Piedmont Office Realty Trust, Inc.
Form 10-Q
May 03, 2012

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 March 31, 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 May 2, 2012:
172,734,007 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;
- Our $500 Million Unsecured Facility matures in August 2012 and a failure to fully renew or replace this Facility could cause our business, results of operations, cash flows, financial condition and access to capital to be adversely affected;
- 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 three months ended March 31, 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) March 31, 2012	December 31, 2011
Assets:		
Real estate assets, at cost:		
Land	$631,745	$640,196
Buildings and improvements, less accumulated depreciation of $813,679 and $792,342 as of March 31, 2012 and December 31, 2011, respectively	2,936,796	2,967,254
Intangible lease assets, less accumulated amortization of $119,188 and $119,419 as of March 31, 2012 and December 31, 2011, respectively	72,411	79,248
Construction in progress	16,725	17,353
Total real estate assets	3,657,677	3,704,051
Investments in unconsolidated joint ventures	37,901	38,181
Cash and cash equivalents	28,679	139,690
Tenant and notes receivable, net of allowance for doubtful accounts of $514 and $631 as of March 31, 2012 and December 31, 2011, respectively	150,655	129,523
Due from unconsolidated joint ventures	449	788
Restricted cash and escrows	25,108	9,039
Prepaid expenses and other assets	12,477	9,911
Goodwill	180,097	180,097
Deferred financing costs, less accumulated amortization of $9,657 and $9,214 as of March 31, 2012 and December 31, 2011, respectively	5,187	5,977
Deferred lease costs, less accumulated amortization of $126,062 and $120,358 as of March 31, 2012 and December 31, 2011, respectively	228,468	230,577
Total assets	$4,326,698	$4,447,834
Liabilities:		
Line of credit and notes payable	$1,352,525	$1,472,525
Accounts payable, accrued expenses, and accrued capital expenditures	116,292	122,986
Deferred income	32,031	27,321
Intangible lease liabilities, less accumulated amortization of $66,349 and $63,981 as of March 31, 2012 and December 31, 2011, respectively	46,640	49,037
Interest rate swap	2,552	2,537
Total liabilities	1,550,040	1,674,406
Commitments and Contingencies		
Stockholders' Equity:		
Shares-in-trust, 150,000,000 shares authorized; none outstanding as of March 31, 2012 or December 31, 2011	—	—
Preferred stock, no par value, 100,000,000 shares authorized; none outstanding as of March 31, 2012 or December 31, 2011	—	—
Common stock, $.01 par value, 750,000,000 shares authorized; 172,629,748 shares issued and outstanding as of March 31, 2012 and December 31, 2011.	1,726	1,726
Additional paid-in capital	3,664,202	3,663,662
Cumulative distributions in excess of earnings	(888,331)	(891,032)
Other comprehensive loss	(2,552)	(2,537)
Piedmont stockholders' equity	2,775,045	2,771,819
Noncontrolling interest	1,613	1,609

Total stockholders’ equity	2,776,658	2,773,428
Total liabilities and stockholders’ equity	$4,326,698	$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 March 31,	
	2012	2011
Revenues:		
Rental income	$105,758	$100,322
Tenant reimbursements	26,741	26,894
Property management fee revenue	574	830
Other rental income	124	3,404
	133,197	131,450
Expenses:		
Property operating costs	52,782	48,817
Depreciation	27,453	25,037
Amortization	12,792	10,338
General and administrative	5,257	6,612
	98,284	90,804
Real estate operating income	34,913	40,646
Other income (expense):		
Interest expense	(16,537)	(15,640)
Interest and other income	97	3,459
Equity in income of unconsolidated joint ventures	170	209
Gain on consolidation of variable interest entity	—	1,920
	(16,270)	(10,052)
Income from continuing operations	18,643	30,594
Discontinued operations:		
Operating income	758	3,377
Gain on sale of real estate assets	17,830	—
Income from discontinued operations	18,588	3,377
Net income	37,231	33,971
Less: Net income attributable to noncontrolling interest	(4)	(4)
Net income attributable to Piedmont	$37,227	$33,967
Per share information – basic and diluted:		
Income from continuing operations	$0.11	$0.18
Income from discontinued operations	0.11	0.02
Net income available to common stockholders	$0.22	$0.20
Weighted-average common shares outstanding – basic	172,629,748	172,658,488
Weighted-average common shares outstanding – diluted	172,873,930	172,954,754

See accompanying notes.

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

	(Unaudited) Three Months Ended March 31,			
	2012		2011	
Net income attributable to Piedmont		$37,227		$33,967
Other comprehensive loss:				
Effective portion of loss on derivative instruments that are designated and qualify as cash flow hedges (See Note 5)	(748)		(181)	
Less: reclassification of previously recorded loss included in net income (See Note 5)	733		407	
Other comprehensive gain/(loss)		(15)		226
Comprehensive income attributable to Piedmont		$37,212		$34,193

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 THREE MONTHS ENDED MARCH 31, 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
Stock 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 ($1.2600 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
Dividends to common stockholders ($0.20 per share), distributions to noncontrolling interest, and dividends reinvested	—	—	(43)	(34,526)	—	—	(34,569)
Amortization of unvested shares granted under the 2007 Omnibus Incentive Plan	—	—	583	—	—	—	583
Net income attributable to noncontrolling interest	—	—	—	—	—	4	4
Net income attributable to Piedmont	—	—	—	37,227	—	—	37,227
Other comprehensive loss	—	—	—	—	(15)	—	(15)
Balance, March 31, 2012	172,630	$1,726	$3,664,202	$(888,331)	$(2,552)	$1,613	$2,776,658

See accompanying notes

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

	(Unaudited) Three Months Ended March 31, 2012	2011
Cash Flows from Operating Activities:		
Net income	$37,231	$33,971
Operating distributions received from unconsolidated joint ventures	788	1,158
Adjustments to reconcile net income to net cash provided by operating activities:		
Income attributable to noncontrolling interest- discontinued operations	—	119
Depreciation	27,606	27,022
Amortization of deferred financing costs	803	607
Other amortization	12,485	11,938
Accretion of notes receivable discount	—	(482)
Stock compensation expense	334	968
Equity in income of unconsolidated joint ventures	(170)	(209)
Gain on sale of real estate assets	(17,832)	—
Gain on consolidation of variable interest entity	—	(1,920)
Changes in assets and liabilities:		
(Increase)/decrease in tenant receivables, net	(3,216)	1,309
Increase in restricted cash and escrows	(16,069)	(3,462)
Increase in prepaid expenses and other assets	(2,659)	(982)
Decrease in accounts payable and accrued expenses	(6,101)	(8,165)
Increase/(decrease) in deferred income	4,709	(337)
Net cash provided by operating activities	37,909	61,535
Cash Flows from Investing Activities:		
Investments in real estate assets and related intangibles	(13,075)	(29,125)
Cash assumed upon consolidation of variable interest entity	—	5,063
Net sales proceeds from wholly-owned properties	24,839	—
Investments in unconsolidated joint ventures	—	(126)
Deferred lease costs paid	(5,874)	(12,381)
Net cash provided by/(used in) investing activities	5,890	(36,569)
Cash Flows from Financing Activities:		
Deferred financing costs paid	(12)	—
Proceeds from line of credit and notes payable	49,000	15,000
Repayments of line of credit and notes payable	(169,000)	—
Costs of issuance of common stock	(229)	—
Dividends paid and discount on dividend reinvestments	(34,569)	(54,533)
Net cash used in financing activities	(154,810)	(39,533)
Net decrease in cash and cash equivalents	(111,011)	(14,567)
Cash and cash equivalents, beginning of period	139,690	56,718
Cash and cash equivalents, end of period	$28,679	$42,151
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	$4,410	$3,240
Net assets assumed upon consolidation of variable interest entity, net of notes receivable previously recorded	$—	$188,233

