

Piedmont Office Realty Trust, Inc.

Form 10-Q

August 11, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the quarterly period ended June 30, 2010

OR

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the transition period from _____ to _____

Commission file number 001-34626

PIEDMONT OFFICE REALTY TRUST, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation or organization)

58-2328421
(I.R.S. Employer Identification Number)

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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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer ☐

Accelerated filer ☐

Non-Accelerated filer ☒ (Do not check if a smaller reporting company)

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Number of shares outstanding of the registrant's

classes of common stock, as of August 6, 2010:

Class A Common Stock 53,552,081 shares

Class B-1 Common Stock 39,702,079 shares

Class B-2 Common Stock 39,702,139 shares

Class B-3 Common Stock 39,702,190 shares

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PIEDMONT OFFICE REALTY TRUST, INC.

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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 similar words. Examples of such statements in this report include descriptions of our real estate, financing, and operating objectives; discussions regarding future dividends; 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:

Our ability to successfully identify and consummate suitable acquisitions;

If current market and economic conditions do not improve, our business, results of operations, cash flows, financial condition and access to capital may be adversely affected;

Lease terminations or lease defaults, particularly by one of Piedmont's larger tenants;

The impact of competition on Piedmont's efforts to renew existing leases or re-lease 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 Piedmont operates, 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 and related impairments to Piedmont's real estate assets and other intangible assets;

The success of our real estate strategies and investment objectives;

Availability of financing and banks' ability to honor existing line of credit commitments;

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Costs of complying with governmental laws and regulations;

Uncertainties associated with environmental and other regulatory matters;

Piedmont's ability to continue to qualify as a REIT under the Internal Revenue Code of 1986, as amended; 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, 2009.

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 furnished 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, 2009. Piedmont's results of operations for the three months and six months ended June 30, 2010 are not necessarily indicative of the operating results expected for the full year.

Table of Contents**PIEDMONT OFFICE REALTY TRUST, INC.****CONSOLIDATED BALANCE SHEETS**

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

	(Unaudited) June 30, 2010	December 31, 2009
Assets:		
Real estate assets, at cost:		
Land	\$ 641,073	\$ 641,073
Buildings and improvements, less accumulated depreciation of \$702,867 and \$653,839 as of June 30, 2010 and December 31, 2009, respectively	2,910,047	2,946,567
Intangible lease assets, less accumulated amortization of \$140,804 and \$147,043 as of June 30, 2010 and December 31, 2009, respectively	83,728	96,269
Construction in progress	14,909	17,059
Real estate assets held for sale, net	55,000	62,559
 Total real estate assets	 3,704,757	 3,763,527
Investments in unconsolidated joint ventures	43,005	43,940
Cash and cash equivalents	81,066	10,004
Tenant receivables, net of allowance for doubtful accounts of \$424 and \$559 as of June 30, 2010 and December 31, 2009, respectively	127,736	128,087
Notes receivable	60,101	58,739
Due from unconsolidated joint ventures	1,124	1,083
Prepaid expenses and other assets	24,866	21,456
Goodwill	180,097	180,097
Deferred financing costs, less accumulated amortization of \$10,677 and \$9,285 as of June 30, 2010 and December 31, 2009, respectively	6,467	7,205
Deferred lease costs, less accumulated amortization of \$132,827 and \$126,678 as of June 30, 2010 and December 31, 2009, respectively	176,120	180,832
Other assets held for sale	162	375
 Total assets	 \$ 4,405,501	 \$ 4,395,345
Liabilities:		
Line of credit and notes payable	\$ 1,402,525	\$ 1,516,525
Accounts payable, accrued expenses, and accrued capital expenditures	99,819	97,747
Deferred income	33,916	34,506
Intangible lease liabilities, less accumulated amortization of \$81,516 and \$75,945 as of June 30, 2010 and December 31, 2009, respectively	54,730	60,655
Interest rate swap	742	3,866
Other liabilities held for sale	2,546	
 Total liabilities	 1,594,278	 1,713,299
Commitments and Contingencies		
Redeemable Common Stock		75,164
Stockholders' Equity:		
Shares-in-trust, 150,000,000 shares authorized, none outstanding as of June 30, 2010 or December 31, 2009		
Preferred stock, no par value, 100,000,000 shares authorized, none outstanding as of June 30, 2010 or December 31, 2009		

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Class A common stock, \$.01 par value; 600,000,000 shares authorized; 53,552,081 shares issued and outstanding as of June 30, 2010; and 39,729,201 shares issued and outstanding at December 31, 2009	536	397
Class B-1 common stock, \$.01 par value; 50,000,000 shares authorized; 39,702,079 shares issued and outstanding as of June 30, 2010; and 39,729,201 shares issued and outstanding at December 31, 2009	397	397
Class B-2 common stock, \$.01 par value; 50,000,000 shares authorized; 39,702,139 shares issued and outstanding as of June 30, 2010; and 39,729,202 shares issued and outstanding at December 31, 2009	397	397
Class B-3 common stock, \$.01 par value; 50,000,000 shares authorized; 39,702,190 shares issued and outstanding as of June 30, 2010; and 39,729,202 shares issued and outstanding at December 31, 2009	397	398
Additional paid-in capital	3,659,910	3,477,168
Cumulative distributions in excess of earnings	(855,631)	(798,561)
Redeemable common stock		(75,164)
Other comprehensive loss	(742)	(3,866)
Piedmont stockholders' equity	2,805,264	2,601,166
Noncontrolling interest	5,959	5,716
Total stockholders' equity	2,811,223	2,606,882
Total liabilities, redeemable common stock, and stockholders' equity	\$ 4,405,501	\$ 4,395,345

See accompanying notes

Table of Contents**PIEDMONT OFFICE REALTY TRUST, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

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

	(Unaudited) Three Months Ended June 30,		(Unaudited) Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues:				
Rental income	\$ 110,623	\$ 110,400	\$ 221,134	\$ 221,752
Tenant reimbursements	33,374	36,059	68,458	76,164
Property management fee revenue	705	744	1,458	1,441
Other rental income	479	782	975	781
	145,181	147,985	292,025	300,138
Expenses:				
Property operating costs	55,497	55,626	110,858	115,716
Depreciation	25,584	26,172	51,275	51,412
Amortization	11,004	13,695	22,390	27,136
General and administrative	7,952	8,077	14,572	15,441
	100,037	103,570	199,095	209,705
Real estate operating income	45,144	44,415	92,930	90,433
Other income (expense):				
Interest expense	(18,933)	(19,394)	(38,024)	(38,736)
Interest and other income	1,036	1,147	2,005	1,809
Equity in income of unconsolidated joint ventures	647	754	1,384	1,417
	(17,250)	(17,493)	(34,635)	(35,510)
Income from continuing operations	27,894	26,922	58,295	54,923
Discontinued operations:				
Operating income, excluding impairment loss	1,454	1,174	2,639	2,329
Impairment loss	(9,587)		(9,587)	
(Loss)/income from discontinued operations	(8,133)	1,174	(6,948)	2,329
Net income	19,761	28,096	51,347	57,252
Less: Net income attributable to noncontrolling interest	(125)	(120)	(251)	(238)
Net income attributable to Piedmont	\$ 19,636	\$ 27,976	\$ 51,096	\$ 57,014
Per share information basic and diluted:				
Income from continuing operations	\$ 0.16	\$ 0.17	\$ 0.35	\$ 0.35
(Loss)/income from discontinued operations	\$ (0.05)	\$ 0.01	\$ (0.05)	\$ 0.01
Income attributable to noncontrolling interest	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Net income available to common stockholders	\$ 0.11	\$ 0.18	\$ 0.30	\$ 0.36

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Weighted-average common shares outstanding	basic	172,595,439	158,188,721	168,814,961	158,942,809
Weighted-average common shares outstanding	diluted	172,718,117	158,303,869	168,911,892	159,046,983

See accompanying notes.

