OLD REPUBLIC INTERNATIONAL CORP
Form 13F-HR
May 17, 2018

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35,631

April 5, 2011
142,468

$
19.40

Of the shares granted, 25% vested on the date of grant, and 25% will vest on April 5, 2012, 2013, and 2014, respectively.

116,520

Total

305,032

(1) Net of shares surrendered upon vesting to satisfy required minimum tax withholding obligations.

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During the three months ended June 30, 2011 and 2010, respectively, Piedmont recognized approximately $2.6 million and $2.1 million of compensation expense and directors' fees related to stock awards, of which $1.5 million and $0.7 million relates to the amortization of nonvested shares, respectively. During the six months ended June 30, 2011 and 2010, Piedmont recognized approximately $3.6 million and $2.7 million, respectively, of compensation expense and directors' fees for the same stock awards of which $2.5 million and $1.4 million, respectively, related to the amortization of nonvested shares. During the six months ended June 30, 2011, 168,237 shares were issued to employees, directors and officers. As of June 30, 2011, approximately $6.6 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.

12.Stockholders' Equity

Effective June 30, 2011, the board of directors of Piedmont approved Articles Supplementary and Articles of Amendment to Piedmont's Third Articles of Amendment and Restatement. Together, the Articles Supplementary and Articles of Amendment (1) reclassified and designated all of Piedmont's authorized but unissued shares of Class B Common Stock as Class A Common Stock and then (2) changed the designation of Piedmont's Class A Common Stock to Common Stock. The Articles Supplementary and Articles of Amendment were each filed with the State Department of Assessments and Taxation of Maryland on June 30, 2011 and were effective upon such filing. As such, Piedmont has effected the reclassification of the authorized and outstanding Class A and B shares to Common Stock for all periods presented.

13.Earnings Per Share

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Weighted-average common shares – basic	172,780	172,595	172,720	168,815
Plus incremental weighted-average shares from time-vested conversions:				
Restricted stock awards	206	123	188	97
Weighted-average common shares – diluted	172,986	172,718	172,908	168,912

14.Subsequent Events

Disposition

On August 1, 2011, Piedmont entered into an agreement to sell its 96.5% ownership interest in 35 West Wacker Drive, an office building located in Chicago, Illinois, at a sales price that values the building at approximately $401 million. The sale is contingent upon satisfactory completion of due diligence and lender approvals and is anticipated to close before year end.

Third Quarter Dividend Declaration

On August 9, 2011, the board of directors of Piedmont declared dividends for the third quarter of 2011 in the amount of $0.3150 per common share outstanding to stockholders of record as of the close of business on September 1, 2011. Such dividends are to be paid on September 22, 2011.

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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, 2010.

Liquidity and Capital Resources

We intend to use cash flows generated from the operation of our wholly-owned properties, distributions from our unconsolidated joint ventures, proceeds from property dispositions anticipated to close during the third quarter, and proceeds from our existing $500 Million Unsecured Facility as our primary sources of immediate and long-term liquidity. In addition, potential additional selective dispositions 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. As of the time of this filing, we had $280.0 million outstanding under our $500 Million Unsecured Facility, primarily as a result of paying off the $250 Million Term Loan during June 2011. As a result, we had approximately $192.8 million under this facility available as of the date of this filing for future borrowing (approximately $27.2 million of capacity is reserved as security for outstanding letters of credit required by various third parties). We anticipate the receipt of significant net sales proceeds during 2011 related to properties currently under contract to be sold.

We estimate that our most immediate uses of capital will be (i) to fund the purchase of identified properties during the third quarter of 2011 and (ii) to fund capital expenditures for our existing portfolio of properties. These expenditures include two types of specifically identified building improvement projects: (i) general repair and maintenance projects that we as the owner may choose to perform at any of our various properties and (ii) tenant improvement allowances and leasing commissions negotiated as part of executed leases with our tenants. The timing and magnitude of general repair and maintenance projects are subject to our discretion. We anticipate funding approximately $128.9 million in unrecorded contractual obligations for tenant improvements related to our existing lease portfolio over the respective lease term, the majority of which we estimate may be required to be funded over the next 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 expected to remain high over the next three years as several of our large tenants approach their lease expiration dates in 2012 and 2013. The timing and magnitude of these amounts are subject to change as competitive market conditions at the time of lease negotiations dictate.

In addition to the identified properties that we expect to purchase during the third quarter of 2011, we also anticipate that, subject to the identification and availability of attractive properties and our ability to consummate additional acquisitions on satisfactory terms, acquiring new assets compatible with our investment strategy could also be a significant use of capital. We also expect to use funds to make scheduled debt service payments and/or debt repayments when such obligations become due. Subsequent to quarter end, we exercised our extension option to extend the maturity date of the $500 Million Unsecured Facility by one year to August 30, 2012 pending payment of a 15 basis point extension fee and exercised our extension options to extend the maturity dates of the 500 W. Monroe Mortgage Loan and the 500 W. Monroe Mezzanine 1-A Loan Participation to August 9, 2012. As such, we have no pending debt maturities until June 2012; however, we may seek new alternative financing from either a third-party lender or the public debt markets in the coming year depending on the timing and volume of our property acquisition and disposition activities.