Liabilities assumed upon consolidation of variable interest entity	$—	$191,376

See accompanying notes

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PIEDMONT OFFICE REALTY TRUST, INC.
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 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 March 31, 2012, Piedmont owned interests in 75 office properties, plus five buildings owned through unconsolidated joint ventures and two industrial buildings. Our 75 office properties are located in 17 metropolitan areas across the United States. These office properties comprise approximately 20.6 million square feet of primarily Class A commercial office space, and were approximately 84.4% leased as of March 31, 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 (sold in July 2011), the 5000 Corporate Court building (sold in August 2011), the 35 West Wacker Drive building (sold in December 2011), and the Portland Portfolio (sold in March 2012, see Note 9). 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.

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

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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 September 2011, the Financial Accounting Standards Board ("FASB") issued an amendment regarding the testing of goodwill for impairment effective for Piedmont on January 1, 2012. Under the amended guidance, 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 the 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 permitted or 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. Tenant and Notes Receivable

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

	March 31, 2012	December 31, 2011
Tenant receivables, net of allowance for doubtful accounts of $514 and $631 as of March 31, 2012 and December 31, 2011, respectively	$24,932	$24,722
Cumulative rental revenue recognized on a straight-line basis in excess of cash received in accordance with lease terms	106,723	104,801
Notes receivable received in conjunction with real estate asset sale (See Note 9)	19,000	—
Tenant and notes receivable, net	$150,655	$129,523

4. Line of Credit and Notes Payable

During the three months ended March 31, 2012, Piedmont incurred net borrowings on the $500 Million Unsecured Facility of approximately $20.0 million. On January 9, 2012, Piedmont fully repaid the $140 Million 500 W. Monroe Mortgage Loan. Finally, on May 1, 2012, Piedmont repaid in full the balance outstanding on the $45.0 Million Fixed-Rate Loan secured by the 4250 N. Fairfax building in advance of its scheduled maturity.

Piedmont made interest payments on all debt facilities, including interest rate swap cash settlements related to certain of its debt facilities, totaling approximately $15.8 million and $15.9 million for the three months ended March 31, 2012 and 2011, respectively.

See Note 7 for a description of Piedmont's estimated fair value of debt as of March 31, 2012.

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

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Facility	Collateral	Rate[1]		Maturity	Amount Outstanding as of March 31, 2012		December 31, 2011
Secured (Fixed)							
$45.0 Million Fixed-Rate Loan	4250 N. Fairfax	5.20	%	6/1/2012	$45,000	[2]	$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 [3]	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 [4]	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 [5]		5.17	%		1,032,525		1,172,525
Unsecured (Variable)							
$300 Million Unsecured Term Loan		LIBOR + 1.45%	[6]	11/22/2016	300,000		300,000
$500 Million Unsecured Facility		0.73	% [7]	8/30/2012	20,000		—
Subtotal/Weighted Average [5]		2.57	%		320,000		300,000
Total/ Weighted Average [5]		4.55	%		$1,352,525		$1,472,525

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

(2) Repaid in full on May 1, 2012.

(3) 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.

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

(5) Weighted average is based on contractual balance of outstanding debt and interest rates in the table as of March 31, 2012.

(6) 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%.

(7) 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 (0.475% as of March 31, 2012) over the selected rate based on Piedmont's current credit rating. The outstanding balance as of March 31, 2012 consisted of a LIBOR draw at 0.25% (subject to the additional spread mentioned above).

5.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 three months ended March 31, 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 March 31, 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 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 months ended March 31, 2012 and 2011, respectively, was as follows:

Derivative in Cash Flow Hedging Relationships (Interest Rate Swaps) (in thousands)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Amount of loss recognized in OCI on derivative	$748	$181
Amount of previously recorded loss reclassified from accumulated OCI into interest expense	$(733)	$(407)

Piedmont estimates that an additional $2.6 million will be reclassified from accumulated other comprehensive loss as an increase to interest expense over the next twelve months. 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 months ended March 31, 2012 or 2011, respectively. Please see the accompanying statements of stockholders’ equity for a rollforward of Piedmont’s Other Comprehensive Loss account. Additionally, see Note 7 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 obligation. If Piedmont breached 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 $2.6 million.

6.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.

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A summary of Piedmont's interests in and consolidation treatment of its VIEs as of March 31, 2012 is as follows (net carrying amount in millions):

Entity	Piedmont's % Ownership of Entity	Related Building	Consolidated/ Unconsolidated	Net Carrying Amount as of March 31, 2012	Net Carrying Amount as of December 31, 2011	Primary Beneficiary Considerations
1201 Eye Street NW Associates, LLC	49.5%	1201 Eye Street	Consolidated	$(2.8)	$(1.6)	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.
1225 Eye Street NW Associates, LLC	49.5%	1225 Eye Street	Consolidated	$(0.5)	$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	$30.6	$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	$207.0	$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.
Suwanee Gateway One, LLC	100%	Suwanee Gateway One	Consolidated	$7.6	$7.7	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.
Medici Atlanta, LLC	100%	The Medici	Consolidated	$13.5	$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	$24.1	$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 other wholly-owned properties.

7.Fair Value Measurement of Financial Instruments

Piedmont considers its cash, accounts receivable, notes receivable, accounts payable, 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 March 31, 2012 and December 31, 2011 (in thousands):

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Financial Instrument	As of March 31, 2012 Carrying Value	As of March 31, 2012 Estimated Fair Value	Level Within Fair Value Hierarchy	As of December 31, 2011 Carrying Value	As of December 31, 2011 Estimated Fair Value
Assets:					
Cash and cash equivalents[1]	$28,679	$ 28,679	Level 1	$139,690	$ 139,690
Tenant and notes receivable, net[1]	$43,932	$ 43,932	Level 1	$24,722	$ 24,722
Liabilities:					
Accounts payable[1]	$15,123	$ 15,123	Level 1	$14,637	$ 14,637
Interest rate swap agreements	$2,552	$ 2,552	Level 2	$2,537	$ 2,537
Line of credit and notes payable	$1,352,525	$ 1,408,637	Level 2	$1,472,525	$ 1,529,811

(1) For the periods presented, the carrying value approximates estimated fair value.

Piedmont's line of credit and notes payable is carried at book value as of March 31, 2012; however, Piedmont's estimate of its 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 5 above were classified as “Interest rate swap” liability in the accompanying consolidated balance sheets and carried at fair value as of March 31, 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 March 31, 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.

8.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. As of March 31, 2012, Piedmont anticipates funding approximately

$137.3 million in potential obligations for tenant improvements related to its existing lease portfolio over the respective lease terms, the majority of which Piedmont 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.

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. No such reserves related to such tenant audits/disputes were recorded during the three months ended March 31, 2012 and March 31, 2011, respectively.

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Letters of Credit

As of March 31, 2012, Piedmont was subject to the following letters of credit, which reduce the total outstanding capacity under its $500 Million Unsecured Facility:

Amount	Expiration of Letter of Credit [1]
$382,556	December 2012
$14,782,820	February 2013
$9,033,164	June 2012

(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.

