Piedmont Office Realty Trust, Inc.
Form 10-Q
October 29, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2014

OR

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

For the Transition Period From To

Commission file number 001-34626

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

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

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

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

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

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

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

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

Number of shares outstanding of the Registrant's
common stock, as of October 28, 2014:
154,320,752 shares

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- Market and economic conditions remain challenging in some markets we operate in and the demand for office space, rental rates and property values may continue to lag the general economic recovery causing our business, results of operations, cash flows, financial condition and access to capital to be adversely affected or otherwise impact performance, including the potential recognition of impairment charges;
- The success of our real estate strategies and investment objectives, including our ability to identify and consummate suitable acquisitions;
- Acquisitions of properties may have unknown risks and other liabilities at the time of acquisition;
- Lease terminations or lease defaults, particularly by one of our large lead tenants;
- The impact of competition on our efforts to renew existing leases or re-let space on terms similar to existing leases;
- Changes in the economies and other conditions of the office market in general and of the specific markets in which we operate;
- Economic and regulatory changes, including accounting standards, that impact the real estate market generally;
- Additional risks and costs associated with directly managing properties occupied by government tenants;
- Adverse market and economic conditions may continue to negatively affect us and could cause us to recognize impairment charges or otherwise impact our performance;
- Availability of financing and our lending banks' ability to honor existing line of credit commitments;
- Costs of complying with governmental laws and regulations;
- Uncertainties associated with environmental and other regulatory matters;
- Potential changes in political environment and reduction in federal and/or state funding of our governmental tenants;
- We may be subject to litigation, which could have a material adverse effect on our financial condition;
- Changes in tax laws impacting REITs and real estate in general, as well as Piedmont's ability to continue to qualify as a REIT under the Internal Revenue Code (the "Code"); and
- Other factors, including the risk factors discussed under Item 1A. of Piedmont's Annual Report on Form 10-K for the year ended December 31, 2013.

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

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PART I. FINANCIAL STATEMENTS

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

The information presented in the accompanying consolidated balance sheets and related consolidated statements of operations, comprehensive income, 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, 2013. Piedmont's results of operations for the nine months ended September 30, 2014 are not necessarily indicative of the operating results expected for the full year.

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

	(Unaudited) September 30, 2014	December 31, 2013
Assets:		
Real estate assets, at cost:		
Land	$696,429	$688,761
Buildings and improvements, less accumulated depreciation of $1,063,515 and $979,934 as of September 30, 2014 and December 31, 2013, respectively	3,243,952	3,164,575
Intangible lease assets, less accumulated amortization of $75,409 and $71,820 as of September 30, 2014 and December 31, 2013, respectively	74,927	74,377
Construction in progress	43,106	24,270
Total real estate assets	4,058,414	3,951,983
Investments in and amounts due from unconsolidated joint ventures	7,638	14,388
Cash and cash equivalents	8,815	6,973
Tenant receivables, net of allowance for doubtful accounts of $292 and $346 as of September 30, 2014 and December 31, 2013, respectively	28,403	31,145
Straight-line rent receivables	163,917	139,406
Restricted cash and escrows	908	394
Prepaid expenses and other assets	36,733	24,771
Goodwill	180,097	180,097
Interest rate swaps	434	24,176
Deferred financing costs, less accumulated amortization of $5,564 and $13,041 as of September 30, 2014 and December 31, 2013, respectively	7,969	8,759
Deferred lease costs, less accumulated amortization of $134,266 and $126,465 as of September 30, 2014 and December 31, 2013, respectively	284,974	283,996
Total assets	$4,778,302	$4,666,088
Liabilities:		
Unsecured debt, net of discount of $5,588 and $1,320 as of September 30, 2014 and December 31, 2013, respectively	$1,784,412	$1,014,680
Secured debt, inclusive of premium of $3,378 and $0 as of September 30, 2014 and December 31, 2013, respectively	449,427	987,525
Accounts payable, accrued expenses, and accrued capital expenditures	135,320	128,818
Deferred income	21,958	22,267
Intangible lease liabilities, less accumulated amortization of $36,260 and $44,256 as of September 30, 2014 and December 31, 2013, respectively	44,981	47,113
Interest rate swaps	3,358	4,526
Total liabilities	2,439,456	2,204,929
Commitments and Contingencies	—	—
Stockholders' Equity:		
Shares-in-trust, 150,000,000 shares authorized; none outstanding as of September 30, 2014 or December 31, 2013	—	—
Preferred stock, no par value, 100,000,000 shares authorized; none outstanding as of September 30, 2014 or December 31, 2013	—	—
Common stock, $.01 par value, 750,000,000 shares authorized; 154,325,169 and 157,460,903 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively	1,543	1,575