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PIEDMONT OFFICE REALTY TRUST, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2009

AND FOR THE SIX MONTHS ENDED JUNE 30, 2010 (UNAUDITED)

(in thousands, except per share amounts)

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Cumulative Distributions in Excess of Earnings	Redeemable Common Stock	Other Comprehensive Loss	Non-controlling Interest	Total Stockholders Equity
	Shares	Par Amount	Shares	Par Amount						
Balance, December 31, 2008	39,908	\$ 399	119,725	\$ 1,197	\$ 3,491,654	\$ (674,326)	\$ (112,927)	\$ (8,957)	\$ 5,254	\$ 2,702,294
Issuance of common stock	1,071	11	3,213	32	107,657					107,700
Redemptions of common stock	(1,276)	(13)	(3,829)	(38)	(128,293)					(128,344)
Redeemable common stock							37,763			37,763
Dividends (\$1.2600 per share)						(198,935)			(16)	(198,951)
Premium on stock sales					3,585					3,585
Shares issued under the 2007 Omnibus Incentive Plan, net of tax	26		79	1	2,565					2,566
Net income attributable to noncontrolling interest									478	478
Components of comprehensive income:										
Net income						74,700				74,700
Loss on interest rate swap								5,091		5,091
Comprehensive income										79,791
Balance, December 31, 2009	39,729	397	119,188	1,192	3,477,168	(798,561)	(75,164)	(3,866)	5,716	2,606,882
Net proceeds from issuance of common stock	13,800	138			184,280					184,418
Redemption of fractional shares of common stock	(50)	(1)	(150)	(2)	(2,900)					(2,903)
Redeemable common stock							75,164			75,164
Dividends to common stockholders (\$0.6300 per share) and distributions to noncontrolling interest						(108,166)			(8)	(108,174)
Shares issued under the 2007 Omnibus Incentive Plan, net of tax	73	2	68	1	1,362					1,365
Net income attributable to noncontrolling interest									251	251
Components of comprehensive income:										

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Net income					51,096					51,096
Loss on interest rate swap						3,124				3,124
Comprehensive income										54,220
Balance, June 30, 2010	53,552	\$ 536	119,106	\$ 1,191	\$ 3,659,910	\$ (855,631)	\$	\$ (742)	\$ 5,959	\$ 2,811,223

See accompanying notes

Table of Contents**PIEDMONT OFFICE REALTY TRUST, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

	(Unaudited)	
	Six months ended	
	June 30,	
	2010	2009
Cash Flows from Operating Activities:		
Net income	\$ 51,347	\$ 57,252
Operating distributions received from unconsolidated joint ventures	2,284	2,175
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	51,794	52,190
Other amortization	21,849	26,721
Impairment loss	9,587	
Amortization of deferred financing costs	1,393	1,394
Accretion of notes receivable discount	(1,360)	(1,293)
Stock compensation expense	1,364	1,535
Equity in income of unconsolidated joint ventures	(1,384)	(1,417)
Changes in assets and liabilities:		
Decrease in tenant receivables, net	545	3,381
Increase in prepaid expenses and other assets	(10,699)	(4,478)
Increase (decrease) in accounts payable and accrued expenses	9,570	(1,362)
(Decrease) increase in deferred income	(590)	3,492
Net cash provided by operating activities	135,700	139,590
Cash Flows from Investing Activities:		
Investments in real estate assets	(18,708)	(16,333)
Investment in notes receivable		(10,000)
Investments in unconsolidated joint ventures	(8)	(57)
Deferred lease costs paid	(6,202)	(9,789)
Net cash used in investing activities	(24,918)	(36,179)
Cash Flows from Financing Activities:		
Deferred financing costs paid	(654)	(43)
Proceeds from line of credit and notes payable		146,000
Repayments of line of credit and notes payable	(114,000)	(109,100)
Net proceeds from issuance of common stock	186,026	46,474
Redemption of fractional shares of common stock	(2,918)	
Redemptions of common stock		(89,901)
Dividends paid	(108,174)	(99,645)
Net cash used in financing activities	(39,720)	(106,215)
Net increase (decrease) in cash and cash equivalents	71,062	(2,804)
Cash and cash equivalents, beginning of period	10,004	20,333
Cash and cash equivalents, end of period	\$ 81,066	\$ 17,529

Supplemental Disclosures of Significant Noncash Investing and Financing Activities:

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Reduction in goodwill related to return of common stock used to acquire Piedmont's former advisor	\$	\$ (292)
Discounts on common stock related to return of common stock used to acquire Piedmont's former advisor	\$	\$ (19)
Change in accrued offering costs	\$ 1,608	\$
Accrued capital expenditures and deferred lease costs	\$ 720	\$ 664
Discounts applied to issuance of common stock	\$	\$ 8,922
Discounts reduced as a result of redemptions and purchases of common stock	\$	\$ 17,270
Redeemable common stock	\$ 75,164	\$ (60,697)

See accompanying notes

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PIEDMONT OFFICE REALTY TRUST, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010

(unaudited)

1. Organization

Piedmont Office Realty Trust, Inc. ("Piedmont") 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 on June 5, 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 June 30, 2010, Piedmont owned interests in 73 office properties, plus eight buildings owned through unconsolidated joint ventures and two industrial buildings. Piedmont's 73 office properties are located in 19 metropolitan areas across the United States. These office properties comprise approximately 20 million square feet of primarily Class A commercial office space and were approximately 89.8% leased as of June 30, 2010.

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. Piedmont's consolidated financial statements include the accounts of Piedmont, Piedmont OP, and certain entities in which Piedmont or Piedmont OP has a controlling financial 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, 2009.

Further, Piedmont has formed numerous special purpose entities to acquire and hold real estate including the entities listed on Exhibit 21 (List of Subsidiaries of the Company) to Piedmont's Annual Report on Form 10-K for the year ended December 31, 2009. Each special purpose entity is a separate legal entity and is the sole owner of its assets and liabilities. The assets of the special purpose entities are not available to pay, or otherwise satisfy obligations to, the creditors of any owner or affiliate of the special purpose entity, except to the extent that any such assets may be made available by any such special purpose entity pursuant to Piedmont's cash management system. The assets owned by these special purpose entities are being reported on a consolidated basis with Piedmont's assets for financial reporting purposes only.

Redeemable Common Stock

Prior to the termination of Piedmont's share redemption program on February 17, 2010, shares of Piedmont's common stock were contingently redeemable at the option of the stockholder, subject to certain limitations of the program. Accordingly, Piedmont had recorded redeemable common stock equal to the aggregate fund-to-date amount of proceeds received from its dividend reinvestment plan, less the aggregate fund-to-date amount incurred to redeem shares under Piedmont's share redemption program as of December 31, 2009. As a result of the termination of the share redemption program on February 17, 2010, Piedmont is no longer required to reclassify any of its outstanding common

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stock to the mezzanine section of its balance sheet.

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. Accordingly, neither a provision nor a benefit for federal income taxes has been made in the accompanying consolidated financial statements. Piedmont is subject to certain state and local taxes related to the operations of properties in certain locations, which have been provided for in the financial statements.

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Investments in Unconsolidated Joint Ventures

Piedmont owns interests in eight properties through its ownership in certain unconsolidated joint venture partnerships. Management has evaluated these joint ventures and determined that these entities are not variable interest entities (VIEs). Although, Piedmont is the majority equity participant in six of these joint ventures, Piedmont does not have a controlling voting interest in any of the unconsolidated joint ventures; however, it does exercise significant influence. Accordingly, Piedmont's investments in unconsolidated joint ventures are recorded using the equity method of accounting, whereby original investments are recorded at cost and subsequently adjusted for contributions, distributions, and net income (loss) attributable to such joint ventures. Pursuant to the terms of the unconsolidated joint venture agreements, all income and distributions are allocated to the joint venture partners in accordance with their respective ownership interests. Distributions of net cash from operations are generally distributed to the joint venture partners on a quarterly basis, and are classified as cash inflows from operating activities, as they are presumed to be returns on Piedmont's investment in the respective joint venture. If proceeds are received as the result of a sale of an asset from an unconsolidated joint venture, Piedmont would conclude that such proceeds are a return from its investment in the joint venture, and classify such proceeds as cash inflows from investing activities.