Assertion of Legal Action

Piedmont is currently party to two separate lawsuits, where one of the lead plaintiffs in each lawsuit is the same stockholder. The first suit was filed in March 2007, and, in general, alleges inadequate disclosures pursuant to the federal securities laws against Piedmont's officers, directors, and advisors in connection with the transaction to internalize its management function and become a self-managed entity. The suit originally contained thirteen counts; however, twelve of those counts have subsequently been dismissed. The suit has been removed from the court's trial calendar pending resolution of a request for interlocutory appellate review of certain legal rulings made by the court. Piedmont believes that plaintiff's remaining allegation is without merit and intends to continue to vigorously defend this action; however, due to the uncertainties inherent in any litigation, Piedmont has determined that the risk of material loss associated with this lawsuit is reasonably possible. The plaintiff has claimed damages of approximately $159 million plus pre-judgment interest, which defendants dispute. There are a number of defendants in this case and the allocation of damages, if any, between Piedmont and any other defendants (including any indemnification rights or obligations of Piedmont with respect to the other defendants) is indeterminable at this time. Additionally, up to $13 million of such potential damages may be recoverable by Piedmont under its insurance policies. Therefore, Piedmont estimates the range of gross reasonably possible loss (without regard to allocations or insurance recoveries) associated with this claim to be $0 to $159 million plus pre-judgment interest.

The second lawsuit was filed in October 2007 and originally alleged four counts, including inadequate disclosures pursuant to the federal securities laws. To date, the court has dismissed two of the four counts in their entirety and has dismissed portions of the remaining two counts. On April 11, 2011, the Eleventh Circuit Court of Appeals invalidated the district court's order certifying a class and remanded the case to the district court for further proceedings. Piedmont believes that plaintiffs' allegations are without merit, and intends to continue to vigorously defend this action. Due to the uncertainties inherent in any litigation process, Piedmont's assessment of the merits of the case notwithstanding, the risk of material financial loss does exist; however, given that a class has not yet been established, Piedmont's current assessment of the risk of material financial loss associated with this case is that it is remote. Such assessment is subject to change in future periods as additional legal rulings are made by the court.

Please refer to Part II. Item 1 "Legal Proceedings" for a complete description of the chronology of the two lawsuits.

9.Discontinued Operations

On March 19, 2012, Piedmont sold 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, (collectively the "Portland Portfolio") for approximately $43.9 million. Piedmont recorded net sales proceeds of approximately $24.8 million and recognized a gain on the sale of approximately $17.8 million. 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. In accordance with GAAP, Piedmont reclassified the operational results of the Portland Portfolio as income from discontinued operations for prior periods to conform with current period presentation.

The details comprising income from discontinued operations, including results from the Portland Portfolio, the Eastpointe Corporate Center building (sold in July 2011), the 5000 Corporate Court building (sold in August 2011), and the 35 West Wacker Drive building (sold in December 2011), are presented below (in thousands):

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	Three Months Ended March 31, 2012	2011
Revenues:		
Rental income	$797	$9,508
Tenant reimbursements	231	5,596
	1,028	15,104
Expenses:		
Property operating costs	106	6,335
Depreciation	153	1,985
Amortization of deferred leasing costs	8	1,738
General and administrative expenses	3	16
	270	10,074
Other income (expense):		
Interest expense	—	(1,534)
Net income attributable to noncontrolling interest	—	(119)
	—	(1,653)
Operating income, excluding impairment loss and gain on sale	758	3,377
Gain on sale of real estate assets	17,830	—
Income from discontinued operations	$18,588	$3,377

10.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 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 three months ended March 31, 2012 is as follows:

	Unvested Deferred Stock Awards as of January 1, 2012	Deferred Stock Awards Granted During Three Months Ended March 31, 2012	Deferred Stock Awards Vested During Three Months Ended March 31, 2012	Deferred Stock Awards Forfeited During Three Months Ended March 31, 2012	Unvested Deferred Stock Awards as of March 31, 2012
Shares	511,203	(90,891)	—	(1,159)	419,153
Weighted-Average Grant Date Fair Value	$19.56	$19.69	$—	$19.49	$19.53

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A detail of Piedmont's outstanding employee deferred stock awards as of March 31, 2012 is as follows:

Date of grant	Type of Award	Net Shares Granted [(1)]	Grant Date Fair Value	Vesting Schedule	Unvested Shares as of March 31, 2012
May 6, 2009	Annual Deferred Stock Award	135,564	$22.20	Of the shares granted, 25% vested on the date of grant, and 25% vested or will vest on May 6, 2010, 2011, and 2012, respectively.	44,100
May 11, 2010	Fiscal Year 2010-2012 Performance Share Program	27,502 (2)	$28.44	Shares vest immediately upon determination of award in 2012 and 2013.	69,316 (3)
May 24, 2010	Annual Deferred Stock Award	180,340	$18.71	Of the shares granted, 25% vested on the date of grant, and 25% vested or will vest on May 24, 2011, 2012, and 2013, respectively.	106,778
May 24, 2010	One-Time Special Deferred Stock Award in Recognition of Piedmont's Initial Public Offering	46,440	$18.71	Of the shares granted, 33.33% vested or will vest on May 24, 2011, 2012, and 2013, respectively.	34,912
April 5, 2011	Annual Deferred Stock Award	142,468	$19.40	Of the shares granted, 25% vested on the date of grant, and 25% will vest on April 5, 2012, 2013, and 2014, respectively.	113,892
April 5, 2011	Fiscal Year 2011-2013 Performance Share Program	—	$18.27	Shares vest immediately upon determination of award in 2014.	50,155 (3)
Total					419,153

(1) Amounts reflect the total grant, net of shares surrendered upon vesting to satisfy required minimum tax withholding obligations through March 31, 2012.

(2) Represents net shares granted at the end of the first interim performance period ended December 31, 2010.

(3) Estimated based on Piedmont's cumulative total stockholder return for the respective performance period through March 31, 2012. Such estimates are subject to change in future periods based on both Piedmont's and its peers' stock performance and dividends paid.

During the three months ended March 31, 2012 and 2011, respectively, Piedmont recognized approximately $0.3 million and $1.0 million of compensation expense related to stock awards, all of which relates to the amortization of nonvested shares. As of March 31, 2012, approximately $1.4 million of unrecognized compensation cost related to nonvested, share-based compensation remained, which Piedmont will record in its consolidated statements of income over a weighted-average vesting period of approximately one year.

11.Earnings Per Share

There are no adjustments to “Net income attributable to Piedmont” or “Income from continuing operations” for the diluted earnings per share computations.

Net income per share-basic is calculated as net income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Net income per share-diluted is calculated as net income available to common stockholders divided by the diluted weighted average number of common shares outstanding during the period, including nonvested restricted stock. Diluted weighted average number of common shares is calculated to reflect the potential dilution under the treasury stock method that would occur as if the remaining unvested restricted stock awards has vested and resulted in additional common shares outstanding.