Additional paid-in capital	3,669,541	3,668,906
Cumulative distributions in excess of earnings	(1,345,609)	(1,231,209)
Other comprehensive income	11,758	20,278
Piedmont stockholders' equity	2,337,233	2,459,550
Noncontrolling interest	1,613	1,609
Total stockholders' equity	2,338,846	2,461,159
Total liabilities and stockholders' equity	$4,778,302	$4,666,088

See accompanying notes

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

	(Unaudited) Three Months Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Rental income	$114,529	$115,170	$338,720	$329,177
Tenant reimbursements	29,579	27,329	79,253	76,895
Property management fee revenue	533	890	1,568	2,034
	144,641	143,389	419,541	408,106
Expenses:				
Property operating costs	62,027	58,137	177,434	162,516
Depreciation	35,366	30,295	103,154	89,289
Amortization	14,235	13,685	42,407	33,895
General and administrative	5,814	5,849	17,514	16,677
	117,442	107,966	340,509	302,377
Real estate operating income	27,199	35,423	79,032	105,729
Other income (expense):				
Interest expense	(18,654)	(19,331)	(55,592)	(53,932)
Other income/(expense)	524	(596)	68	(1,944)
Net recoveries from casualty events and litigation settlements	(8)	3,919	4,514	7,311
Equity in income/(loss) of unconsolidated joint ventures	89	46	(510)	604
Loss on consolidation	—	(898)	—	(898)
	(18,049)	(16,860)	(51,520)	(48,859)
Income from continuing operations	9,150	18,563	27,512	56,870
Discontinued operations:				
Operating income	16	537	996	2,391
Impairment loss	—	—	—	(6,402)
Gain on sale of real estate assets, net	—	—	1,198	16,258
Income from discontinued operations	16	537	2,194	12,247
Gain on sale of real estate assets	—	—	1,140	—
Net income	9,166	19,100	30,846	69,117
Less: Net income attributable to noncontrolling interest	(4)	(4)	(12)	(12)
Net income attributable to Piedmont	$9,162	$19,096	$30,834	$69,105
Per share information – basic and diluted:				
Income from continuing operations and gain on sale of real estate assets	$0.06	$0.11	$0.19	$0.34
Income from discontinued operations	—	0.01	0.01	0.07
Net income available to common stockholders	$0.06	$0.12	$0.20	$0.41
Weighted-average common shares outstanding – basic	154,325,073	164,683,173	154,495,761	166,597,577
Weighted-average common shares outstanding – diluted	154,561,362	164,796,275	154,664,834	166,734,464

See accompanying notes.

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

	(Unaudited) Three Months Ended September 30, 2014	2013	(Unaudited) Nine Months Ended September 30, 2014	2013
Net income attributable to Piedmont	$9,162	$19,096	$30,834	$69,105
Other comprehensive income/(loss):				
Effective portion of gain/(loss) on derivative instruments that are designated and qualify as cash flow hedges (See Note 5)	1,360	(2,201)	(12,143)	19,659
Plus: Reclassification of previously recorded loss included in net income (See Note 5)	1,295	783	3,623	2,328
Other comprehensive income/(loss)	2,655	(1,418)	(8,520)	21,987
Comprehensive income attributable to Piedmont	$11,817	$17,678	$22,314	$91,092

See accompanying notes

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PIEDMONT OFFICE REALTY TRUST, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2013
AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 (UNAUDITED)
(in thousands, except per share amounts)