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (the FASB) clarified previously issued GAAP related to fair value measurements and disclosures and issued new requirements. The clarification component includes disclosures about inputs and valuation techniques used in determining fair value, and providing fair value measurement information for each class of assets and liabilities. The new requirements relate to disclosures of transfers between the levels in the fair value hierarchy, as well as the individual components in the rollforward of the lowest level (Level 3) in the fair value hierarchy. These changes in GAAP are effective for annual periods beginning after December 15, 2009, except for the provision concerning the rollforward of activity of the Level 3 fair value measurement, for which the effective date is for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Piedmont does not expect this amendment to have a material effect on its consolidated financial statements.

3. Recapitalization, Listing and Offering of Common Stock

On January 20, 2010, Piedmont's stockholders approved an amendment to its charter that provides for the conversion of each outstanding share of Piedmont's common stock into:

1/12th of a share of Piedmont's Class A common stock; plus

1/12th of a share of Piedmont's Class B-1 common stock; plus

1/12th of a share of Piedmont's Class B-2 common stock; plus

1/12th of a share of Piedmont's Class B-3 common stock.

This transaction is referred to herein as the Recapitalization and was effective upon filing the amendment to Piedmont's charter with the State Department of Assessments and Taxation of the State of Maryland (the SDAT) on January 22, 2010. The Recapitalization had the effect of a 1-for-3 reverse stock split and all prior period share and per share amounts have been retroactively restated to reflect the reverse stock split.

Piedmont refers to Class B-1 common stock, Class B-2 common stock and Class B-3 common stock collectively as Class B common stock. Piedmont listed its Class A common stock on the New York Stock Exchange (the NYSE) on February 10, 2010. Piedmont's Class B common stock is identical to its Class A common stock except that (i) Piedmont does not intend to list its Class B common stock on a national securities exchange and (ii) shares of its Class B common stock will convert (or have converted) automatically into shares of Class A common stock at specified times, as follows:

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August 9, 2010, in the case of Class B-1 common stock;

November 7, 2010, in the case of Class B-2 common stock; and

January 30, 2011, in the case of Class B-3 common stock.

In conjunction with the listing of its Class A common stock on the NYSE during first quarter 2010, Piedmont offered and subsequently issued 13,800,000 shares of its common stock which resulted in \$184.4 million in net offering proceeds to Piedmont.

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Notes receivable as of June 30, 2010 and December 31, 2009 consists solely of Piedmont's two investments in mezzanine debt, both of which are secured by a pledge of the equity interest of the entity owning a 46-story, Class A, commercial office building located in downtown Chicago (the 500 W. Monroe Building). For the three months ended June 30, 2010 and 2009, Piedmont recognized interest income of approximately \$1.0 million and \$1.3 million, respectively, and for the six months ended June 30, 2010 and 2009, Piedmont recognized interest income of \$2.0 million and \$1.9 million, respectively. Piedmont's maximum exposure to loss as a result of its investments in mezzanine debt is approximately \$60.1 million as of June 30, 2010. See Note 7 below for a description of Piedmont's estimated fair value of investments in mezzanine debt as of June 30, 2010.

As of August 9, 2010, the maturity dates for all of the loans (mortgage and mezzanine, including Piedmont's two mezzanine loan investments) secured by the 500 W. Monroe Building have passed. Piedmont exercised its right to extend the mortgage loan and first priority mezzanine loan and is now considering its options for enforcement of its collateral, one of which is a potential foreclosure which could lead to Piedmont owning 100% of the indirect equity interest in the property subject to the mortgage loan and first mezzanine loan and becoming the primary beneficiary of the VIE that holds the 500 W. Monroe Building. In accordance with GAAP, Piedmont would then record the fair value of the assets and liabilities of the VIE in its consolidated financial statements beginning in third quarter 2010. Additionally, any excess of Piedmont's carrying value, liabilities assumed, or other consideration paid over the estimated fair value of the assets assumed will be recorded as goodwill.

5. Line of Credit and Notes Payable

The following table summarizes the terms of Piedmont's indebtedness outstanding as of June 30, 2010 and December 31, 2009 (in thousands):

				Amount Outstanding as of	
				June 30,	31,
Facility	Property	Rate ⁽¹⁾	Maturity	2010 ⁽²⁾	2009
Secured (Fixed)					
\$45.0 Million Fixed-Rate Loan	4250 N. Fairfax	5.20%	6/1/2012	\$ 45,000	\$ 45,000
35 West Wacker Building Mortgage Note	35 West Wacker Drive	5.10%	1/1/2014	120,000	120,000
Aon Center Chicago Mortgage Note	Aon Center	4.87%	5/1/2014	200,000	200,000
Aon Center Chicago Mortgage Note	Aon Center	5.70%	5/1/2014	25,000	25,000
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
WDC Mortgage Notes	1201 & 1225 Eye Street	5.76%	11/1/2017	140,000	140,000
Subtotal/Weighted Average ⁽⁵⁾		5.16%		1,152,525	1,152,525
Unsecured (Variable)					
\$250 Million Unsecured Term Loan		LIBOR +			
	\$250 Million Term Loan	1.50%	6/28/2011	250,000	250,000
\$500 Million Unsecured Facility	\$500 Million Revolving Facility	⁽⁶⁾	8/30/2011 ⁽⁷⁾		114,000
Subtotal/Weighted Average ⁽⁵⁾		2.36%		250,000	364,000
Total/ Weighted Average ⁽⁵⁾		4.66%		\$ 1,402,525	\$ 1,516,525

⁽¹⁾ All of Piedmont's outstanding debt as of June 30, 2010 and December 31, 2009 is interest-only debt.

⁽²⁾ Balance outstanding at maturity is the same as that on June 30, 2010, except for the \$500 Million Unsecured Facility.

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- ⁽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, 111 Sylvan Drive, 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 balance outstanding and interest rate at June 30, 2010.
- ⁽⁶⁾ Piedmont may select from multiple interest rate options with each draw, including the prime rate and various- length LIBOR locks. All LIBOR selections are subject to an additional spread (0.475% as of June 30, 2010) over the selected rate based on Piedmont's current credit rating.
- ⁽⁷⁾ Piedmont may extend the term for one additional year provided Piedmont is not then in default and upon the payment of a 15 basis point extension fee.

During the six months ended June 30, 2010, Piedmont paid in full the balance of \$114.0 million on its \$500 Million Unsecured Facility. In addition, Piedmont extended the \$250 Million Term Loan to June 28, 2011 as permitted under the terms of the loan agreement and entered into interest rate swap agreements with four counterparties to effectively fix the rate on the \$250 Million Unsecured Term Loan at 2.36% during the one-year extension period.

Piedmont made interest payments on all debt facilities totaling approximately \$16.3 million and \$16.7 million for the three months ended June 30, 2010 and 2009, respectively, and \$32.2 million and \$33.1 million for the six months ended June 30, 2010 and 2009, respectively. Additionally, Piedmont recorded interest rate swap cash settlements related to its \$250 Million Unsecured Term Loan as interest expense in the accompanying consolidated statements of operations of approximately \$1.9 million for both the three months ended June 30, 2010 and 2009, and \$4.0 million and \$3.8 million for the six months ended June 30, 2010 and 2009, respectively. Piedmont had no capitalized interest for the six months ended June 30, 2010 or 2009. See Note 7 below for a description of Piedmont's estimated fair value of debt as of June 30, 2010.