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 challenging economic conditions that we have seen over the last three years , the downward pressure on rental rates in many of our markets, the potential for an increase in interest rates, or the possibility for a further downturn in one or more of our larger 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, several large leases at our properties have been renewed in the past year or are scheduled to expire over the next three years, and significant capital may be required to retain these tenants and maintain our current occupancy levels, including payment of leasing commissions, tenant concessions, and anticipated leasing expenditures. As such, we will continue to closely monitor our tenant renewals, rental rates, 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 or the selective sale of certain properties,

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(ii) our expectations of future cash flows, (iii) our determination of near-term cash needs for debt repayments and selective acquisitions of new properties, (iv) the timing of significant expenditures for tenant improvements and general property capital improvements, (v) long-term payout ratios for comparable companies, (vi) our ability to continue to access additional sources of capital, including potential sales of our properties and (vii) the amount required to be distributed to maintain our status as a REIT. Given the fluctuating nature of cash flows and expenditures, we may periodically borrow funds on a short-term basis to cover timing differences in cash collections and cash receipts. Although we covered the dividend out of operating cash flows in 2010, we project declines in cash flow in 2011 due primarily to increasing capital commitments for new leases, and due to rental rates which have decreased on some of our lease renewals over the past year. As a result, we do not anticipate that we will fully cover our current quarterly dividend rate out of cash flows in 2011 or 2012. Our current cash flow generation is being closely monitored, and we anticipate adjusting the dividend closer to industry payout ratios beginning in 2012.

Results of Operations

Overview

Our income from continuing operations for the six months ended June 30, 2011 decreased as compared to the prior period, primarily due to higher depreciation and amortization expense due mainly to new properties acquired after June 30, 2010, and to a lesser extent higher operating costs for these newly acquired properties. These increases in expense were partially offset by increases in rental revenue and tenant reimbursements related to the new acquisitions, income related to lease terminations and/or restructurings, lower interest expense, and a non-recurring, non-cash gain on consolidation of a variable interest entity (“VIE”) of approximately $1.5 million recognized during the current period.

Comparison of the three months ended June 30, 2011 versus the three months ended June 30, 2010

The following table sets forth selected data from our consolidated statements of income for the three months ended June 30, 2011 and 2010, respectively, as well as each balance as a percentage of total revenues for the same periods presented (dollars in millions):

	June 30, 2011	%	June 30, 2010	%	$ Increase (Decrease)
Revenue:					
Rental income	$112.8		$110.1		2.7
Tenant reimbursements	36.0		33.0		3.0
Property management fee revenue	0.4		0.7		(0.3)
Other rental income	1.3		0.5		0.8
Total revenues	150.5	100%	144.3	100%	6.2
Expense:					
Property operating costs	58.8	39%	55.3	38%	3.5
Depreciation	27.7	18%	25.4	17%	2.3
Amortization	15.8	11%	10.9	8%	4.9
General and administrative expense	7.7	5%	7.9	6%	(0.2)
Real estate operating income	40.5	27%	44.8	31%	(4.3)
Other income (expense):					
Interest expense	(19.3)	(13)%	(18.9)	(13)%	(0.4)
Interest and other (expense)/income	(0.2)	—%	1.0	1%	(1.2)
Equity in income of unconsolidated joint ventures	0.3	—%	0.6	—%	(0.3)
Loss on consolidation of VIE	(0.4)	—%	—	—%	(0.4)
Income from continuing operations	$20.9	14%	$27.5	19%	(6.6)

Continuing Operations

Revenue

Rental income increased from approximately $110.1 million for the three months ended June 30, 2010 to approximately $112.8 million for the three months ended June 30, 2011. This variance is due to properties acquired subsequent to June 30, 2010 which account for an approximate $6.4 million increase in rental revenue. However, this increase was largely offset by lower lease rates for leases commencing subsequent to June 30, 2010, as well as a reduction in leased space due to lease terminations at various

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properties.

Tenant reimbursements increased from approximately $33.0 million for the three months ended June 30, 2010 to approximately $36.0 million for the three months ended June 30, 2011 primarily due to properties acquired subsequent to June 30, 2010. Although property tax reimbursements at our existing properties decreased compared to the prior period due to lower property tax expense, operating expense recoveries offset this decrease in property tax reimbursements, mainly due to an increase in recoverable repair and maintenance costs.

