of previously recognized tenant reimbursement revenues, resulting in financial loss to Piedmont. Piedmont recorded additional expense related to such tenant audits/disputes of approximately $0.2 million and $0.0 million during the three months ended September 30, 2012 and September 30, 2011, respectively, and approximately $0.2 million for both the nine month periods ended September 30, 2012 and September 30, 2011.

Letters of Credit

As of September 30, 2012, Piedmont was subject to the following letters of credit, which reduce the total outstanding capacity under its $500 Million Unsecured Line of Credit:

Amount	Expiration of Letter of Credit (1)
$382,556	July 2013
$10,000,000	July 2013
$9,033,164	July 2013

(1) These letter of credit agreements automatically renew for consecutive, one-year periods each anniversary, subject to the satisfaction of the credit obligation and certain other limitations.

Agreements in Principle to Resolve Legal Actions

Piedmont and certain of its current and former officers and directors are currently party to a securities class action lawsuit filed in March 2007 which challenged disclosures made in connection with Piedmont's April 2007 internalization transaction. On September 26, 2012, the Court granted the defendant's motion for summary judgment, and entered judgment in the defendants' favor dismissing all claims.

In addition, Piedmont and certain of its current officers and directors are also party to a second securities class action lawsuit where one of the lead plaintiffs is the same plaintiff in the March 2007 lawsuit. The second suit challenged disclosures made in two separate 2007 Piedmont SEC filings - a response to a May 2007 tender offer for Piedmont's shares, and an October 2007 proxy statement seeking approval of amendments to Piedmont's charter. On August 27, 2012, the Court granted the defendants' motion to dismiss, and entered judgment in the defendants' favor dismissing all claims.

The plaintiffs recently appealed both judgments to the Eleventh Circuit Court of Appeals. On October 11, 2012, Piedmont reached agreement in principle to settle both of the above lawsuits. Under the terms of the proposed settlement of the first suit, the plaintiffs will dismiss the appeal and release all defendants from liability in exchange for total payment of $4.9 million in cash by Piedmont and its insurer. In the second case, the plaintiffs will dismiss the appeal and release all defendants from liability in exchange for total payment of $2.6 million in cash by Piedmont and its insurer. As a result of the agreements to settle, Piedmont recorded a $7.5 million charge (representing the total of both proposed settlements) in its statements of income for the three months ended September 30, 2012. The amounts expected to be recovered from Piedmont's insurers has not yet been determined; therefore, no such amounts have been recorded as of September 30, 2012.

The settlements, which are subject to court approval following the negotiation and execution of definitive agreements, will resolve the appeals and result in the final disposition of both cases.

Please refer to Part II. Item 1 “Legal Proceedings” for a complete description of the chronology of legal actions related to the two lawsuits.

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10.Discontinued Operations

Piedmont has classified the results of operations related to the following properties as discontinued operations (in thousands):

Building(s) Sold	Location	Date of Sale	Gain/(Loss) on Sale	Net Sales Proceeds
Eastpointe Corporate Center	Issaquah, Washington	July 1, 2011	$12,152	$31,704
5000 Corporate Court	Holtsville, New York	August 31, 2011	$14,367	$36,100
35 West Wacker Drive(1)	Chicago, Illinois	December 15, 2011	$96,138	$223,981
Portland Portfolio(2)	Beaverton, Oregon	March 19, 2012	$17,823	$24,832
26200 Enterprise Way	Lake Forest, California	May 31, 2012	$10,012	$24,411
110 & 112 Hidden Lake Circle Buildings	Duncan, South Carolina	September 21, 2012	$(252)	$25,602

(1) Piedmont sold its approximate 96.5% ownership in the property. Transaction data above is presented at Piedmont's ownership percentage.

(2) The Portland Portfolio consists of four office properties known as the Deschutes building, the Rhein building, the Rogue building, and the Willamette building, as well as 18.19 acres of adjoining, undeveloped land, As part of the transaction, Piedmont accepted an unsecured promissory note from the buyer for the remaining $19.0 million owed on the sale at a rate of 8.73% and a maturity date of October 31, 2012.

Income/(loss) from Discontinued Operations

The details comprising income/(loss) from discontinued operations are presented below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues:				
Rental income	$434	$9,234	$2,945	$29,941
Tenant reimbursements	73	3,790	469	14,967
Other rental income	—	(46)	—	303
	507	12,978	3,414	45,211
Expenses:				
Property operating costs	100	3,758	566	16,762
Depreciation	163	2,000	848	6,467
Amortization of deferred leasing costs	22	1,776	148	5,406
General and administrative expenses	38	(14)	47	(157)
	323	7,520	1,609	28,478
Other income (expense):				
Interest expense	—	(1,568)	—	(4,653)
Interest and other income	—	16	—	1
Net income attributable to noncontrolling interest	—	(131)	—	(366)
	—	(1,683)	—	(5,018)
Operating income, excluding gain/(loss) on sale	184	3,775	1,805	11,715
Gain/(loss) on sale of real estate assets	(254)	26,756	27,583	26,756
Income/(loss) from discontinued operations	$(70)	$30,531	$29,388	$38,471

11.Stock Based Compensation
Deferred Stock Awards

Piedmont has granted deferred stock awards in the form of restricted stock to its employees. The awards are determined by the Compensation Committee of the board of directors of Piedmont on an annual basis and typically vest over a three-year period beginning on the grant date. In addition, Piedmont has adopted a multi-year performance share program for certain of its employees. Restricted shares are earned based on the relative performance of Piedmont's total stockholder return as compared with a

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predetermined peer group's total stockholder return over a three-year period. Typically, shares are not awarded until the end of the third year in the performance period and vest immediately upon award; however, the inaugural performance share program, which covers the fiscal 2010-2012 performance period, contains three interim performance periods whereby shares may be awarded.

A rollforward of Piedmont's deferred stock award activity for the nine months ended September 30, 2012 is as follows:

	Unvested Deferred Stock Awards as of January 1, 2012	Deferred Stock Awards Granted During Nine Months Ended September 30, 2012	Adjustment to Estimated Future Grants of Performance Share Awards During Nine Months Ended September 30, 2012	Deferred Stock Awards Vested During Nine Months Ended September 30, 2012	Deferred Stock Awards Forfeited During Nine Months Ended September 30, 2012	Unvested Deferred Stock Awards as of September 30, 2012
Shares	511,203	209,177	(164,740)	(250,269)	(4,546)	300,825
Weighted-Average Grant Date Fair Value (per share)	$21.67	$17.48	$23.80	$20.95	$18.76	$18.25

A detail of Piedmont’s outstanding employee deferred stock awards as of September 30, 2012 is as follows:

Date of grant	Type of Award	Net Shares Granted [(1)]	Grant Date Fair Value	Vesting Schedule	Unvested Shares as of September 30, 2012
May 11, 2010	Fiscal Year 2010-2012 Performance Share Program	56,875 [(2)]	$28.44	Shares vest immediately upon determination of award in 2013.	— [(3)]
May 24, 2010	Annual Deferred Stock Award	161,148	$18.71		