	Common Stock		Additional Paid-In Capital	Cumulative Distributions in Excess of Earnings	Other Comprehensive Income/(Loss)	Non-controlling Interest	Total Stockholders' Equity
	Shares	Amount					
Balance, December 31, 2012	167,556	$1,676	$3,667,051	$(1,022,681)	$ (7,160)	$1,609	$2,640,495
Share repurchases as part of an announced plan	(10,246)	(102)	—	(175,167)	—	—	(175,269)
Offering costs associated with the issuance of common stock	—	—	(91)	—	—	—	(91)
Dividends to common stockholders ($0.80 per share), distributions to noncontrolling interest, and dividends reinvested	—	—	(197)	(132,089)	—	(15)	(132,301)
Shares issued and amortized under the 2007 Omnibus Incentive Plan, net of tax	151	1	2,143	—	—	—	2,144
Net income attributable to noncontrolling interest	—	—	—	—	—	15	15
Net income attributable to Piedmont	—	—	—	98,728	—	—	98,728
Other comprehensive income	—	—	—	—	27,438	—	27,438
Balance, December 31, 2013	157,461	1,575	3,668,906	(1,231,209)	20,278	1,609	2,461,159
Share repurchases as part of an announced plan	(3,183)	(32)	—	(52,648)	—	—	(52,680)
Retirement of shares returned from escrow	(85)	(1)	(1,478)	—	—	—	(1,479)
Dividends to common stockholders ($0.60 per share), distributions to noncontrolling interest, and dividends reinvested	—	—	(141)	(92,586)	—	(8)	(92,735)
Shares issued and amortized under the 2007 Omnibus Incentive Plan, net of tax	132	1	2,254	—	—	—	2,255
Net income attributable to noncontrolling interest	—	—	—	—	—	12	12
Net income attributable to Piedmont	—	—	—	30,834	—	—	30,834
Other comprehensive loss	—	—	—	—	(8,520)	—	(8,520)
Balance, September 30, 2014	154,325	$1,543	$3,669,541	$(1,345,609)	$ 11,758	$1,613	$2,338,846

See accompanying notes

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

	(Unaudited) Nine Months Ended September 30,	
	2014	2013
Cash Flows from Operating Activities:		
Net income	$30,846	$69,117
Operating distributions received from unconsolidated joint ventures	266	1,475
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	103,237	91,376
Amortization of deferred financing costs	1,299	1,931
Settlement of forward starting interest rate swaps	14,960	672
Other amortization	42,007	32,782
Impairment loss on real estate assets	—	6,402
Stock compensation expense	3,046	1,489
Equity in loss/(income) of unconsolidated joint ventures	510	(604)
Gain on sale of real estate assets, net	(2,338)	(16,258)
Loss on consolidation	—	898
Retirement of shares returned from escrow	(1,479)	—
Changes in assets and liabilities:		
Increase in tenant and straight-line rent receivables, net	(29,277)	(24,257)
Increase in restricted cash and escrows	(114)	(51)
Increase in prepaid expenses and other assets	(10,588)	(7,389)
Increase in accounts payable and accrued expenses	5,617	1,291
(Decrease)/increase in deferred income	(476)	5,022
Net cash provided by operating activities	157,516	163,896
Cash Flows from Investing Activities:		
Acquisition of real estate assets and related intangibles	(109,930)	(250,127)
Capitalized expenditures, net of accruals	(122,804)	(112,486)
Acquisition of unconsolidated joint ventures, net of cash assumed	—	(14,242)
Net sales proceeds from wholly-owned properties	46,240	49,326
Net sales proceeds from unconsolidated joint ventures	6,017	—
Investments in unconsolidated joint ventures	(42)	(793)
Deferred lease costs paid	(20,732)	(23,897)
Net cash used in investing activities	(201,251)	(352,219)
Cash Flows from Financing Activities:		
Deferred financing costs paid	(1,112)	(3,447)
Proceeds from debt	979,564	832,603
Repayments of debt	(784,320)	(426,000)
Discount due to loan modification	(1,135)	—
Costs of issuance of common stock	—	(91)
Repurchases of common stock as part of announced plan	(54,685)	(111,625)
Dividends paid and discount on dividend reinvestments	(92,735)	(100,102)
Net cash provided by financing activities	45,577	191,338
Net increase in cash and cash equivalents	1,842	3,015
Cash and cash equivalents, beginning of period	6,973	12,957
Cash and cash equivalents, end of period	$8,815	$15,972

Supplemental Disclosures of Significant Noncash Investing and Financing Activities:		
Change in accrued share repurchases as part of an announced plan	$(2,005)	$726
Accrued capital expenditures and deferred lease costs	$17,573	$38,837

See accompanying notes

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PIEDMONT OFFICE REALTY TRUST, INC.
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2014
(unaudited)