Table of Contents**6. Derivative Instruments***Risk Management Objective of Using Derivatives*

In addition to operational risks which arise in the normal course of business, Piedmont is exposed to economic risks such as interest rate, liquidity, and credit risk. In certain situations, Piedmont has entered into derivative financial instruments such as interest rate swap agreements to manage interest rate risk exposure arising from variable rate debt transactions 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 six months ended June 30, 2010, Piedmont's existing interest rate swap agreement was used to hedge the variable cash flows associated with its \$250 Million Unsecured Term Loan that matured on June 28, 2010. Effective June 28, 2010, Piedmont extended the \$250 Million Unsecured Term Loan until June 28, 2011, as permitted under the terms of the loan agreement, and entered into four additional interest rate swaps. A detail of Piedmont's interest rate swaps outstanding as of June 30, 2010 is as follows:

Interest Rate Derivative	Notional Amount (in millions)	Effective Date	Maturity Date
Interest Rate Swap	\$ 100	6/28/2010	6/28/2011
Interest Rate Swap	\$ 75	6/28/2010	6/28/2011
Interest Rate Swap	\$ 50	6/28/2010	6/28/2011
Interest Rate Swap	\$ 25	6/28/2010	6/28/2011
Total	\$ 250		

All of the above interest rate swap agreements are designated as cash flow hedges of interest rate risk. The effective portion of changes in the fair value of derivatives designated as, and that qualify as, cash flow hedges is recorded in Other Comprehensive Income (OCI) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings.

The effective portion of Piedmont's derivative financial instruments (interest rate swaps) that was recorded in the accompanying consolidated statement of operations for the three months and six months ended June 30, 2010 and 2009 (in thousands) is as follows:

Derivative in	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Cash Flow Hedging				
Relationships (Interest Rate Swap)				
Amount of gain recognized in OCI on derivative	\$ 375	\$ 663	\$ 846	\$ 1,721
Amount of loss reclassified from accumulated OCI into interest expense	\$ (1,949)	\$ (1,928)	\$ (3,970)	\$ (3,812)
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 six months ended June 30, 2010 or 2009.				

Amounts reported in accumulated other comprehensive loss related to Piedmont's derivatives will be reclassified to interest expense as interest payments are made on the \$250 Million Unsecured Term Loan. Piedmont estimates that an additional \$0.8 million will be reclassified from accumulated other comprehensive loss as an increase to interest expense over the next twelve months.

The fair value of Piedmont's derivative financial instruments designated as hedging instruments under GAAP (its interest rate swap agreements) as of June 30, 2010 and December 31, 2009 was \$0.7 million and \$3.9 million, respectively, and was classified as an Other Liability in the

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accompanying consolidated balance sheet.

Please see the accompanying statements of stockholders' equity for a rollforward of Piedmont's Other Comprehensive Loss account.

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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. As of June 30, 2010, the fair value of the derivatives in liability positions related to this agreement was approximately \$0.7 million. 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 \$0.8 million.

7. Fair Value Measurements

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 June 30, 2010 and December 31, 2009 (in thousands):

Financial Instrument	As of June 30, 2010		As of December 31, 2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash and Cash Equivalents ⁽¹⁾	\$ 81,066	\$ 81,066	\$ 10,004	\$ 10,004
Accounts Receivable ⁽¹⁾	\$ 127,898	\$ 127,898	\$ 128,442	\$ 128,442
Notes Receivable	\$ 60,101	\$ 50,860	\$ 58,739	\$ 44,504
Accounts Payable ⁽¹⁾	\$ 17,624	\$ 17,624	\$ 12,170	\$ 12,170
Interest Rate Swap Agreements	\$ 742	\$ 742	\$ 3,866	\$ 3,866
Line of Credit and Notes Payable	\$ 1,402,525	\$ 1,400,616	\$ 1,516,525	\$ 1,436,060

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

Piedmont's interest rate swap agreements discussed in Note 6 above were the only financial instruments adjusted and carried at fair value as of June 30, 2010 and December 31, 2009 and were classified as an Interest rate swap in the accompanying consolidated balance sheets. The valuation of these 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. This total expected exposure was then discounted using discount factors that contemplate the creditworthiness of Piedmont and the counterparties to arrive at a credit charge. This credit charge was then netted against the value of the derivative financial instruments determined using the discounted cash flow analysis described above to arrive at a total estimated fair value of the interest rate swap agreements. As of June 30, 2010 and December 31, 2009, the credit valuation adjustment did not comprise a material portion of the fair values of the derivative financial instruments; 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 its derivative financial instruments to be Level 3 liabilities.

8. Commitments and Contingencies

Commitments Under Existing Lease 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 lease agreements contain provisions that require Piedmont to issue corporate guarantees to provide funding for such capital improvements. Piedmont anticipates funding approximately \$112.4 million in potential obligations for tenant improvements related to its existing lease portfolio over the respective lease terms, much of which Piedmont estimates may be required to be

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funded over the next five 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

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

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refund of previously recognized tenant reimbursement revenues, resulting in financial loss to Piedmont. Piedmont recorded a nominal amount of recovery and no additional reserves as a component of tenant reimbursement income during the three months ended June 30, 2010 and 2009, respectively, and a recovery of approximately \$0.1 million and reserves of \$0.5 million during the six months ended June 30, 2010 and 2009, respectively, related to such tenant audits.

Assertion of Legal Action

In Re Wells Real Estate Investment Trust, Inc. Securities Litigation, Civil Action No. 1:07-cv-00862-CAP (Upon motions to dismiss filed by defendants, parts of all seven counts were dismissed by the court. Counts III through VII were dismissed in their entirety. On August 2, 2010, the court ruled on various pre-trial motions and denied the defendants' motion for summary judgment. The parties are preparing for trial, but no trial date has been set.)

On March 12, 2007, a stockholder filed a purported 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 the officers and directors of Piedmont prior to the closing of the Internalization. The complaint attempts to assert class action claims on behalf of those persons who received and were entitled to vote on the proxy statement filed with the SEC on February 26, 2007.

The complaint alleges, among other things, (i) that the consideration to be paid as part of the Internalization is excessive; (ii) violations of Section 14(a), including Rule 14a-9 thereunder, and Section 20(a) of the Exchange Act, based upon allegations that the proxy statement contains false and misleading statements or omits to state material facts; (iii) that the board of directors and the current and previous advisors breached their fiduciary duties to the class and to Piedmont; and (iv) that the proposed Internalization will unjustly enrich certain directors and officers of Piedmont.

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) restitution for disgorgement of profits, benefits, and other compensation for wrongful conduct and fiduciary breaches; (vii) the nomination and election of new independent directors, and the retention of a new financial advisor to assess the advisability of Piedmont's strategic alternatives; and (viii) the payment of reasonable attorneys' fees and experts' fees.

On June 27, 2007, the plaintiff filed an amended complaint, which contains the same counts as the original complaint, described above, with amended factual allegations based primarily on events occurring subsequent to the original complaint and the addition of a Piedmont officer as an individual defendant.

On March 31, 2008, the court granted in part the defendants' motion to dismiss the amended complaint. The court dismissed five of the seven counts of the amended complaint in their entirety. The court dismissed the remaining two counts with the exception of allegations regarding the failure to disclose in Piedmont's proxy statement details of certain expressions of interest by a third party in acquiring Piedmont. On April 21, 2008, the plaintiff filed a second amended complaint, which alleges violations of the federal proxy rules based upon allegations that the proxy statement to obtain approval for Internalization omitted details of certain expressions of interest in acquiring Piedmont. The second amended complaint seeks, among other things, unspecified monetary damages, to nullify and rescind Internalization, and to cancel and rescind any stock issued to the defendants as consideration for Internalization. On May 12, 2008, the defendants answered the second amended complaint.

On June 23, 2008, the plaintiff filed a motion for class certification. On September 16, 2009, the court granted the plaintiff's motion for class certification. On September 30, 2009, the defendants filed a petition for permission to appeal immediately the court's order granting the motion for class certification with the Eleventh Circuit Court of Appeals, which the Eleventh Circuit Court of Appeals denied on October 30, 2009.

On April 13, 2009, the plaintiff moved for leave to amend the second amended complaint to add additional defendants. The court denied the motion for leave to amend on June 23, 2009.

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. The court ruled that the failure to disclose certain expressions of interest by a third party in acquiring Piedmont raises questions of fact that must be determined at trial. No trial date has been set.

Piedmont believes that the allegations contained in the complaint are without merit and will continue to vigorously defend this action. Due to the uncertainties inherent in the litigation process, it is not possible to predict the ultimate outcome of this matter at this time; however, as with any litigation, the risk of financial loss does exist.