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 three months ended June 30, 2011 of approximately $1.3 million primarily relate to leases at the US Bancorp Center Building and the Crescent Ridge II Building in Minneapolis, Minnesota, as well as the 1225 Eye Street Building in Washington, D.C. Lease terminations and restructurings for the three months ended June 30, 2010 of approximately $0.5 million relate primarily to a lease terminated at the 110 Hidden Lake Circle Building in Duncan, South Carolina. We do not expect such income to be comparable in future periods, as it will be dependent upon the exercise of lease terminations by tenants and/or the execution of restructuring agreements that may not be in our control or are deemed by management to be in the best interest of the portfolio over the long term.

Expense

Property operating costs increased approximately $3.5 million for the three months ended June 30, 2011 compared to the same period in the prior year. The variance is primarily attributable to properties acquired subsequent to June 30, 2010, contributing approximately $4.4 million of the new expense. This increase was partially offset by lower property tax expense of approximately $1.1 million, which was primarily the result of successful appeals of the assessed values at several of our buildings.

Depreciation expense increased approximately $2.3 million for the three months ended June 30, 2011 compared to the same period in the prior year. The variance is attributable to properties acquired subsequent to June 30, 2010, accounting for approximately $1.5 million of the increase. The remainder of the increase is due to depreciation on additional tenant improvements and building expenditures capitalized subsequent to June 30, 2010, partially offset by the write-off of fully depreciated assets on our existing properties.

Amortization expense increased approximately $4.9 million for the three months ended June 30, 2011 compared to the same period in the prior year. The variance is primarily attributable to properties acquired subsequent to June 30, 2010, contributing approximately $6.0 million of the increase. The increase was also partially attributable to an increase in amortization related to new deferred lease acquisition costs associated with the acquisition or renewal of tenant leases subsequent to June 30, 2010 of approximately $0.5 million, which are amortized over the life of the respective leases. However, these increases were offset by lower amortization expense of approximately $1.6 million recognized for lease intangible assets arising from initial purchase price allocations in accordance with GAAP that were fully amortized subsequent to June 30, 2010.

General and administrative expenses decreased approximately $0.2 million for the quarter ended June 30, 2011 compared to the same period in the prior year. The decrease is due to a number of factors, including lower transfer agent expenses and related investor support expenses in the current period subsequent to listing our shares on the New York Stock Exchange in the prior period.

Other Income (Expense)

Interest expense increased approximately $0.4 million for the three months ended June 30, 2011 compared to the same period in the prior year because we recorded the 500 W. Monroe Loans in our consolidated financial statements in March 2011 as part of our becoming the primary beneficiary of the VIE containing the 500 W. Monroe Building, a $140.0 million first mortgage loan secured by the building, and a participation in a mezzanine loan totaling $45.0 million. This increase was partially offset by the reduction of our effective interest rate as a result of entering into an interest rate swap agreement in conjunction with our extension of the $250 Million Term Loan in June 2010, which lowered the rate on the loan from 4.97% to 2.36%.

Interest and other (expense)/income decreased approximately $1.2 million for the three months ended June 30, 2011 compared to the same period in the prior year. Due to our successful bid at a UCC foreclosure sale of the 500 W.

Monroe Building located in Chicago, Illinois, we no longer record interest income or mezzanine discount amortization on our former investments in mezzanine debt, both of which were secured by pledges of equity interests in the ownership of the property. Additionally, we incurred higher acquisition costs of approximately $0.7 million in the current period related to costs associated with the acquisition of properties during the current period.
Equity in income of unconsolidated joint ventures decreased approximately $0.3 million for the three months ended June 30, 2011

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compared to the same period in the prior year. The decrease is the result of tenants vacating space at the 47300 Kato Road Building in Fremont, California effective in June 2010 and the Two Park Center Building located in Hoffman Estates, Illinois effective in January 2011. These decreases were offset slightly by our proportionate share of the gain recognized on the sale of the 360 Interlocken Building in Broomfield, Colorado, which is the last building held by our investment in Fund IX, X, XI and REIT joint venture. 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.

During the three months ended June 30, 2011, we reversed approximately $0.4 million of the $1.9 million gain on consolidation of a variable interest entity recognized during the first quarter 2011 as additional information became available during the quarter ended June 30, 2011 which impacted our original estimates of the fair values of assets and liabilities acquired.

Income from continuing operations per share on a fully diluted basis decreased from $0.16 for the three months ended June 30, 2010 to $0.12 for the three months ended June 30, 2011 primarily due to the increase in depreciation and amortization expense associated with properties acquired subsequent to June 30, 2010, and with ongoing leasing and building improvements at our existing properties. Further, we recognized less interest income because we no longer record interest income on our two investments in mezzanine debt as stated above, and we recorded more interest expense as a result of assuming the $185.0 million of loans associated with the 500 W. Monroe Building.

Discontinued Operations

In accordance with GAAP, we have classified the operations of the 111 Sylvan Avenue Building in Englewood Cliffs, New Jersey and the operations of the Eastpointe Corporate Center in Issaquah, Washington as discontinued operations for all periods presented. Income from discontinued operations increased approximately $7.9 million for the three months ended June 30, 2011 compared to the same period in the prior year. There was no activity in the current period at the 111 Sylvan Avenue Building as the property was sold in December 2010; however, there was a $9.6 million impairment charge on the property in the prior period to write the asset down to estimated fair value upon execution of the binding contract to sell 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.