1.Organization
Piedmont Office Realty Trust, Inc. (“Piedmont”) (NYSE: PDM) is a Maryland corporation that operates in a manner so as to qualify as a real estate investment trust (“REIT”) for federal income tax purposes and engages in the acquisition and ownership of commercial real estate properties throughout the United States, including properties that are under construction, are newly constructed, or have operating histories. Piedmont was incorporated in 1997 and commenced operations in 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 owns 99.9% of, and is the sole general partner of, Piedmont OP and as such, possesses full legal control and authority over the operations of Piedmont OP. The remaining 0.1% ownership interest of Piedmont OP is held indirectly by Piedmont through its wholly-owned subsidiary, Piedmont Office Holdings, Inc. ("POH"), the sole limited partner of Piedmont OP. Piedmont OP owns properties directly, through wholly-owned subsidiaries, and through both consolidated and unconsolidated joint ventures. References to Piedmont herein shall include Piedmont and all of its subsidiaries, including Piedmont OP and its subsidiaries and joint ventures.

As of September 30, 2014, Piedmont owned 74 office properties, one redevelopment asset, and one office building through an unconsolidated joint venture. Piedmont's 74 consolidated office properties comprise 21.5 million square feet of primarily Class A commercial office space, and were 87.5% leased as of September 30, 2014. As of September 30, 2014, approximately 90% of Piedmont's annualized lease revenue was generated from nine large metropolitan office markets: Atlanta, Boston, Chicago, Dallas, Houston, Los Angeles, Minneapolis, New York, and Washington, D.C.

Piedmont internally evaluates all of its real estate assets as one operating segment, and accordingly, does not report segment information.

2.Summary of Significant Accounting Policies
Basis of Presentation and Principles of Consolidation

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. Effective April 1, 2014, Piedmont early adopted the amendments of Accounting Standards Update No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ("ASU 2014-08") which changed the criteria for reporting discontinued operations. As a result, the sale of the 2020 W. 89th Street building in Leawood, Kansas during the three months ended June 30, 2014 did not meet the newly adopted definition of discontinued operations and the operational results of this property are included in income from continuing operations for all periods presented, while the gain on sale is presented in accordance with SEC Rule 3-15 of Regulation S-X in the accompanying consolidated statements of income between discontinued operations and net income. This gain, however, is included in continuing operations for purposes of calculating earnings per share data. Operational results related to properties sold or held for sale as of March 31, 2014 continue to be presented as discontinued operations because the adoption provisions of ASU 2014-08 require prospective implementation.

Piedmont's consolidated financial statements include the accounts of Piedmont, Piedmont's wholly-owned subsidiaries, any variable interest entity of which Piedmont or any of its wholly-owned subsidiaries is considered the primary beneficiary, or any entity in which Piedmont or any of its wholly-owned subsidiaries owns a controlling interest. For further information, refer to the financial statements and footnotes included in Piedmont's Annual Report on Form 10-K for the year ended December 31, 2013.

All inter-company balances and transactions have been eliminated upon consolidation.

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

Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the accompanying consolidated financial statements and notes. Actual results could differ from those estimates.

Deferred Financing Costs

Costs incurred in connection with obtaining financing which are paid to service providers other than the lenders, or customary fees paid to lenders which are not calculated based on the total commitment of the facility, are capitalized as deferred financing costs in the accompanying consolidated balance sheets. These costs are amortized to interest expense on a straight-line basis (which approximates the effective interest rate method) over the terms of the related financing arrangements.

Income Taxes

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

Recent Accounting Pronouncements

The Financial Accounting Standards Board has issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). The amendments in ASU 2014-09 change the criteria for the recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services using a five-step determination process. Steps 1 through 5 involve (i) identifying contracts with a customer, (ii) identifying the performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the performance obligations, and (v) recognizing revenue as an entity satisfies a performance obligation. Additionally, lease contracts are specifically excluded from ASU 2014-09. The amendments in ASU 2014-09 are effective in the first quarter of 2017 for Piedmont, and early adoption is not permitted. Piedmont is currently evaluating the potential impact, if any, of the amendments of ASU 2014-09.

3.Acquisitions

During the nine months ended September 30, 2014, Piedmont acquired 100% ownership of the following properties using proceeds from the $500 Million Unsecured Line of Credit and cash on hand, net of debt assumed as noted below:

Property	Metropolitan Statistical Area	Date of Acquisition	Rentable Square	Percentage Leased as	Purchase Price (in

			Feet	of Acquisition		millions)	
5 Wall Street	Boston, MA	June 27, 2014	181,680	100	%	$62.5	(1)
1155 Perimeter Center West	Atlanta, GA	August 28, 2014	376,694	100	%	$80.8	

(1) The purchase included the assumption of a $35.0 million mortgage loan with a principal balance outstanding at acquisition of approximately $33.7 million, maturing on September 1, 2021. See further detail on the mortgage loan in Note 4.