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In Re Piedmont Office Realty Trust, Inc. Securities Litigation, Civil Action No. 1:07-cv-02660-CAP (Upon motions to dismiss filed by defendants, parts of all four counts were dismissed by the court. Counts III and IV were dismissed in their entirety. The parties are engaged in discovery.)

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.

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. In addition, the complaint alleges that defendants have also breached their fiduciary duties owed to the proposed classes.

On December 26, 2007, the plaintiff filed a motion seeking that the court designate it as lead plaintiff and its counsel as class lead counsel, which the court granted on May 2, 2008.

On May 19, 2008, the lead plaintiff filed an amended complaint which contained the same counts as the original complaint. On June 30, 2008, defendants filed a motion to dismiss the amended complaint.

On March 30, 2009, the court granted in part the defendants' motion to dismiss the amended complaint. The court dismissed two of the four counts of the amended complaint in their entirety. The court dismissed the remaining two counts with the exception of allegations regarding (i) the failure to disclose information regarding the likelihood of a listing in our amended response to the Lex-Win tender offer and (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 April 13, 2009, defendants moved for reconsideration of the court's March 30, 2009 order or, alternatively, for certification of the order for immediate appellate review. The defendants also requested that the proceedings be stayed pending consideration of the motion. On June 19, 2009, the court denied the motion for reconsideration and the motion for certification of the order for immediate appellate review.

On April 20, 2009, the plaintiff, joined by a second plaintiff, filed a second amended complaint, which alleges 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. The second amended complaint seeks, among other things, unspecified monetary damages, to nullify and void any authorizations secured by the proxy statement, and to compel a tender offer. On May 11, 2009, the defendants answered the second amended complaint.

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. On March 24, 2010, the defendants filed a petition for permission to appeal immediately the court's order granting the motion for class certification with the Eleventh Circuit Court of Appeals. The plaintiffs filed a response to the defendant's petition for permission to appeal on April 8, 2010. The parties are presently engaged in discovery.

Piedmont believes that the allegations contained in the complaint are without merit and will continue to vigorously defend this action. Due to the uncertainties inherent in the litigation process, it is not possible to predict the ultimate outcome of this matter at this time; however, as with any litigation, the risk of financial loss does exist.

9. Disposition of Real Estate Assets- Discontinued Operations

On May 5, 2010, Piedmont entered into a binding purchase and sale agreement to dispose of the 111 Sylvan Avenue Building located in Englewood Cliffs, NJ for a gross sale price of approximately \$55.0 million, exclusive of closing costs, with an anticipated closing date of December 1, 2010. In accordance with GAAP, Piedmont reclassified the 111 Sylvan Avenue Building from real estate assets held-for-use (at cost) to real estate assets held-for-sale (at estimated fair value) on its consolidated balance sheet as of May 5, 2010. Piedmont recorded an impairment loss of approximately \$9.6 million as a result of adjusting the assets to fair value (less estimated costs to sell) on May 5, 2010. The amount of gain or loss ultimately recognized on the sales transaction is subject to change as estimated transaction costs are realized in subsequent periods. The fair value measurement used in the evaluation of this non-financial asset is considered to be a Level 1 valuation within the fair value hierarchy as defined by GAAP, as there are direct observations and transactions involving the asset (i.e. the asset is being sold to a third-party purchaser).

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The details, comprised of assets held for sale, are provided below (in thousands):

	June 30, 2010	December 31, 2009
Real estate assets held for sale, net:		
Land	\$ 10,803	\$ 10,803
Building and improvements, less accumulated depreciation of \$11,748 and \$11,229, as of June 30, 2010 and December 31, 2009, respectively	44,197	51,756
Total real estate assets held for sale, net	\$ 55,000	\$ 62,559

	June 30, 2010	December 31, 2009
Other assets held for sale:		
Tenant receivables	\$ 162	\$ 355
Deferred lease costs, less accumulated amortization of \$0 as of December 31, 2009		20
Total other assets held for sale	\$ 162	\$ 375

	June 30, 2010	December 31, 2009
Other liabilities held for sale:		
Accrued transaction costs	\$ 2,546	\$
Total other liabilities held for sale	\$ 2,546	\$

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues:				
Rental income	\$ 1,594	\$ 1,594	\$ 3,189	\$ 3,188
Tenant reimbursements			(2)	
	1,594	1,594	3,187	3,188
Expenses:				
Property operating costs	8	13	17	55
Depreciation	130	389	519	778
General and administrative expenses	2	18	12	26
	140	420	548	859
Operating income, excluding impairment loss	1,454	1,174	2,639	2,329
Impairment loss	(9,587)		(9,587)	
(Loss)/income from discontinued operations	\$ (8,133)	\$ 1,174	\$ (6,948)	\$ 2,329

10. Stock-based Compensation

As of June 30, 2010, outstanding employee deferred stock awards were as follows:

Date of grant	Outstanding Deferred Stock Awards				
	May 24, 2010 ⁽¹⁾	May 24, 2010 ⁽²⁾	May 6, 2009 ⁽²⁾	April 21, 2008 ⁽²⁾	May 18, 2007 ⁽²⁾
Shares granted	53,447	222,082	186,634	150,594	254,950
Shares withheld to pay taxes ⁽³⁾		20,383	33,800	31,516	71,788
Shares unvested as of June 30, 2010	53,447	166,561	92,025	36,183	
Fair value per share of awards on date of grant ⁽⁴⁾	\$ 18.71	\$ 18.71	\$ 22.20	\$ 26.10	\$ 30.00

⁽¹⁾ Of the shares granted, one-third of the total shares vest on each of the first, second, and third anniversary of the grant date.

⁽²⁾ Of the shares granted, 25% vested on the day of grant and the remaining shares, adjusted for any forfeitures, vest ratably on the anniversary date over the following three years.

⁽³⁾ These shares were surrendered upon vesting to satisfy required minimum tax withholding obligations.

⁽⁴⁾ The fair value of the awards is based on an assumed price on the date of grant. This grant date fair value is further reduced by the present value of dividends foregone on the unvested portion of the shares discounted at the appropriate risk-free rate.

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During the three months ended June 30, 2010 and 2009, Piedmont recognized approximately \$1.7 million of compensation expense related to restricted stock awards in the table above, of which \$0.6 million and \$0.7 million relates to the amortization of nonvested shares, respectively. During the six months ended June 30, 2010 and 2009, Piedmont recognized approximately \$2.3 million and \$2.4 million of compensation expense, respectively, for the same restricted stock awards of which \$1.3 million and \$1.4 million related to the amortization of nonvested shares. During the six months ended June 30, 2010, 126,456 shares were issued to employees under all of the grants listed in the table above. As of June 30, 2010, approximately \$4.0 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 two years.

2010 Deferred Stock Award Grants

On May 24, 2010, the board of directors approved an annual equity award for employees in accordance with the 2007 Omnibus Incentive Plan of 222,082 shares. Such award is similar in nature to the grants made during calendar years 2007 through 2009 as it relates to its vesting schedule and recognition in the accompanying financial statements. In addition, on May 24, 2010 the board of directors granted deferred stock awards totaling 53,447 shares to certain of Piedmont's employees as one-time discretionary awards in recognition of each employee's contribution to Piedmont's listing and concurrent offering during the first quarter 2010. The terms of such awards are identical to Piedmont's historic restricted stock grants, except that one third of the shares subject to the awards will vest on each of the first, second and third anniversary of the grant date.

Annual Independent Director Equity Awards

On May 11, 2010, the board of directors of Piedmont approved an annual equity award for each of the independent directors of approximately \$50,000 payable in the form of 2,525 shares of Piedmont's common stock. Such award resulted in the issuance of 14,695 shares to Piedmont's independent directors. Directors' fees included in general and administrative expense in the accompanying consolidated statements of income included approximately \$0.3 million related to these equity awards during the six months ended June 30, 2010 and 2009.