Comparison of the six months ended June 30, 2011 versus the six months ended June 30, 2010

The following table sets forth selected data from our consolidated statements of income for the six months ended June 30, 2011 and 2010, respectively, as well as each balance as a percentage of total revenues for the same periods presented (dollars in millions):

	June 30, 2011	%	June 30, 2010	%	$ Increase (Decrease)
Revenue:					
Rental income	$222.3		$219.9		2.4
Tenant reimbursements	68.3		67.8		0.5
Property management fee revenue	1.2		1.4		(0.2)
Other rental income	4.8		1.0		3.8
Total revenues	296.6	100%	290.1	100%	6.5
Expense:					
Property operating costs	113.4	39%	110.4	38%	3.0
Depreciation	54.6	18%	50.8	17%	3.8
Amortization	27.9	9%	22.2	8%	5.7
General and administrative expense	14.5	5%	14.6	5%	(0.1)
Real estate operating income	86.2	29%	92.1	32%	(5.9)
Other income (expense):					
Interest expense	(36.4)	(12)%	(38.0)	(13)%	1.6
Interest and other income	3.2	1%	2.0	1%	1.2

Equity in income of unconsolidated joint ventures	0.5	—	%	1.3	—	%	(0.8	)
Gain on consolidation of VIE	1.5	1	%	—	—	%	1.5	
Income from continuing operations	$55.0	19	%	$57.4	20	%	(2.4	)

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Continuing Operations

Revenue

Rental income increased from approximately $219.9 million for the six months ended June 30, 2010 to approximately $222.3 million for the six months ended June 30, 2011. This variance is due primarily to properties acquired subsequent to June 30, 2010 which account for an approximate $7.7 million increase in rental revenue. However, this increase was partially offset by lower lease rates for leases commencing subsequent to June 30, 2010, primarily at our 1200 Crown Colony Drive Building in Quincy, Massachusetts, and our 150 West Jefferson Building in Detroit, Michigan, as well as a reduction in leased space due to lease terminations and or/restructurings at various properties, mainly at our 1201 Eye Street Building in Washington, D.C. and our 800 North Brand Boulevard Building in Glendale, California.

Tenant reimbursements increased from approximately $67.8 million for the six months ended June 30, 2010 to approximately $68.3 million for the six months ended June 30, 2011 primarily due to (i) properties acquired subsequent to June 30, 2010, accounting for an approximate $3.6 million increase in tenant reimbursements; (ii) an approximate $1.0 million increase in tenant-requested services (i.e. billback expenses); and (iii) an approximate $1.1 million increase in operating expense recoveries. These increases were partially offset by a decrease in estimated property taxes due to successful appeals of the assessed values at several of our buildings of approximately $5.2 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 provide space to the tenant. Lease terminations and restructurings for the six months ended June 30, 2011 of approximately $4.8 million relate primarily to leases at the 1201 and 1225 Eye Street Buildings in Washington, D.C., the 1075 West Entrance Drive Building in Auburn Hills, Michigan, the US Bancorp Center Building and the Crescent Ridge II Building in Minneapolis, Minnesota, and the 110 Hidden Lake Circle Building in Duncan, South Carolina. 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. We do not expect such income to be comparable in future periods, as it will be dependent upon the exercise of lease terminations by tenants and/or the execution of restructuring agreements that may not be in our control or are deemed by management to be in the best interest of the portfolio over the long term.

Expense

Property operating costs increased approximately $3.0 million for the six months ended June 30, 2011 compared to the same period in the prior year. This variance is due primarily to properties acquired subsequent to June 30, 2010, which accounts for a $5.4 million increase in property costs. Property operating costs also increased due to higher recoverable repair and maintenance costs of approximately $1.0 million and higher recoverable tenant-requested services (i.e. billback expenses) of approximately $0.5 million. This unfavorable variance was partially offset as a result of successful appeals of the assessed values at several of our buildings resulting in lower estimated property tax expense of approximately $3.7 million.

Depreciation expense increased approximately $3.8 million for the six months ended June 30, 2011 compared to the same period in the prior year. The variance is primarily attributable to properties acquired subsequent to June 30, 2010, comprising approximately $1.9 million of the increase. Additionally, new tenant improvements and building expenditures capitalized at our existing properties subsequent to June 30, 2010 resulted in additional depreciation expense of approximately $1.3 million. The remainder of the variance is due to an adjustment to accelerate depreciation expense on tenant improvements in the current period related to lease terminations at various properties of approximately $0.6 million.