The following table reconciles the denominator for the basic and diluted earnings per share computations shown on the consolidated statements of income for the three months ended March 31, 2012 and 2011, respectively:

	Three Months Ended March 31,	
	2012	2011
Weighted-average common shares – basic	172,630	172,658
Plus incremental weighted-average shares from time-vested conversions:		
Restricted stock awards	244	297
Weighted-average common shares – diluted	172,874	172,955

12.Subsequent Events

Note Payable Secured by 4250 N. Fairfax Building Repaid

On May 1, 2012, Piedmont repaid in full the balance outstanding on the $45.0 Million Fixed-Rate Loan secured by the 4250 N. Fairfax building in advance of its scheduled maturity.

Second Quarter Dividend Declaration

On May 2, 2012, the board of directors of Piedmont declared dividends for the second quarter of 2012 in the amount of $0.20 per common share outstanding to stockholders of record as of the close of business on June 1, 2012. Such dividends are to be paid on June 22, 2012.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the accompanying consolidated financial statements and notes thereto of Piedmont Office Realty Trust, Inc. ("Piedmont"). See also "Cautionary Note Regarding Forward-Looking Statements" preceding Part I, as well as the notes to our consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2011.

Liquidity and Capital Resources

We intend to use cash flows generated from the operation of our wholly-owned properties and consolidated joint ventures, distributions from our unconsolidated joint ventures, proceeds from selective property dispositions, and proceeds from our existing $500 Million Unsecured Facility as our primary sources of immediate liquidity. Our existing $500 Million Unsecured Facility matures in August of 2012 and we anticipate that we will seek a comparable replacement facility prior to its maturity. In addition, depending on the timing and volume of our property acquisition and disposition activities, we may seek other financing opportunities (such as issuance of additional equity or debt securities or additional borrowings from third-party lenders) afforded to us based on our relatively low leverage and quality asset base as additional sources of capital; however, the availability and attractiveness of terms for these sources of capital is highly dependent on market conditions. As of the time of this filing, we had $56.0 million outstanding under our $500 Million Unsecured Facility. As a result, we had approximately $420.6 million under this facility available as of the date of this filing for future borrowing (approximately $23.4 million of capacity is reserved as security for outstanding letters of credit required by various third parties).

We estimate that our most immediate use of capital will be to fund capital expenditures for our existing portfolio of properties. These expenditures include two types of specifically identified building improvement projects: (i) general repair and maintenance projects that we as the owner may choose to perform at any of our various properties and (ii) tenant improvement allowances and leasing commissions negotiated as part of executed leases with our tenants. Both the timing and magnitude of general repair and maintenance projects are subject to our discretion. We anticipate funding approximately $137.3 million in unrecorded contractual obligations for tenant improvements related to our existing lease portfolio over the respective lease term, the majority of which we estimate may be required to be funded over the next several years. For many of our 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 respective lease, without further recourse to us. Finally, we also anticipate funding certain tenant improvements and leasing commissions related to anticipated re-leasing efforts for several of our large tenants as they approach their lease expiration dates in the next few years. Both the timing and magnitude of these amounts are subject to change as competitive market conditions at the time of lease negotiations dictate.

Subject to the identification and availability of attractive investment opportunities and our ability to consummate additional acquisitions on satisfactory terms, acquiring new assets compatible with our investment strategy could also be a significant use of capital. Additionally, we expect to use funds to make scheduled debt service payments and/or debt repayments when such obligations become due. During the quarter ended March 31, 2012, we fully repaid the $140.0 million 500 W. Monroe Mortgage Loan, and subsequent to quarter end we repaid the $45 million mortgage note secured by the 4250 North Fairfax building in advance of its original maturity of June 2012. Other than amounts outstanding on the $500 Million Unsecured Facility ($56.0 million as of the time of this filing), we have no other pending debt maturities until 2014.

Our primary focus is to achieve an attractive long-term, risk-adjusted return for our stockholders. Competition to attract and retain high-credit-quality tenants remains intense due to general economic conditions. At the same time, several large leases at our properties expired in the past year or are scheduled to expire over the next two years. In some cases we have had to accept lower market driven rental rates and grant larger tenant improvement packages to renew leases or secure new tenants than a stronger economic climate might have produced. We expect the commencement of certain recently executed leases with lower rental rates and the downtime we will experience while re-tenanting certain properties to put pressure on 2012 cash flow. As a result, our board of directors declared a quarterly dividend for the first quarter of 2012 of $0.20 per share which approximates our estimated annual taxable income of $0.80 per share.

The amount and form of payment (cash or stock issuance) of future dividends to be paid to our stockholders will continue to be largely dependent upon (i) the amount of cash generated from our operating activities; (ii) our expectations of future cash flows; (iii) our determination of near-term cash needs for debt repayments and selective acquisitions of new properties; (iv) the timing of significant expenditures for tenant improvements and general property capital improvements; (v) long-term payout ratios for comparable companies; (vi) our ability to continue to access additional sources of capital, including potential sales of our properties; and (vii) the amount required to be distributed to maintain our status as a REIT. Given the fluctuating nature of cash flows and expenditures, we may periodically borrow funds on a short-term basis to cover timing differences in cash collections and cash

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receipts.

Results of Operations

Overview

Our income from continuing operations for the three months ended March 31, 2012 decreased as compared to the prior period. The reduction is attributable to the non-recurrence of other rental income related to lease terminations/modifications, the gain on consolidation of a variable interest entity, and interest and other income related to the mezzanine note receivable held on the 500 W. Monroe building prior to its acquisition in the prior period. These decreases were partially offset in the current period by the results of operations from the acquisition of properties subsequent to January 1, 2011.

Comparison of the three months ended March 31, 2012 versus the three months ended March 31, 2011

The following table sets forth selected data from our consolidated statements of income for the three months ended March 31, 2012 and 2011, respectively, as well as each balance as a percentage of total revenues for the same periods presented (dollars in millions):

	March 31, 2012	%	March 31, 2011	%	$ Increase (Decrease)
Revenue:					
Rental income	$105.8		$100.3		$5.5
Tenant reimbursements	26.7		26.9		(0.2)
Property management fee revenue	0.6		0.8		(0.2)
Other rental income	0.1		3.4		(3.3)
Total revenues	133.2	100%	131.4	100%	1.8
Expense:					
Property operating costs	52.8	40%	48.8	37%	4.0
Depreciation	27.5	20%	25.0	19%	2.5
Amortization	12.8	10%	10.4	8%	2.4
General and administrative expense	5.2	4%	6.6	5%	(1.4)
Real estate operating income	34.9	26%	40.6	31%	(5.7)
Other income (expense):					
Interest expense	(16.5)	(12)%	(15.6)	(12)%	(0.9)
Interest and other income	0.1	—%	3.5	3%	(3.4)
Equity in income of unconsolidated joint ventures	0.1	—%	0.2	—%	(0.1)
Gain on consolidation of variable interest entity	—	—%	1.9	1%	(1.9)
Income from continuing operations	$18.6	14%	$30.6	23%	$(12.0)
Income from discontinued operations	$18.6		$3.4		$15.2

Continuing Operations

Revenue

Rental income increased from approximately $100.3 million for the three months ended March 31, 2011 to approximately $105.8 million for the three months ended March 31, 2012. Approximately $8.3 million of the variance is due to properties acquired subsequent to January 1, 2011, as well as new leases commencing at our Piedmont Pointe I and II buildings in Bethesda, Maryland in late 2011. However, these increases were partially offset by a reduction in leased space due to lease expirations at various properties (primarily at our Windy Point II building in Schaumburg, Illinois), as well as lower lease rates for leases commencing subsequent to March 31, 2011 at certain of our buildings (primarily at our 1200 Crown Colony Drive building in Quincy, Massachusetts).