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4.Debt

During the three months ended September 30, 2014, Piedmont modified the terms of its $300 Million Unsecured 2011 Term Loan by extending the maturity of the facility from November 22, 2016 to January 15, 2020, as well as decreasing the stated interest rate spread over LIBOR from a range of 1.1% - 2.25% to a range of 0.9% - 1.90%. The specific spread in effect from time to time is based upon the credit rating of Piedmont. As of September 30, 2014, the stated interest rate spread on the loan is 1.15%. All other material terms of the facility remain unchanged.

During the nine months ended September 30, 2014, Piedmont drew down the entire principal of the $300 Million Unsecured 2013 Term Loan, a delayed-draw loan facility established in December 2013. The proceeds of the $300 Million Unsecured 2013 Term Loan were used to repay the $200 Million Mortgage Note and the $25 Million Mortgage Note, as well as a portion of the amounts outstanding under the $500 Million Unsecured Line of Credit. Additionally during the nine months ended September 30, 2014, Piedmont, through its wholly owned operating partnership, Piedmont OP, issued $400 million in aggregate principal amount of 4.45% senior notes which mature on March 15, 2024 (the “2014 Senior Notes”). Piedmont OP received proceeds upon issuance of approximately $399.2 million, reflecting a discount of approximately $0.8 million which will be amortized as interest expense under the effective interest method over the ten-year term of the 2014 Senior Notes. The proceeds from the 2014 Senior Notes were used to repay the $350 Million Secured Pooled Facility, as well as a portion of the amounts outstanding under the $500 Million Unsecured Line of Credit. In addition, in conjunction with the issuance, Piedmont settled five forward starting rate swaps, consisting of notional amounts of $350 million. These swaps were settled in Piedmont's favor, resulting in a gain of approximately $15.0 million that was recorded as accumulated other comprehensive income and is being amortized as an offset to interest expense over the ten-year term of the 2014 Senior Notes. See Note 5 for further detail.

Additionally during the nine months ended September 30, 2014, Piedmont, in conjunction with the purchase of the 5 Wall Street building located in Burlington, Massachusetts, assumed a $35.0 million mortgage loan that matures on September 1, 2021. The loan is amortizing, and bears interest at the rate of 5.55% per annum. Piedmont recorded the loan at its estimated fair value as of the acquisition date, resulting in a premium of approximately $3.5 million which is being amortized as an offset to interest expense over the remaining term of the loan using the effective interest method.

Finally, during the nine months ended September 30, 2014, Piedmont incurred additional working capital borrowings of $321.0 million and, utilizing a portion of the proceeds of the $300 Million Unsecured 2013 Term Loan and the 2014 Senior Notes issuance described above, as well as other cash on hand, made repayments totaling $247.0 million on its $500 Million Unsecured Line of Credit. Piedmont also made interest payments on all debt facilities, including interest rate swap cash settlements, of approximately $20.9 million and $15.5 million for the three months ended September 30, 2014 and 2013, respectively, and $54.1 million and $47.3 million for the nine months ended September 30, 2014 and 2013, respectively. Piedmont capitalized interest of $0.5 million and $0 for the three months ended September 30, 2014 and 2013, respectively, and $1.4 million and $0 for the nine months ended September 30, 2014 and 2013, respectively.

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The following table summarizes the terms of Piedmont's indebtedness outstanding as of September 30, 2014 and December 31, 2013 (in thousands):