Amortization expense increased approximately $5.7 million for the six months ended June 30, 2011 compared to the same period in the prior year. The variance is primarily attributable to properties acquired subsequent to June 30, 2010, accounting for approximately $6.2 million of the increase. The increase is also attributable to approximately $1.3 million of adjustments to accelerate amortization expense on certain lease intangible assets related to various lease terminations at certain of our buildings, as well as an increase in amortization related to new deferred lease acquisition costs associated with the acquisition or renewal of tenant leases subsequent to June 30, 2010 of approximately $1.0 million. Such costs are amortized over the life of the respective leases. However, these increases were offset by lower amortization expense of approximately $2.8 million recognized for lease intangible assets arising from initial purchase price allocations in accordance with GAAP at our existing properties that became fully amortized subsequent to June 30, 2010.

General and administrative expenses decreased approximately $0.1 million for the six months ended June 30, 2011 compared to the same period in the prior year. The decrease is due to a number of factors, including lower transfer agent expenses and related investor support expenses in the current period subsequent to listing our shares on the New York Stock Exchange in the prior period.

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Other Income (Expense)

Interest expense decreased approximately $1.6 million for the six months ended June 30, 2011 compared to the same period in the prior year mainly because we extended the $250 Million Term Loan in June 2010, and entered into new interest rate swap agreements with four counterparties to effectively fix the interest rate on the loan at 2.36%, as compared to 4.97% in the prior period. However, these decreases were partially offset by interest expense related to recording the 500 W. Monroe Loans in our consolidated financial statements in March 2011 as part of our becoming the primary beneficiary of the VIE containing the 500 W. Monroe Building, a $140.0 million first mortgage loan secured by the building, and a participation in a mezzanine loan totaling $45.0 million.

Interest and other income increased approximately $1.2 million for the six months ended June 30, 2011 compared to the same period in the prior year. The variance is due to the recognition of previously deferred property operating income upon consolidation of the 500 W. Monroe Building in the current period of approximately $2.6 million. The increase was partially offset by the fact that we no longer record interest income or mezzanine discount amortization in the current period on our former investments in mezzanine debt, both of which were secured by pledges of equity interests in the ownership of the property, due to our successful bid at a UCC foreclosure sale of the 500 W. Monroe Building.

Equity in income of unconsolidated joint ventures decreased approximately $0.8 million for the six months ended June 30, 2011 compared to the same period in the prior year. The decrease was a result of tenants vacating space at the 47300 Kato Road Building in Fremont, California effective in June 2010 and the Two Park Center Building located in Hoffman Estate, Illinois effective in January 2011. These decreases were offset slightly by our proportionate share of the gain recognized on the sale of the 360 Interlocken Building in Broomfield, Colorado, which is the last building held by our investment in Fund IX, X, XI and REIT joint venture. 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.

The approximate $1.5 million gain on the consolidation of our VIE recognized during the six months ended June 30, 2011 is the net result of recording the estimated fair value of the net assets associated with taking ownership of the 500 W. Monroe Building through foreclosure.

Income from continuing operations per share on a fully diluted basis decreased from $0.34 for the six months ended June 30, 2010 to $0.32 for the six months ended June 30, 2011 primarily due to the increase in depreciation and amortization expense associated with properties acquired subsequent to June 30, 2010. Further, rental income was negatively impacted by lower rental rates and a reduction in leased space at some of our existing properties. These decreases were partially offset by income recognized for lease terminations and restructurings, the recognition of deferred income upon consolidation of the 500 W. Monroe Building, as well as a non-recurring, non-cash gain of approximately $1.5 million recognized upon such consolidation of the VIE containing the 500 W. Monroe Building.

Discontinued Operations

In accordance with GAAP, we have classified the operations of the 111 Sylvan Avenue Building and the operations of the Eastpointe Corporate Center as discontinued operations for all periods presented. Income from discontinued operations increased approximately $6.4 million for the six months ended June 30, 2011 compared to the same period in the prior year. There was no activity in the current period at the 111 Sylvan Avenue Building as the property was sold in December 2010; however, there was a $9.6 million impairment charge on the property in the prior period to write the asset down to estimated fair value upon execution of the binding contract to sell 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, which 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.

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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, acquisition costs, and significant nonrecurring items (including our proportionate share of any impairment charges, acquisition costs, or significant nonrecurring items recognized during the period related to investments in unconsolidated joint ventures). During the six months ended June 30, 2011, we reduced FFO for the nonrecurring $1.5 million gain on consolidation of the VIE containing the 500 W. Monroe Building and 500 W. Monroe Loans and added back acquisition costs of approximately $0.7 million to arrive at Core FFO.

For the three and six months ended June 30, 2011 and 2010, 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 real estate assets; (iii) straight-line lease revenue/expense; (iv) amortization of above and below-market lease intangibles; (v) stock-based and other non-cash compensation expense; (vi) amortization of mezzanine discount income; (vii) acquisition costs, and (viii) non-incremental capital expenditures (as defined below). Our proportionate share of such adjustments related to investments in unconsolidated joint ventures are also included when calculating AFFO.