Adoption of 2010 Long-Term Incentive Compensation Plan

On May 11, 2010, the compensation committee of the board of directors of Piedmont approved a 2010 Long-Term Incentive Compensation Plan (the "2010 LTIC Plan") for certain of its employees. The 2010 LTIC Plan specifies that each participant's annual opportunity to earn deferred stock awards will be divided equally between a deferred stock award (materially consistent with Piedmont's past practice) and a new Multi-Year Performance Share Compensation Program (the "Performance Share Program").

The Performance Share Program provides an opportunity to earn long term equity incentive compensation based on Piedmont's performance over a three-year period. Piedmont's performance will be measured by comparing Piedmont's total stockholder return relative to the total stockholder return for a group of peer companies as determined by Piedmont's compensation committee.

In accordance with GAAP, expense is required to be recognized on a quarterly basis from the date of the plan grant. Expense recognized for the period from May 11, 2010 through June 30, 2010 was approximately \$0.1 million.

11. Weighted-average Common Shares

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

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The following table reconciles the denominator for the basic and diluted earnings per share computations shown on the consolidated statements of operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Weighted-average common shares basic	172,595,439	158,188,721	168,814,961	158,942,809
Plus incremental weighted-average shares from time-vested conversions:				
Restricted stock awards	122,678	115,148	96,931	104,174
Weighted-average common shares diluted	172,718,117	158,303,869	168,911,892	159,046,983

12. Subsequent Events

Declaration of Dividend for the Third Quarter 2010

On August 10, 2010, the board of directors of Piedmont declared dividends for the third quarter 2010 in the amount of \$0.3150 (31.50 cents) per share on the outstanding common shares of Piedmont to all stockholders of record of such shares as shown on the books of Piedmont at the close of business on September 15, 2010. Such dividends are to be paid on September 22, 2010.

Binding Contract for Acquisition of the Meridian Crossings Buildings

On August 10, 2010, Piedmont entered into a binding contract to purchase two eight-story office buildings containing approximately 384,000 aggregate rentable square feet located in a suburb of Minneapolis, Minnesota (the Meridian Crossings Buildings). The purchase price of the Meridian Crossings Buildings is expected to be approximately \$66 million, plus closing costs. The Meridian Crossings Buildings, which were completed in 1997 and 1998, are primarily leased to US Bancorp, an existing tenant within the Piedmont portfolio. The two buildings combined are approximately 96% leased.

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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, 2009.

Liquidity and Capital Resources

We intend to use cash flows generated from operation of our wholly-owned properties and distributions from our unconsolidated joint ventures, proceeds from our recent offering of common stock, and proceeds from our existing \$500 Million Unsecured Facility as our primary sources of immediate and long-term liquidity. In addition, the potential selective disposal of existing properties and 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 may also provide additional sources of capital; however, the availability and attractiveness of terms for these sources of capital is highly dependent on market conditions. During the six months ended June 30, 2010, we paid down all outstanding amounts under our \$500 Million Unsecured Facility; therefore, as of June 30, 2010, we had the full capacity available for future borrowing with the exception of approximately \$14.0 million of capacity that is reserved as security for outstanding letters of credit with two tenants and one municipal government.

We anticipate 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 granted as part of executed leases with our tenants. The timing and magnitude of general repair and maintenance projects are subject to our discretion. We anticipate funding approximately \$112.4 million in unrecorded contractual obligations for tenant improvements related to our existing lease portfolio over the respective lease term, much of which we estimate may be required to be funded over the next five 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 leases without further recourse to us. Finally, projected amounts for tenant improvements and leasing commissions related to anticipated re-leasing efforts are generally expected to arise in the near to medium term as a significant number of our leases are scheduled to expire over the next four years. However, 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 availability of attractive properties and our ability to consummate acquisitions on satisfactory terms, acquiring new assets compatible with our investment strategy could also be a significant use of capital. Although the only near-term debt maturity we have is the \$250 Million Unsecured Term Loan in June 2011, we also anticipate using funds to make scheduled debt service payments and/or debt repayments when such obligations become due.

Our cash flows from operations depend significantly on market rents and the ability of our tenants to make rental payments. While we believe the diversity and high credit quality of our tenants help mitigate the risk of a significant interruption of our cash flows from operations, the general economic downturn that we are currently experiencing, or a further downturn in one of our concentration markets, could adversely impact our operating cash flows. 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, as mentioned above, a significant number of our leases at our properties are scheduled to expire over the next four years, and the capital requirements necessary to maintain our current occupancy levels, including payment of leasing commissions, tenant concessions, and anticipated leasing expenditures, have continued to increase. As such, we will continue to closely monitor our tenant renewals, competitive market conditions, and our cash flows. 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) appropriate long-term payout ratios for comparable companies, (vi) our ability to continue to access additional sources of capital 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 receipts.

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Results of Operations

Overview

Our income from continuing operations for each period presented increased as compared to the prior year, primarily due to lower amortization expense, depreciation expense, and interest expense. These decreases in our expenses were partially offset by lower tenant reimbursements in the current period.

Comparison of the three months ended June 30, 2010 versus the three months ended June 30, 2009

The following table sets forth selected data from our consolidated statements of income for the three months ended June 30, 2010 and 2009, respectively, as well as each balance as a percentage of total revenues for the same periods presented (dollars in millions):

	June 30, 2010	%	June 30, 2009	%	\$ Increase (Decrease)
Revenue:					
Rental income	\$ 110.6		\$ 110.4		0.2
Tenant reimbursements	33.4		36.1		(2.7)
Property management fee revenue	0.7		0.7		(0.0)
Other rental income	0.5		0.8		(0.3)
Total revenues	145.2	100%	148.0	100%	(2.8)
Expense:					
Property operating costs	55.5	38%	55.6	38%	(0.1)
Depreciation	25.6	18%	26.2	18%	(0.6)
Amortization	11.0	8%	13.7	9%	(2.7)
General and administrative expense	8.0	5%	8.1	5%	(0.1)
Real estate operating income	45.1	31%	44.4	30%	0.7
Other income (expense):					
Interest expense	(18.9)	13%	(19.4)	13%	(0.5)
Interest and other income	1.0	1%	1.1	1%	(0.1)
Equity in income of unconsolidated joint ventures	0.7	0%	0.8	0%	(0.1)
Income from continuing operations	\$ 27.9	19%	\$ 26.9	18%	1.0

Continuing Operations

Revenue

Rental income increased from approximately \$110.4 million for the three months ended June 30, 2009 to approximately \$110.6 million for the three months ended June 30, 2010. This variance relates primarily to increases in rental revenue at our Glenridge Highlands II Building in Atlanta, Georgia, our 60 Broad Street Building in New York City, New York and our 1225 Eye Street Building and 400 Virginia Avenue Building in Washington, D.C. due to new leasing activity subsequent to the prior period. The increase was partially offset by a reduction in rent associated with the partial termination of a lease at the Aon Center Building in Chicago, Illinois as well as an adjustment to our straight-line rent revenue related to a tenant exercising an option to contract its leased space at the US Bancorp Building in Minneapolis, Minnesota. Tenant reimbursements decreased from approximately \$36.1 million for the three months ended June 30, 2009 to approximately \$33.4 million for the three months ended June 30, 2010 primarily due to lower recoverable tenant-requested services, utility costs, and janitorial services as well as an overall reduction in reimbursements for utility costs at our 60 Broad Street Building of approximately \$1.0 million.

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, other rental income is recognized once we have completed our obligation to

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provide space to the tenant. Lease terminations and restructurings for the three months ended June 30, 2010 of approximately \$0.5 million primarily relates to a lease terminated at the 110 Hidden Lake Circle Building in Duncan, South Carolina. Other rental income for the three months ended June 30, 2009 relates primarily to leases terminated at the 1901 Main Street Building in Irvine, California and the Auburn Hills Corporate Center Building in Detroit, Michigan of approximately \$0.5 million and \$0.2 million, respectively. 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.