Other rental income is comprised primarily of income recognized for lease terminations and restructurings. Unlike the majority of our rental income, which is recognized ratably over long-term contracts, lease termination fee income in other rental income is recognized once we have completed our obligation to provide space to the tenant. Lease termination fee income for the three months ended March 31, 2011 of approximately $3.4 million relates primarily to lease terminations at the 1201 Eye Street building in Washington D.C., the 1075 West Entrance Drive building in Auburn Hills, Michigan and the 110 Hidden Lake Circle building in

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Duncan, South Carolina. We do not expect such income to be comparable in future periods, as it will be dependent upon the exercise of lease terminations by tenants and/or the execution of restructuring agreements that may not be in our control or are deemed by management to be in the best interest of the portfolio over the long term.

Expense

Property operating costs increased approximately $4.0 million for the three months ended March 31, 2012 compared to the same period in the prior year, and the increase is primarily attributable to properties acquired subsequent to January 1, 2011.

Depreciation expense increased approximately $2.5 million for the three months ended March 31, 2012 compared to the same period in the prior year. The variance is largely attributable to properties acquired subsequent to January 1, 2011, accounting for approximately $1.7 million of the increase. The remainder of the increase is due to depreciation on additional tenant improvements and building expenditures capitalized subsequent to March 31, 2011.

Amortization expense increased approximately $2.4 million for the three months ended March 31, 2012 compared to the same period in the prior year. The variance is primarily attributable to properties acquired subsequent to January 1, 2011, contributing approximately $4.4 million of the increase. This increase, however, was partially offset by reduced amortization expense as a result of lease intangible assets becoming fully amortized at certain of our other properties subsequent to March 31, 2011 as well as accelerated amortization of certain other intangible assets in the prior period related to the termination of leases.

General and administrative expenses decreased approximately $1.4 million for the three months ended March 31, 2012 compared to the same period in the prior year. The decrease is primarily attributable to higher recoveries from our insurance carriers related to our ongoing litigation defense, as well as lower transfer agent expenses and related investor support expenses in the current period as compared to the prior year, totaling approximately $0.7 million. Additionally, we recognized a reduction in state and local tax expense as compared to the prior year.

Other Income (Expense)

Interest expense increased approximately $0.9 million for the three months ended March 31, 2012 compared to the same period in the prior year. In the prior year, the interest rate on the $250 Million Unsecured Term Loan was effectively fixed at 2.36% until it was repaid at maturity in June 2011. In November 2011, we entered into a new $300 Million Unsecured Term Loan which had an effectively fixed interest rate of 2.69%. The slightly higher interest rate, coupled with the higher outstanding principal balance, resulted in the recognition of increased interest expense in the current period. Additionally, we accelerated the amortization of deferred finance costs related to the early payoff of the $140.0 Million 500 W. Monroe Mortgage Loan in January 2012 of approximately $0.2 million.

Interest and other income decreased approximately $3.4 million for the three months ended March 31, 2012 compared to the same period in the prior year. The decrease reflects the recognition in the prior period of approximately $2.6 million of previously deferred property operating income, as well as income on previously outstanding mezzanine notes receivables. The mezzanine loan receivables were terminated and a gain on consolidation of VIE was recognized upon the foreclosure and subsequent consolidation of the 500 W. Monroe building in Chicago, Illinois as of March 31, 2011.

Income from continuing operations per share on a fully diluted basis decreased from $0.18 for the three months ended March 31, 2011 to $0.11 for the three months ended March 31, 2012, primarily due to the non-recurrence of other rental income related to lease terminations/modifications, the gain on consolidation of a variable interest entity, and interest and other income related to the 500 W. Monroe building acquisition in the prior period. These decreases were offset in the current period by the results of operations from the acquisition of properties subsequent to January 1, 2011.

Discontinued Operations

In accordance with GAAP, the operations of the Eastpointe Corporate Center in Issaquah, Washington, the 5000 Corporate Court building in Holtsville, New York, the 35 West Wacker Drive building in Chicago, Illinois and the Rhein, Deschutes, Willamette, and Rogue buildings (the "Portland Portfolio") are classified as discontinued operations for all periods presented. Income from discontinued operations increased approximately $15.2 million for the three months ended March 31, 2012 compared to the same period in the prior year primarily due to the gain realized on the sale of Portland Portfolio (including excess undeveloped land) of approximately $17.8 million during the current period. We do not expect that income from discontinued operations will be comparable to future periods, as such income is subject to the timing and existence of future property dispositions.

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Funds From Operations (“FFO”), Core FFO, and Adjusted Funds from Operations (“AFFO”)

Net income calculated in accordance with GAAP is the starting point for calculating FFO, Core FFO, and AFFO. FFO, Core FFO, and AFFO are non-GAAP financial measures and should not be viewed as an alternative measurement of our operating performance to net income. Management believes that accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. As a result, we believe that the use of FFO, Core FFO, and AFFO, together with the required GAAP presentation, provides a more complete understanding of our performance relative to our competitors and a more informed and appropriate basis on which to make decisions involving operating, financing, and investing activities.

We calculate FFO in accordance with the current NAREIT definition as follows: Net income (computed in accordance with GAAP), excluding gains or losses from sales of property and impairment charges (including our proportionate share of any impairment charges and/or gains or losses from sales of property related to investments in unconsolidated joint ventures), plus depreciation and amortization on real estate assets (including our proportionate share of depreciation and amortization related to investments in unconsolidated joint ventures). Other REITs may not define FFO in accordance with the NAREIT definition, or may interpret the current NAREIT definition differently than we do; therefore, our computation of FFO may not be comparable to such other REITs.

We calculate Core FFO as FFO (calculated as set forth above) less acquisition costs and other significant, non-recurring items, such as a gain on early extinguishment of debt.

We calculate AFFO as Core FFO (calculated as set forth above) exclusive of the net effects of: (i) amortization associated with deferred financing costs; (ii) depreciation of non real estate assets; (iii) straight-line lease revenue/expense; (iv) amortization of above and below-market lease intangibles; (v) stock-based and other non-cash compensation expense; (vi) amortization of mezzanine discount income; (vii) acquisition costs, and (viii) non-incremental capital expenditures (as defined below). Our proportionate share of such adjustments related to investments in unconsolidated joint ventures are also included when calculating AFFO.

Reconciliations of net income to FFO, Core FFO, and AFFO are presented below (in thousands except per share amounts):

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	Three Months Ended March 31,			
	2012	Per Share [1]	2011	Per Share[1]
Net income attributable to Piedmont	$37,227	$0.22	$33,967	$0.20
Depreciation of real assets [2]	27,809	0.16	27,154	0.15
Amortization of lease-related costs [2]	12,840	0.07	12,106	0.07
Gain on consolidation of VIE	—	—	(1,920)	(0.01)
Gain on sale- wholly-owned properties	(17,830)	(0.10)	—	—
Gain on sale- unconsolidated partnership	—	—	—	—
Funds From Operations	$60,046	$0.35	$71,307	$0.41
Adjustment:				
Acquisition costs	(3)	—	(26)	—
Core Funds From Operations	$60,043	$0.35	$71,281	$0.41
Adjustments:				
Deferred financing cost amortization	803	—	607	0.01
Depreciation of non real estate assets	93	—	170	—
Straight-line effects of lease expense [2]	(1,565)	(0.01)	2,237	0.01
Stock-based and other non-cash compensation	334	—	968	0.01
Net effect of amortization of below-market in-place lease intangibles [2]	(1,532)	(0.01)	(1,363)	(0.01)
Income from amortization of discount on purchase of mezzanine loans	—	—	(484)	—
Acquisition costs	3	—	26	—
Non-incremental capital expenditures [3]	(8,066)	(0.04)	(17,131)	(0.10)
Adjusted Funds From Operations	$50,113	$0.29	$56,311	$0.33
Weighted-average shares outstanding – diluted	172,874		172,955	

(1) Based on weighted average shares outstanding – diluted.