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2011	Per Share[1]	2010	Per Share[1]	2011	Per Share[1]	2010	Per Share[1]
Net income attributable to Piedmont	$21,027	$0.12	$19,636	$0.11	$54,994	$0.32	$51,096	$0.30
Depreciation of real assets [2]	27,879	0.16	25,872	0.15	55,033	0.32	52,122	0.31
Amortization of lease-related costs [2]	15,878	0.10	11,104	0.07	27,984	0.16	22,592	0.13
Loss/(gain) on consolidation of VIE	388	—	—	—	(1,532)	(0.01)	—	—
Gain on sale- unconsolidated partnership	(45)	—	—	—	(45)	—	—	—
Funds From Operations	$65,127	$0.38	$56,612	$0.33	$136,434	$0.79	$125,810	$0.74
Adjustment:								
Acquisition costs	716	—	48	—	690	—	48	—
Impairment loss	—	—	9,587	0.05	—	—	9,587	0.06
Core Funds From Operations	$65,843	$0.38	$66,247	$0.38	$137,124	$0.79	$135,445	$0.80
Deferred financing cost amortization	1,060	—	696	—	1,667	0.01	1,393	0.01
Amortization of fair market adjustments on notes payable	942	0.01	—	—	942	—	—	—
Depreciation of non real estate assets	168	—	178	—	338	—	357	—
Straight-line effects of lease expense [2]	(2,596)	(0.02)	(784)	—	(359)	—	289	—
Stock-based and other non-cash compensation	896	0.01	711	—	1,864	0.01	1,364	0.01

Net effect of amortization of below-market in-place lease intangibles [2]	(1,670)	(0.01)	(1,525)	(0.01)	(3,033)	(0.02)	(2,952)	(0.02)
Income from amortization of discount on purchase of mezzanine loans	—	—	(694)	—	(484)	—	(1,362)	—
Acquisition costs	(716)	—	(48)	—	(690)	—	(48)	—
Non-incremental capital expenditures [3]	(16,908)	(0.10)	(8,969)	(0.05)	(38,377)	(0.22)	(18,383)	(0.11)
Adjusted Funds From Operations	$47,019	$0.27	$55,812	$0.32	$98,992	$0.57	$116,103	$0.69
Weighted-average shares outstanding – diluted	172,986		172,718		172,908		168,912	

[1] Based on weighted average shares outstanding – diluted.

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(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. If we fail to qualify as a REIT in any taxable year, we may be subject to federal income taxes on our taxable income for that year and for the four years following the year during which qualification is lost and/or penalties, unless the IRS grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to our stockholders. However, we believe that we are organized and operate in such a manner as to qualify for treatment as a REIT and intend to continue to operate in the foreseeable future in such a manner that we will remain qualified as a REIT for federal income tax purposes. We have elected to treat Piedmont Office Holdings, Inc. ("POH"), a wholly-owned subsidiary of Piedmont, as a taxable REIT subsidiary. We perform non-customary services for tenants of buildings that we own, including real estate and 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. POH recorded operations for the three and six months ended ended June 30, 2011, and accordingly recorded a provision of approximately $6,000 and $10,000, respectively, for federal and state income taxes 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 allowance. However, due to the long-term nature of the leases, the leases may not readjust their reimbursement rates frequently enough to fully cover inflation.

Application of Critical Accounting Policies

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

Investment in Real Estate Assets

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

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

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Allocation of Purchase Price of Acquired Assets

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

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

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

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

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

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

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

Projections of expected future cash flows require that we estimate future market rental income amounts subsequent to the expiration of current lease agreements, property operating expenses, the number of months it takes to re-lease the property, and the number of years the property is held for investment, among other factors. The subjectivity of assumptions used in the future cash flow analysis, including discount rates, could result in an incorrect assessment of the property's fair value and, therefore, could result in the misstatement of the carrying value of our real estate and related intangible assets and our net income attributable to us. We have determined that there has been no impairment in the carrying value of real estate assets owned by us or any unconsolidated joint ventures as of June 30, 2011.

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

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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, 2011.

Investment in Variable Interest Entities

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

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

Contractual Obligations

Our contractual obligations as of June 30, 2011 are as follows (in thousands):

	Payments Due by Period						
Contractual Obligations	Total		Less than 1 year		1-3 years	3-5 years	More than 5 years
Long-term debt[1]	$1,637,525	[3]	$485,000	[4]	$165,000	$680,000	$307,525
Operating lease obligations[2]	78,936		693		2,249	1,500	74,494
Total	$1,716,461		$485,693		$167,249	$681,500	$382,019

(1) Amounts include principal payments only. We made interest payments, including payments under our interest rate swaps, of approximately $33.3 million during the six months ended June 30, 2011, 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, 2011 are presented above.

(3) Amounts do not include the discounts recorded as a result of adjusting the 500 W. Monroe Loans to estimated fair market value upon assumption in accordance with GAAP on June 30, 2011. Refer to Note 5 to our consolidated financial statements for further explanation.