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Expense

Property operating costs decreased approximately \$0.1 million for the three months ended June 30, 2010 compared to the same period in the prior year. This variance is primarily the result of lower recoverable tenant-requested services (i.e., billback expenses) of approximately \$0.4 million, lower recoverable utility costs of approximately \$0.2 million, and lower recoverable janitorial costs of approximately \$0.2 million in the current period. These favorable variances were partially offset by an increase of approximately \$0.5 million in recoverable property tax expense and of approximately \$0.2 million in recoverable repair and maintenance costs.

Depreciation expense decreased approximately \$0.6 million for the three months ended June 30, 2010 compared to the same period in the prior year. The decrease in depreciation is largely due to an adjustment to accelerate depreciation expense in the prior period related to a lease termination at the 1901 Main Street Building. The decrease was partially offset by an increase in tenant improvements placed in service subsequent to June 30, 2009 at various buildings within the portfolio.

Amortization expense decreased approximately \$2.7 million for the three months ended June 30, 2010 compared to the same period in the prior year. The decrease primarily relates to lease intangible assets that have fully amortized subsequent to June 30, 2009, as well as prior period adjustments to accelerate amortization expense due to lease terminations at our 1901 Main Street Building and our 2300 Cabot Drive Building in Chicago, Illinois of approximately \$0.6 million. This decrease during the current period was partially offset by an increase in amortization related to new deferred lease acquisition costs associated with the acquisition or renewal of tenants, which is amortized over the life of the respective leases.

General and administrative expenses decreased approximately \$0.1 million for the quarter ended June 30, 2010 compared to the same period in the prior year. The decrease is primary attributable to a reimbursement of legal fees by our insurance carrier for expenses related to ongoing litigation activity. This decrease was almost entirely offset by an increase in investor support expenses related to transfer agent expenses associated with our recent recapitalization and listing of our shares on the New York Stock Exchange.

Other Income (Expense)

Interest expense decreased approximately \$0.5 million for the three months ended June 30, 2010 compared to the same period in the prior year. The decrease is attributable primarily to lower net borrowings on our \$500 Million Unsecured Facility.

Equity in income of unconsolidated joint ventures remained comparable to the same period in the prior year. We expect equity in income of unconsolidated joint ventures to fluctuate based on the timing and extent to which dispositions occur as our unconsolidated joint ventures approach their stated dissolution periods.

Income from continuing operations per share on a fully diluted basis decreased from \$0.17 for the three months ended June 30, 2009 to \$0.16 for the three months ended June 30, 2010 primarily as a result of higher shares outstanding in the current period.

Discontinued Operations

In accordance with GAAP, we have classified the operations of the held for sale asset, the 111 Sylvan Avenue Building in Englewood Cliffs, New Jersey, as discontinued operations for all periods presented. (Loss)/income from discontinued operations was approximately \$(8.1) million and \$1.2 million for the three months ended June 30, 2010 and 2009, respectively. Loss from discontinued operations during the current year is the result of recognizing an impairment charge of approximately \$9.6 million in conjunction with adjusting the assets to estimated fair value (less estimated costs to sell) upon execution of a binding contract to dispose of the asset. 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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Comparison of the six months ended June 30, 2010 versus the six months ended June 30, 2009

The following table sets forth selected data from our consolidated statements of income for the six months ended June 30, 2010 and 2009, respectively, as well as each balance as a percentage of total revenues for the same periods presented (dollars in millions):

	June 30, 2010	%	June 30, 2009	%	\$ Increase (Decrease)
Revenue:					
Rental income	\$ 221.1		\$ 221.7		(0.6)
Tenant reimbursements	68.4		76.2		(7.8)
Property management fee revenue	1.5		1.4		0.1
Other rental income	1.0		0.8		0.2
Total revenues	292.0	100%	300.1	100%	(8.1)
Expense:					
Property operating costs	110.9	38%	115.7	39%	(4.8)
Depreciation	51.2	17%	51.4	17%	(0.2)
Amortization	22.4	8%	27.1	9%	(4.7)
General and administrative expense	14.6	5%	15.5	5%	(0.9)
Real estate operating income	92.9	32%	90.4	30%	2.5
Other income (expense):					
Interest expense	(38.0)	13%	(38.7)	13%	(0.7)
Interest and other income	2.0	1%	1.8	1%	0.2
Equity in income of unconsolidated joint ventures	1.4	0%	1.4	0%	0.0
Income from continuing operations	\$ 58.3	20%	\$ 54.9	18%	3.4

Continuing Operations

Revenue

Rental income decreased from approximately \$221.7 million for the six months ended June 30, 2009 to approximately \$221.1 million for the six months ended June 30, 2010. This decrease relates primarily to an adjustment to our straight-line rent revenue related to a tenant exercising an option to contract its leased space at the US Bancorp Building. Tenant reimbursements decreased from approximately \$76.2 million for the six months ended June 30, 2009 to approximately \$68.4 million for the six months ended June 30, 2010 primarily due to lower recoverable tenant-requested services, utility costs, property tax expense and janitorial services totaling approximately \$4.8 million, as well a reduction in reimbursements for utility costs at our 60 Broad Street Building of approximately \$1.5 million, and an overall reduction in recoverable expenses due to a partial lease termination at the Aon Center Building.

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, other rental income is recognized once we have completed our obligation to provide space to the tenant. Lease terminations and restructurings for the six months ended June 30, 2010 of approximately \$1.0 million primarily relates to a lease terminated at the 110 Hidden Lake Circle Building. Prior year other rental income relates primarily to leases terminated at the 1901 Main Street Building and the Auburn Hills Corporate Center Building of approximately \$0.5 million and \$0.2 million, respectively. 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

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Property operating costs decreased approximately \$4.8 million for the six months ended June 30, 2010 compared to the same period in the prior year. This variance is primarily the result of lower recoverable tenant-requested services (i.e., billback expenses) of approximately \$1.9 million, lower recoverable utility costs of approximately \$1.5 million, and lower recoverable property tax expenses of approximately \$0.9 million in the current period.

Depreciation expense decreased approximately \$0.2 million for the six months ended June 30, 2010 compared to the same period in the prior year. The decrease in depreciation is largely due to an adjustment to accelerate depreciation expense in the prior period related to a lease termination at the 1901 Main Street Building. The decrease was partially offset by an increase in other tenant improvements placed in service after June 30, 2009 at various buildings within the portfolio.

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Amortization expense decreased approximately \$4.7 million for the six months ended June 30, 2010 compared to the same period in the prior year. The decrease primarily relates to lease intangible assets that have fully amortized subsequent to June 30, 2009. However, this decrease during the current period was partially offset by an increase in amortization related to new deferred lease acquisition costs associated with the acquisition or renewal of tenants subsequent to June 30, 2009, which are amortized over the life of the respective leases.

General and administrative expenses decreased approximately \$0.9 million for the six months ended June 30, 2010 compared to the same period in the prior year. The decrease is primarily attributable to lower tax and registration fees as well as lower salary and benefit expense during the current period.

Other Income (Expense)

Interest expense decreased approximately \$0.7 million for the six months ended June 30, 2010 compared to the same period in the prior year. The decrease is attributable primarily to lower net borrowings on our \$500 Million Unsecured Facility.

Interest and other income increased approximately \$0.2 million for the six months ended June 30, 2010 compared to the same period in the prior year, primarily due to non-recurring, prior year abandoned acquisition costs.

Equity in income of unconsolidated joint ventures remained comparable to the same period in the prior year. We expect equity in income of unconsolidated joint ventures to fluctuate based on the timing and extent to which dispositions occur as our unconsolidated joint ventures approach their stated dissolution periods.

Income from continuing operations per share on a fully diluted basis remained comparable at \$0.35 for the six months ended June 30, 2010 compared to the prior period. Although income from continuing operations increased by \$3.4 million, this increase was somewhat offset by an increased in diluted shares outstanding.

Discontinued Operations

In accordance with GAAP, we have classified the operations of the held for sale asset, the 111 Sylvan Avenue Building, as discontinued operations for all periods presented. (Loss)/income from discontinued operations was approximately \$(6.9) million and \$2.3 million for the six months ended June 30, 2010 and 2009, respectively. Loss from discontinued operations during the current year is the result of recognizing an impairment charge of approximately \$9.6 million in conjunction with adjusting the assets to estimated fair value (less costs to sell) upon execution of a binding contract to dispose of the asset. 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.