(2) Includes adjustments for wholly-owned properties, as well as such adjustments for our proportionate ownership in unconsolidated joint ventures.

(3) Piedmont defines non-incremental capital expenditures as capital expenditures of a recurring nature related to tenant improvements and leasing commissions that do not incrementally enhance the underlying assets' income generating capacity. Tenant improvements, leasing commissions, building capital and deferred lease incentives incurred to lease space that was vacant at acquisition, leasing costs for spaces vacant for greater than one year, leasing costs for spaces at newly acquired properties for which in-place leases expire shortly after acquisition, improvements associated with the expansion of a building, and renovations that either change the underlying classification from a Class B to a Class A property or enhance the marketability of a building are excluded from this measure. All data for prior periods presented have been calculated in accordance with this definition for comparability.

Election as a REIT

We have elected to be taxed as a REIT under the Code and have operated as such beginning with our taxable year ended December 31, 1998. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our adjusted REIT taxable income, computed without regard to the dividends-paid deduction and by excluding net capital gains attributable to our stockholders, as defined by the Code. As a REIT, we generally will not be subject to federal income tax on income that we distribute to our stockholders. If we fail to qualify as a REIT in any taxable year, we may be subject to federal income taxes on our taxable income for that year and for the four years following the year during which qualification is lost and/or penalties, unless the IRS grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to our stockholders. However, we believe that we are organized and operate in such a manner as to qualify for treatment as a REIT and intend to continue to operate in the foreseeable future in such a manner that we will remain qualified as a REIT for federal income tax purposes. We have elected to treat Piedmont Office Holdings, Inc. (“POH”), a wholly-owned subsidiary of Piedmont, as a taxable REIT subsidiary. We perform non-customary services for tenants of buildings that we own, including solar power generation, real estate and non-real estate related-services; however, any earnings related to such

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services performed by our taxable REIT subsidiary are subject to federal and state income taxes. In addition, for us to continue to qualify as a REIT, our investments in taxable REIT subsidiaries cannot exceed 25% of the value of our total assets.

Inflation

We are exposed to inflation risk, as income from long-term leases is the primary source of our cash flows from operations. There are provisions in the majority of our tenant leases that are intended to protect us from, and mitigate the risk of, the impact of inflation. These provisions include rent steps, reimbursement billings for operating expense pass-through charges, real estate tax, and insurance reimbursements on a per square-foot basis, or in some cases, annual reimbursement of operating expenses above certain per square-foot allowance. However, due to the long-term nature of the leases, the leases may not readjust their reimbursement rates frequently enough to fully cover inflation.

Off-Balance Sheet Arrangements

We are not dependent on off-balance sheet financing arrangements for liquidity. Our off-balance sheet arrangements consist of our investments in unconsolidated joint ventures and operating lease obligations related to ground leases at certain of our properties. The unconsolidated joint ventures in which we invest are prohibited by their governing documents from incurring debt. For further information regarding our commitments under operating lease obligations, see the Contractual Obligations table below.

Application of Critical Accounting Policies

Our accounting policies have been established to conform with GAAP. The preparation of financial statements in conformity with GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, it is possible that different accounting policies would have been applied, thus, resulting in a different presentation of the financial statements. Additionally, other companies may utilize different estimates that may impact comparability of our results of operations to those of companies in similar businesses. The critical accounting policies outlined below have been discussed with members of the Audit Committee of the board of directors.

Investment in Real Estate Assets

We are required to make subjective assessments as to the useful lives of our depreciable assets. We consider the period of future benefit of the asset to determine the appropriate useful lives. These assessments have a direct impact on net income attributable to Piedmont. The estimated useful lives of our assets by class are as follows:

Buildings	40 years
Building improvements	5-25 years
Land improvements	20-25 years
Tenant improvements	Shorter of economic life or lease term
Intangible lease assets	Lease term

Allocation of Purchase Price of Acquired Assets

Upon the acquisition of real properties, it is our policy to allocate the purchase price of properties to acquired tangible assets, consisting of land and building, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, other value of in-place leases, and value of tenant relationships, based in each case on their estimated fair values.

The fair values of the tangible assets of an acquired property (which includes land and buildings) are determined by valuing the property as if it were vacant, and the "as-if-vacant" value is then allocated to land and building based on our determination of the fair value of these assets. We determine the as-if-vacant fair value of a property using methods similar to those used by independent appraisers. Factors considered by us in performing these analyses include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance, and other operating expenses and estimates of lost rental revenue during the expected lease-up periods based on current market demand. We also estimate the cost to execute similar leases including leasing commissions, legal, and other related costs.

The fair values of above-market and below-market in-place lease values are recorded based on the present value (using an interest rate that reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) our estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining noncancelable term of the lease. The above-market and below-market lease values are capitalized as intangible lease assets and liabilities and amortized as an adjustment of rental income over the remaining terms of the respective leases.

The fair values of in-place leases include direct costs associated with obtaining a new tenant, opportunity costs associated with lost rentals that are avoided by acquiring an in-place lease, and tenant relationships. Direct costs associated with obtaining a new tenant include commissions, tenant improvements, and other direct costs and are estimated based on management’s consideration of current market costs to execute a similar lease. These direct costs are included in deferred lease costs in the accompanying consolidated balance sheets and are amortized to expense over the remaining terms of the respective leases. The value of opportunity costs is calculated using the contractual amounts to be paid pursuant to the in-place leases over a market absorption period for a similar lease. Customer relationships are valued based on expected renewal of a lease or the likelihood of obtaining a particular tenant for other locations. These lease intangibles are included in intangible lease assets in the accompanying consolidated balance sheets and are amortized to expense over the remaining terms of the respective leases.

Estimates of the fair values of the tangible and intangible assets require us to estimate market lease rates, property operating expenses, carrying costs during lease-up periods, discount rates, market absorption periods, and the number of years the property is held for investment. The use of inappropriate estimates would result in an incorrect assessment of our purchase price allocations, which could impact the amount of our reported net income attributable to us.

Valuation of Real Estate Assets and Investments in Joint Ventures Which Hold Real Estate Assets

We continually monitor events and changes in circumstances that could indicate that the carrying amounts of the real estate and related intangible assets, both operating properties and properties under construction, in which we have an ownership interest, either directly or through investments in joint ventures, may not be recoverable. When indicators of potential impairment are present which indicate that the carrying amounts of real estate and related intangible assets may not be recoverable, we assess the recoverability of these assets by determining whether the carrying value will be recovered through the undiscounted future operating cash flows expected from the use of the asset and its eventual disposition. In the event that such expected undiscounted future cash flows do not exceed the carrying value, we adjust the real estate and related intangible assets to the fair value and recognize an impairment loss.