(4) Amounts are based on contractual maturity dates. However, as further discussed in Note 5 to our accompanying consolidated financial statements, we exercised our extension options on the following loans: (i) the 500 W. Monroe Mortgage Loan with a contractual balance of $140.0 million to August 2012; (ii) the 500 W. Monroe Mezzanine I Loan- A

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Participation with a contractual balance of $45.0 million to August 2012; and (iii) the $500 Million Unsecured Facility (pending payment of required fees) with a balance as of June 30, 2011 of $300.0 million to August 2012. The table below reflects these assumed extensions:

	Payments Due by Period				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt	$1,637,525	$—	$650,000	$680,000	$307,525

Commitments and Contingencies

We are subject to certain commitments and contingencies with regard to certain transactions. Refer to Note 9 to our consolidated financial statements for further explanation. Examples of such commitments and contingencies include:

- Commitments Under Existing Lease Agreements;
- Contingencies Related to Tenant Audits;
- Letters of Credit; and
- Assertion of Legal Action.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our future income, cash flows, and fair values of our financial instruments depend in part upon prevailing market interest rates. Market risk is the exposure to loss resulting from changes in interest rates, foreign currency, exchange rates, commodity prices, and equity prices. Our exposure to market risk includes interest rate fluctuations in connection with any borrowings under our $500 Million Unsecured Facility and under the debt assumed in conjunction with the foreclosure of the 500 W. Monroe Building. 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, or in the case of the debt assumed as part of consolidating the 500 W. Monroe Building, we put LIBOR interest rate caps in place on the debt to limit our exposure to potential increases in LIBOR during the term of the loans.

All of our debt was entered into for other than trading purposes, and the estimated fair value of our debt as of June 30, 2011 was approximately $1.7 billion. See Notes 5 and 8 of our accompanying consolidated financial statements for further detail.

As of June 30, 2011, substantially all of our outstanding debt is subject to fixed, or effectively fixed, interest rates. Our total outstanding debt has an average effective interest rate of approximately 4.17% per annum with expirations ranging from 2011 to 2017. 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, 2011, we had $300 million outstanding on our $500 Million Unsecured Facility, which is the only debt facility subject to uncapped, variable interest rates. Our $500 Million Unsecured Facility currently has a stated rate of LIBOR plus 0.475% per annum or the prime rate, at the company’s discretion. Draws outstanding as of June 30, 2011 were subject to a rate of 0.67% as of June 30, 2011. The $140.0 million and $45.0 million indebtedness assumed upon consolidation of the 500 W. Monroe Building are subject to a stated rate of LIBOR (0.188% for the accrual period in effect as of June 30, 2011) plus 1.008% and 1.45%, respectively. In both instances, the LIBOR rate is capped at 1.0%, limiting our exposure to potential increases to LIBOR. To the extent that we borrow additional funds in the future under the $500 Million Unsecured Facility or potential future variable-rate lines of credit, we would have exposure to increases in interest rates, which would potentially increase our cost of debt.

ITEM 4. CONTROLS AND PROCEDURES
Management’s Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures
We carried out an evaluation, under the supervision and with the participation of management, including the Principal Executive

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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, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS
Assertion of Legal Action
In Re Wells Real Estate Investment Trust, Inc. Securities Litigation, Civil Action No. 1:07-cv-00862-CAP (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. On August 12, 2010, the defendants filed a motion seeking to certify the court's decision on the parties' motions for summary judgment for immediate appeal. On November 1, 2010, the court denied the defendants' motion to certify its order on the parties' motions for summary judgment for immediate appeal. No trial date has been set.

We believe that the allegations contained in the complaint are without merit, and as such, have determined that the risk of material loss associated with this lawsuit is remote. Further, we will continue to vigorously defend this action. Due to the uncertainties inherent in the litigation process, our assessment of the ultimate potential financial impact of the case notwithstanding, the risk of financial loss does exist, as with any litigation.

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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. Defendants sought and received permission from the Eleventh Circuit Court of Appeals to appeal the class certification order on an interlocutory basis. On April 11, 2011, the Eleventh Circuit Court of Appeals invalidated the district court's order certifying a class and remanded the case to the district court for further proceedings.

On July 15, 2011, the plaintiffs filed a motion for leave to file a third amended complaint. The defendants filed their response in opposition to the plaintiffs' motion for leave on August 1, 2011. The time for the plaintiffs to file their reply in support of their motion for leave has not yet expired.

The parties are engaged in discovery.

We believe that the allegations contained in the complaint are without merit, and as such, have determined that the risk of material loss associated with this lawsuit is remote. Further, we will continue to vigorously defend this action. Due to the uncertainties inherent in the litigation process, our assessment of the ultimate potential financial impact of the case notwithstanding, the risk of financial loss does exist, as with any litigation.

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, 2010.

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

(a) There were no unregistered sales of equity securities during the second quarter 2011.

(b) Not applicable.