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, 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 impairment charges and extraordinary items (including our proportionate share of any impairment charges or extraordinary items recognized during the period related to investments in unconsolidated joint ventures).

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For the three months and six months ended June 30, 2010 and 2009, we calculated AFFO as Core FFO (calculated as set forth above) exclusive of the net effects of: (i) amortization associated with deferred financing costs; (ii) depreciation on non-income-producing

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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; and (vii) 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):

	Three Months Ended June 30				Six Months Ended June 30			
	2010	Per Share ⁽¹⁾	2009	Per Share ⁽¹⁾	2010	Per Share ⁽¹⁾	2009	Per Share ⁽¹⁾
Net income attributable to Piedmont	\$ 19,636	\$.11	\$ 27,976	\$.18	\$ 51,096	\$.30	\$ 57,014	\$.36
Depreciation of real assets ⁽²⁾	25,872	.15	26,773	.17	52,122	.31	52,611	.33
Amortization of lease-related costs ⁽²⁾	11,104	.07	13,797	.08	22,592	.13	27,339	.17
Gain on sale of properties								
Funds From Operations	\$ 56,612	\$.33	\$ 68,546	\$.43	\$ 125,810	\$.74	\$ 136,964	\$.86
Adjustment:								
Impairment loss	9,587	.05			9,587	.06		
Core Funds From Operations	\$ 66,199	\$.38	\$ 68,546	\$.43	\$ 135,397	\$.80	\$ 136,964	\$.86
Deferred financing cost amortization	696		685	.01	1,392	.01	1,394	.01
Depreciation of non real estate assets	178		154		357		306	
Straight-line effects of lease (revenue)/expense ⁽²⁾	(784)	(.01)	(1,227)	(.01)	289		1,469	.01
Stock-based and other non-cash compensation	711	.01	831	.01	1,364	.01	1,835	.01
Net effect of amortization of below-market in-place lease intangibles ⁽²⁾	(1,525)	(.01)	(1,223)	(.01)	(2,951)	(.01)	(2,453)	(.01)
Income from amortization of discount on purchase of mezzanine loans	(694)		(929)	(.01)	(1,362)	(.01)	(1,296)	(.01)
Non-incremental capital expenditures ⁽³⁾	(12,752)	(.07)	(7,394)	(.04)	(21,718)	(.13)	(18,804)	(.12)
Adjusted Funds From Operations	\$ 52,029	\$.30	\$ 59,443	\$.38	\$ 112,768	\$.67	\$ 119,415	\$.75
Weighted-average shares outstanding diluted	172,718		158,304		168,912		159,047	

(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) Represents capital expenditures of a recurring nature related to tenant improvements and leasing commissions that do not incrementally enhance the underlying assets income generating capacity. First generation tenant improvements and leasing commissions are excluded from this measure.

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; however, we are subject to certain state and local taxes related to the operations of properties in certain locations, which have been

provided for in our accompanying consolidated financial statements.

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.

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We have elected to treat Piedmont Office Holdings, Inc. (POH), a wholly-owned subsidiary of Piedmont, as a taxable REIT subsidiary. We may perform non-customary services for tenants of buildings that we own, including any real estate or non-real estate related-services; however, any earnings related to such 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. As POH had no significant operations for the six months ended June 30, 2010, and we made distributions in excess of taxable income for the periods presented, no provision for federal income taxes has been made in our accompanying consolidated financial statements.

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 allowances. However, due to the long-term nature of the leases, the leases may not readjust their reimbursement rates frequently enough to fully cover inflation.

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 us 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.

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.

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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 Piedmont.

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 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 Piedmont. We have determined that other than the impairment charge recognized upon execution of a binding agreement to dispose of the 111 Sylvan Avenue Building of approximately \$9.6 million, there has been no impairment in the carrying value of real estate assets owned by us or any unconsolidated joint ventures as of June 30, 2010. See Note 9 of our accompanying consolidated financial statements for a more detailed discussion.

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. 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. We have determined that there have been no events or circumstances that would indicate that the carrying amount may be impaired as of June 30, 2010.

Table of Contents*Investment in Variable Interest Entities*

Variable Interest Entities (VIEs) are defined by GAAP as entities in which equity investors do not have the characteristics of a controlling financial interest or 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. These analyses require considerable judgment in determining the primary beneficiary of a VIE since they involve subjective probability weighting of various cash flow scenarios. Incorrect assumptions or estimates of future cash flows 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.

Interest Rate Swap

When we enter into an interest rate swap agreement to hedge our exposure to changing interest rates on our variable rate debt instruments, as required by GAAP, we record all derivatives on the balance sheet at fair value. We reassess the effectiveness of our derivatives designated as cash flow hedges on a regular basis to determine if they continue to be highly effective and also to determine if the forecasted transactions remain highly probable. The changes in fair value of derivatives designated as cash flow hedges are recorded in other comprehensive income (OCI), and the amounts in OCI will be reclassified to earnings when the hedged transactions occur. Changes in the fair values of derivatives designated as cash flow hedges that do not qualify for hedge accounting treatment are recorded as gain/(loss) on interest rate swap in the consolidated statements of operations in the current period. The fair value of the interest rate swap agreement is recorded as prepaid expenses and other assets or as interest rate swap liability in the accompanying consolidated balance sheets. Amounts received or paid under interest rate swap agreements are recorded as interest expense in the consolidated statements of operations as incurred. Currently, we do not use derivatives for trading or speculative purposes and do not have any derivatives that are not designated as cash flow hedges.

Contractual Obligations

Our contractual obligations as of June 30, 2010 are as follows (in thousands):

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Long-term debt ⁽¹⁾	\$ 1,402,525	\$ 250,000	\$ 45,000	\$ 800,000	\$ 307,525
Operating lease obligations ⁽²⁾	79,572	636	1,443	1,500	75,993
Total	\$ 1,482,097	\$ 250,636	\$ 46,443	\$ 801,500	\$ 383,518

⁽¹⁾ Amounts include principal payments only. We made interest payments of approximately \$32.2 million during the six months ended June 30, 2010 and expect to pay interest in future periods on outstanding debt obligations based on the rates and terms disclosed herein and in Note 5 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 June 30, 2010 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; and

Assertion of Legal Action.

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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 \$500 Million Unsecured Facility and our \$250 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 \$250 Million Unsecured Term Loan through interest rate swap agreements.

All of our debt was entered into for other than trading purposes, and the estimated fair value of our debt as of June 30, 2010 was approximately \$1.4 billion. See Note 7 of our accompanying consolidated financial statements for further detail.

As of June 30, 2010, all of our outstanding debt is subject to fixed, or effectively fixed, interest rates. Our total outstanding debt has an average interest rate of approximately 4.66% per annum with expirations ranging from 2011 to 2017. Additionally, during the three months ended June 30, 2010 we extended the term of the \$250 Million Unsecured Term Loan from June 2010 to June 2011, upon payment of a 25 basis point fee. A change in the market interest rate impacts the net financial instrument position of our fixed-rate debt portfolio but has no impact on interest incurred or cash flows. Such agreements may result in higher fixed interest rates in certain periods of lower variable interest rates, but are intended to decrease our exposure to potential increases in interest rates.

As of June 30, 2010, we had no amounts 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. The 30-day LIBOR rate as of June 30, 2010 was 0.35%. To the extent that we borrow 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 4T. 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 June 30, 2010 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

For information relating to Piedmont's legal proceedings, see Note 8 of our accompanying consolidated financial statements.

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, 2009.

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

- (a) There were no unregistered sales of equity securities during the second quarter 2010.
- (b) Not applicable.
- (c) Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. RESERVED

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The Exhibits required to be filed with this report are set forth on the Exhibit Index to Second Quarter 2010 Form 10-Q 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: August 10, 2010

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
SECOND QUARTER 2010
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	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