Projections of expected future cash flows require that we estimate future market rental income amounts subsequent to the expiration of current lease agreements, property operating expenses, the number of months it takes to re-lease the property, and the number of years the property is held for investment, among other factors. The subjectivity of assumptions used in the future cash flow analysis, including capitalization and discount rates, could result in an incorrect assessment of the property’s fair value and, therefore, could result in the misstatement of the carrying value of our real estate and related intangible assets and our net income attributable to us. We have determined that there has been no impairment in the carrying value of real estate assets owned by us or any unconsolidated joint ventures as of March 31, 2012.

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, as well as costs incurred as part of the acquisition. We test the carrying value of our 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. We have the option, should we choose to use it, 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, we conclude that the estimated fair value is greater than the carrying amount, then performing the two-step impairment test is unnecessary. However, if we chose 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 permitted or required. However, if the carrying value exceeds the calculated fair value,

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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. We have determined that there have been no events or circumstances that would indicate that the carrying amount may be impaired as of March 31, 2012.

Investment in Variable Interest Entities

VIEs are defined by GAAP as entities in which equity investors do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. If an entity is determined to be a VIE, it must be consolidated by the primary beneficiary. The primary beneficiary is the enterprise that has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, absorbs the majority of the entity's expected losses, or receives a majority of the entity's expected residual returns. Generally, expected losses and expected residual returns are the anticipated negative and positive variability, respectively, in the fair value of the VIE's net assets. When we make an investment, we assess whether the investment represents a variable interest in a VIE and, if so, whether we are the primary beneficiary of the VIE. Incorrect assumptions or assessments may result in an inaccurate determination of the primary beneficiary. The result could be the consolidation of an entity acquired or formed in the future that would otherwise not have been consolidated or the non-consolidation of such an entity that would otherwise have been consolidated.

We evaluate each investment to determine whether it represents variable interests in a VIE. Further, we evaluate the sufficiency of the entities' equity investment at risk to absorb expected losses, and whether as a group, the equity has the characteristics of a controlling financial interest.

Contractual Obligations
Our contractual obligations as of March 31, 2012 are as follows (in thousands):

	Payments Due by Period				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt[(1)]	$1,352,525	$65,000	$575,000	$572,525	$140,000
Operating lease obligations[(2)]	78,431	750	2,249	1,500	73,932
Total	$1,430,956	$65,750	$577,249	$574,025	$213,932

(1) Amounts include principal payments only. We made interest payments, including payments under our interest rate swaps, of approximately $15.8 million during the three months ended March 31, 2012, and expect to pay interest in future periods on outstanding debt obligations based on the rates and terms disclosed herein and in Note 4 of our accompanying consolidated financial statements.

(2) Three properties (the River Corporate Center building in Tempe, Arizona; the 8700 South Price Road building in Tempe, Arizona; and the 2001 NW 64th Street building in Ft. Lauderdale, Florida) are subject to ground leases with expiration dates ranging between 2048 and 2101. The aggregate remaining payments required under the terms of these operating leases as of March 31, 2012 are presented above.

Commitments and Contingencies
We are subject to certain commitments and contingencies with regard to certain transactions. Refer to Note 8 to our consolidated financial statements for further explanation. Examples of such commitments and contingencies include:
- Commitments Under Existing Lease Agreements;
- Contingencies Related to Tenant Audits;

- Letters of Credit; and
- Assertion of Legal Action.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our future income, cash flows, and fair values of our financial instruments depend in part upon prevailing market interest rates. Market risk is the exposure to loss resulting from changes in interest rates, foreign currency, exchange rates, commodity prices, and equity prices. Our exposure to market risk includes interest rate fluctuations in connection with any borrowings under our

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$500 Million Unsecured Facility and our $300 Million Unsecured Term Loan. As a result, the primary market risk to which we believe we are exposed is interest rate risk. Many factors, including governmental monetary and tax policies, domestic and international economic and political considerations, and other factors that are beyond our control contribute to interest rate risk. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flow primarily through a low-to-moderate level of overall borrowings, as well as managing the variability in rate fluctuations on our outstanding debt. As such, a significant portion of our debt is based on fixed interest rates to hedge against instability in the credit markets, and we have effectively fixed the interest rate on our $300 Million Unsecured Term Loan through interest rate swap agreements, provided that we maintain our corporate credit rating. We do not enter into derivative or interest rate transactions for speculative purposes.

All of our debt was entered into for other than trading purposes, and the estimated fair value of our debt as of March 31, 2012 was approximately $1.4 billion. Our interest rate swap agreements in place as of March 31, 2012 carried notional amounts totaling $300 million and fixed interest rates of 2.69%. See Notes 4 and 7 of our accompanying consolidated financial statements for further detail.

As of March 31, 2012, all of our outstanding debt, except for amounts outstanding under our $500 Million Unsecured Facility, is subject to fixed, or effectively fixed, interest rates. Our total outstanding debt subject to fixed or effectively fixed interest rates has an average effective interest rate of approximately 4.61% per annum with expirations ranging from 2012 to 2017. A change in the market interest rate impacts the net financial instrument position of our fixed-rate debt portfolio but has a minimal impact on interest incurred or cash flows.

As of March 31, 2012, we had $20.0 million outstanding on our $500 Million Unsecured Facility, which is the only debt facility subject to variable interest rates. Our $500 Million Unsecured Facility currently has a stated rate of LIBOR plus 0.475% per annum or the prime rate, at the company's discretion. Draws outstanding as of March 31, 2012 were subject to a blended rate of 0.73% as of March 31, 2012. To the extent that we borrow additional funds in the future under the $500 Million Unsecured Facility or potential future variable-rate lines of credit, we would have exposure to increases in interest rates, which would potentially increase our cost of debt.

ITEM 4. CONTROLS AND PROCEDURES

Management's Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of management, including the Principal Executive Officer and the Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act") as of the end of the quarterly period covered by this report. Based upon that evaluation, the Principal Executive Officer and the Principal Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report in providing a reasonable level of assurance that information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in applicable SEC rules and forms, including providing a reasonable level of assurance that information required to be disclosed by us in the reports we file under the Exchange Act is accumulated and communicated to our management, including the Principal Executive Officer and the Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS
Assertion of Legal Action

In Re Wells Real Estate Investment Trust, Inc. Securities Litigation, Civil Action No. 1:07-cv-00862-CAP

On March 12, 2007, a stockholder filed a class action and derivative complaint in the United States District Court for the District of Maryland against, among others, Piedmont, Piedmont's previous advisors, and certain officers and directors of Piedmont. Upon motion by the defendants, the case was transferred to the United States District Court for the Northern District of Georgia on April 17, 2007.

As subsequently amended and dismissed in part, the complaint alleges violations of Section 14(a), including Rule 14a-9 thereunder, and Section 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), based upon allegations that the proxy statement for Piedmont's 2007 internalization transaction (the "Internalization") contains false and misleading statements or omits to state material facts. On February 9, 2011, the plaintiff dismissed its claim for violation of Section 20(a) of the Exchange Act.

As subsequently amended and dismissed in part, the complaint seeks, among other things, (i) certification of the class action; (ii) a judgment declaring the proxy statement false and misleading; (iii) unspecified monetary damages; (iv) to nullify any stockholder approvals obtained during the proxy process; (v) to nullify the Internalization; (vi) cancellation and rescission of any stock issued as consideration in the Internalization, or, in the alternative, rescissory damages; and (vii) the payment of reasonable attorneys' fees and experts' fees. On September 16, 2009, the court granted the plaintiff's motion for class certification.