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(c) During the quarter ended June 30, 2011, Piedmont's transfer agent repurchased shares of its Class A common stock in the open market, in order to reissue such shares under its dividend reinvestment plan (the "DRP"), as follows:

Period	Total Number of Shares Purchased (in 000's)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (in 000's)[1]	Maximum Approximate Dollar Value of Shares Available That May Yet Be Purchased Under the Program (in 000's)[1]
April 1, 2011 to April 30, 2011	—	$ —	—	$ —
May 1, 2011 to May 31, 2011	—	$ —	—	$ —
June 1, 2011 to June 30, 2011	158	$ 20.49	—	$ — [1]

(1) Under our DRP, we have the option to either issue shares that we purchase in the open market or issue shares directly from Piedmont from authorized but unissued shares. Such election will take place at the settlement of each quarterly dividend in which there are participants in our DRP, and may change from quarter to quarter based on our judgment of the best use of proceeds for Piedmont. Therefore, repurchases may occur on a quarterly basis, but only to the extent necessary to satisfy DRP elections by our stockholders.

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 2011 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 9, 2011

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 2011
FORM 10-Q
OF
PIEDMONT OFFICE REALTY TRUST, INC.

Exhibit Number	Description of Document
3.1	Third Articles of Amendment and Restatement of Piedmont Office Realty Trust, Inc. (the “Company”) (incorporated by reference to Exhibit 3.1 to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2009 filed on March 16, 2010)
3.2	Articles of Amendment of the Company effective June 30, 2011 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on July 6, 2011)
3.3	Articles Supplementary of the Company effective June 30, 2011 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on July 6, 2011)
3.4	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company’s current Report on Form 8-K filed on January 22, 2010)
10.1	Loan Agreement dated as of July 11, 2007 by and between Broadway 500 West Monroe Fee LLC (now known as Piedmont 500 West Monroe Fee LLC) (“Mortgage Borrower”) and Morgan Stanley Mortgage Capital Holdings LLC (as predecessor in interest to Wells Fargo Bank, N.A., as Trustee, for the Certificate holders of Morgan Stanley Capital I Inc. Commercial Mortgage Pass-Through Certificates Trust, Series 2007-XLF9) (“Mortgage Lender”) (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, filed on May 5, 2011)
10.2	Promissory Note dated as of July 11, 2007 by and between Mortgage Borrower and Mortgage Lender (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, filed on May 5, 2011)
10.3	First Omnibus Amendment to Loan Agreement and Other Loan Documents (Mortgage Loan) dated as of August 15, 2007, by and among Mortgage Borrower and Mortgage Lender (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, filed on May 5, 2011)
10.4	Amended and Restated Promissory Note dated as of August 15, 2007, by and among Mortgage Borrower and Mortgage Lender (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, filed on May 5, 2011)
10.5	Mezzanine A Loan Agreement dated as of July 11, 2007, by and between Broadway 500 West Monroe Mezz I LLC (now known as Piedmont 500 West Monroe Mezz I LLC) (“Mezzanine Borrower”) and Morgan Stanley Mortgage Capital Holdings LLC (as predecessor in interest to 500 W Monroe Mezz I-B, LLC and Deutsche Genossenschafts-Hypothekenbank AG) (“Mezzanine Lender”) (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, filed on May 5, 2011)

10.6	Promissory Note (Mezzanine A Loan) dated as of July 11, 2007, by and between Mezzanine Borrower and Mezzanine Lender (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, filed on May 5, 2011)
10.7	First Omnibus Amendment to Loan Agreement and Other Loan Documents (Mezzanine A Loan), dated August 15, 2007, by and between Mezzanine Borrower and Mezzanine Lender (incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, filed on May 5, 2011)
10.8	Amended and Restated Promissory Note (Mezzanine A Loan), dated August 15, 2007, by and between Mezzanine Borrower and Mezzanine Lender (incorporated by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, filed on May 5, 2011)
10.9	Second Omnibus Amendment to Loan Agreement and Other Loan Documents (Mezzanine A Loan), dated as of February 26, 2008, by and between Mezzanine Borrower and Mezzanine Lender (incorporated by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, filed on May 5, 2011)
10.10	Second Amended and Restated Promissory Note (Mezzanine A Loan), by and between Mezzanine Borrower and Mezzanine Lender (incorporated by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, filed on May 5, 2011)

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10.11	Mezzanine A Loan Participation Agreement, dated as of February 26, 2008, by and between Mezzanine Lender, Morgan Stanley Mortgage Capital Holdings LLC (as predecessor in interest to Deutsche Genossenschafts-Hypothekenbank AG), as Participation A Holder, Morgan Stanley Mortgage Capital Holdings LLC (as predecessor in interest to 500 W Monroe Mezz I-B, LLC), as Participation B Holder, and LaSalle Bank National Association, as Custodian (incorporated by reference to Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, filed on May 5, 2011)
10.12	Amendment Number One to the Wells Real Estate Investment Trust, Inc. 2007 Omnibus Incentive Plan
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