On December 4, 2009, the parties filed motions for summary judgment. On August 2, 2010, the court entered an order denying the defendants' motion for summary judgment and granting, in part, the plaintiff's motion for partial summary judgment.

On November 17, 2011, the court issued rulings granting several of the plaintiff's pre trial motions to prohibit the defendants from introducing certain evidence, including evidence of the defendants' reliance on advice from their outside legal and financial advisors, and limiting the defendants' ability to relate their subjective views, considerations, and observations during the trial of the case.

On February 23, 2012, the court granted several of defendants' motions, including a motion for reconsideration regarding a motion plaintiff had filed seeking exclusion of certain evidence impacting damages, and motions seeking exclusion of certain evidence proposed to be submitted by plaintiff. The suit has been removed from the court's trial calendar pending resolution of a request for interlocutory appellate review of certain legal rulings made by the court.

On March 20, 2012, the court granted the defendants leave to file a motion for summary judgment. On April 5, 2012, the defendants filed a motion for summary judgment. On April 24, 2012, the plaintiff filed its response to the defendants' motion for summary judgment. The time for the defendants to file their reply in support of their motion for summary judgment has not yet expired.

We believe that plaintiff's allegations are without merit, and we will continue to vigorously defend this action. Due to the uncertainties inherent in the litigation process, our assessment of the merits of the claim notwithstanding, the risk of material financial loss does exist. Plaintiff is seeking damages of approximately $159 million plus prejudgment interest, which defendants dispute. There are a number of defendants in this case and the allocation of damages, if any, to Piedmont versus the other defendants (including any indemnification rights or obligations of Piedmont with respect to the other defendants) is indeterminable at this time. In addition, up to $13 million of any damages may be recoverable by Piedmont under its insurance policies.

In Re Piedmont Office Realty Trust, Inc. Securities Litigation, Civil Action No. 1:07-cv-02660-CAP

On October 25, 2007, the same stockholder mentioned above filed a second purported class action in the United States District Court for the Northern District of Georgia against Piedmont and its board of directors. The complaint attempts to assert class action claims on behalf of (i) those persons who were entitled to tender their shares pursuant to the tender offer filed with the SEC by Lex-Win Acquisition LLC, a former stockholder, on May 25, 2007, and (ii) all persons who are entitled to vote on the proxy statement filed with the SEC on October 16, 2007.
As subsequently amended and dismissed in part, the complaint alleges, among other things, violations of the federal securities laws, including Sections 14(a) and 14(e) of the Exchange Act and Rules 14a-9 and 14e-2(b) promulgated thereunder based upon allegations regarding (i) the failure to disclose certain information in our amended response to the Lex-Win tender offer and

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(ii) purported misstatements or omissions in our proxy statement concerning then-existing market conditions, the alternatives to a listing or extension that were explored by the defendants, the results of conversations with potential buyers as to our valuation, and certain details of our share redemption program.

On June 10, 2009, the plaintiffs filed a motion for class certification. The court granted the plaintiffs' motion for class certification on March 10, 2010. Defendants sought and received permission from the Eleventh Circuit Court of Appeals to appeal the class certification order on an interlocutory basis. On April 11, 2011, the Eleventh Circuit Court of Appeals invalidated the district court's order certifying a class and remanded the case to the district court for further proceedings.

On October 21, 2011, the defendants filed a motion to dismiss the third amended complaint. The plaintiffs filed their response in opposition to the defendants' motion to dismiss on November 15, 2011. The defendants filed their reply in support of their motion to dismiss on December 9, 2011. The defendants' motion to dismiss is currently pending before the court.

Discovery is currently stayed pending resolution of the defendants' motion to dismiss.

We believe that plaintiffs' allegations are without merit, and we will continue to vigorously defend this action. Due to the uncertainties inherent in the litigation process, our assessment of the merits of the claim notwithstanding, the risk of material financial loss does exist.

ITEM 1A. RISK FACTORS

There have been no known material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) There were no unregistered sales of equity securities during the first quarter 2012.

(b) Not applicable.

(c) During the quarter ended March 31, 2012, Piedmont’s repurchases of its common stock consisted solely of shares repurchased by its transfer agent in the open market, in order to reissue such shares under its dividend reinvestment plan (the “DRP”), as follows:

Period	Total Number of Shares Purchased (in 000’s)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (in 000’s)(1)	Maximum Approximate Dollar Value of Shares Available That May Yet Be Purchased Under the Program (in 000’s)(1)	
January 1, 2012 to January 31, 2012	—	$ —	—	$ —	
February 1, 2012 to February 29, 2012	—	$ —	—	$ —	
March 1, 2012 to March 31, 2012	119	$ 17.46	—	$ 296,756	(1)

(1) Under our amended and restated DRP announced in our Current Report on Form 8-K filed February 24, 2012, we have the option to either issue shares that we purchase in the open market or issue shares directly from Piedmont from authorized but unissued shares. Such election will take place at the settlement of each quarterly dividend in which there are participants in our DRP, and may change from quarter to quarter based on our judgment of the best use of proceeds for Piedmont. Therefore, the "Maximum Approximate Dollar Value of Shares Available That May Yet Be Purchased Under the Program" relates only to the stock repurchase program. The stock repurchase program was previously announced in our Quarterly Report on Form 10-Q filed November 3, 2011, and authorizes the repurchase of up to $300 million of shares of our common stock, expiring on November 2, 2013. The stock repurchase program is separate from shares purchased for DRP issuance.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

The Exhibits required to be filed with this report are set forth on the Exhibit Index to First Quarter 2012 Form 10-Q of Piedmont Office Realty Trust, Inc. attached hereto.

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SIGNATURES

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

PIEDMONT OFFICE REALTY TRUST, INC.
(Registrant)

Dated: May 3, 2012

By: /s/ Robert E. Bowers
Robert E. Bowers
Chief Financial Officer and Executive Vice President
(Principal Financial Officer and Duly Authorized Officer)

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EXHIBIT INDEX
TO
FIRST QUARTER 2012
FORM 10-Q
OF
PIEDMONT OFFICE REALTY TRUST, INC.

Exhibit Number	Description of Document
3.1	Third Articles of Amendment and Restatement of Piedmont Office Realty Trust, Inc. (the “Company”) (incorporated by reference to Exhibit 3.1 to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2009 filed on March 16, 2010)
3.2	Articles of Amendment of the Company effective June 30, 2011 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on July 6, 2011)
3.3	Articles Supplementary of the Company effective June 30, 2011 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on July 6, 2011)
3.4	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company’s current Report on Form 8-K filed on January 22, 2010)
31.1	Rule 13a-14(a)/15d-14(a) Certification, executed by Donald A. Miller, CFA, Principal Executive Officer of the Company
31.2	Rule 13a-14(a)/15d-14(a) Certification, executed by Robert E. Bowers, Principal Financial Officer of the Company
32.1	Certification required by Rule 13a-14(b)/15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, executed by Donald A. Miller, CFA, Chief Executive Officer and President of the Company
32.2	Certification required by Rule 13a-14(b)/15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, executed by Robert E. Bowers, Chief Financial Officer and Executive Vice-President of the Company
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase *
101.DEF	XBRL Taxonomy Extension Definition Linkbase *
101.LAB	XBRL Taxonomy Extension Label Linkbase *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase *
*	Furnished with this Form 10-Q

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