Facility	Collateral	Rate[1]		Maturity		Amount Outstanding as of September 30, 2014	December 31, 2013
Secured (Fixed)							
$200 Million Mortgage Note	Aon Center	4.87	%	5/1/2014		$—	$200,000
$25 Million Mortgage Note	Aon Center	5.70	%	5/1/2014		—	25,000
$350 Million Secured Pooled Facility	Nine Property Collateralized Pool [2]	4.84	%	6/7/2014		—	350,000
$105 Million Fixed-Rate Loan	US Bancorp Center	5.29	%	5/11/2015		105,000	105,000
$125 Million Fixed-Rate Loan	Four Property Collateralized Pool [3]	5.50	%	4/1/2016		125,000	125,000
$42.5 Million Fixed-Rate Loan	Las Colinas Corporate Center I & II	5.70	%	10/11/2016		42,525	42,525
$140 Million WDC Fixed-Rate Loans	1201 & 1225 Eye Street	5.76	%	11/1/2017		140,000	140,000
$35 Million Mortgage Note	5 Wall Street	5.55	% [11]	9/1/2021		36,902	—
Subtotal/Weighted Average [4]		5.55	%			449,427	987,525
Unsecured (Variable and Fixed)							
$300 Million Unsecured 2011 Term Loan		LIBOR + 1.15%	[5]	1/15/2020		298,891	300,000
$500 Million Unsecured Line of Credit		LIBOR + 1.175%	[6]	8/19/2016	[7]	440,000	366,000
$350 Million Unsecured Senior Notes		3.40	% [8]	6/1/2023		348,772	348,680
$300 Million Unsecured 2013 Term Loan		LIBOR + 1.20%	[9]	1/31/2019		300,000	—
$400 Million Unsecured Senior Notes		4.45	% [10]	3/15/2024		396,749	—
Subtotal/Weighted Average [4]		2.85	%			1,784,412	1,014,680
Total/ Weighted Average [4]		3.39	%			$2,233,839	$2,002,205

(1) All of Piedmont's outstanding debt as of September 30, 2014 and December 31, 2013 was interest-only debt, except for the amortizing mortgage loan assumed in conjunction with the purchase of the 5 Wall Street building.

(2) Nine property collateralized pool, which was repaid in full on March 7, 2014, included: 1200 Crown Colony Drive, Braker Pointe III, 2 Gatehall Drive, One and Two Independence Square, 2120 West End Avenue, 400 Bridgewater Crossing, 200 Bridgewater Crossing, and Fairway Center II.

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

(4) Weighted average is based on contractual balance of outstanding debt and interest rates in the table as of September 30, 2014.

(5)

The $300 Million Unsecured 2011 Term Loan has a stated variable rate; however, Piedmont entered into interest rate swap agreements which effectively fix, absent any changes to Piedmont's credit rating, the rate on this facility to 2.39% through the original maturity date of November 22, 2016. Subsequent to quarter end, Piedmont entered into three additional forward starting swaps to effectively fix, absent any changes to Piedmont's credit rating, the rate of this facility to 3.35% for the extension period (November 22, 2016 to January 15, 2020).

(6) Piedmont may select from multiple interest rate options with each draw, including the prime rate and various-length LIBOR locks. All LIBOR selections are subject to an additional spread (1.175% as of September 30, 2014) over the selected rate based on Piedmont's current credit rating. The outstanding balance as of September 30, 2014 consisted of 30-day LIBOR draws at a rate of 0.16% (subject to the additional spread mentioned above).

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(7) Piedmont may extend the term for up to one additional year (through two available six month extensions to a final extended maturity date of August 21, 2017) provided Piedmont is not then in default and upon payment of extension fees.

(8) The $350 Million Senior Notes have a fixed coupon rate of 3.40%, however, as a result of the issuance of the notes at a discount, Piedmont recognizes an effective interest rate on this debt issuance of 3.45%. After consideration of the impact of settled interest rate swap agreements, in addition to the issuance discount, the effective interest rate on this debt is 3.43%.

(9) The $300 Million Unsecured 2013 Term Loan has a stated variable rate; however, Piedmont entered into interest rate swap agreements which effectively fix, absent any changes to Piedmont's credit rating, the rate on this facility to 2.78% .

(10) The $400 Million Senior Notes have a fixed coupon rate of 4.45%, however, as a result of the issuance of the notes at a discount, Piedmont recognizes an effective interest rate on this debt issuance of 4.48%. After consideration of the impact of settled interest rate swap agreements, in addition to the issuance discount, the effective interest rate on this debt is 4.10%.

(11) The $35 Million Mortgage Note has a fixed rate of 5.55%, however, upon acquiring the mortgage note, it was marked to estimated fair value resulting in an effective interest rate of 3.75%.

5.Derivative Instruments

Risk Management Objective of Using Derivatives

In addition to operational risks which arise in the normal course of business, Piedmont is exposed to economic risks such as interest rate, liquidity, and credit risk. In certain situations, Piedmont has entered into derivative financial instruments such as interest rate swap agreements and other similar agreements to manage interest rate risk exposure arising from current or future variable rate debt transactions. Interest rate swap agreements involve the receipt or payment of future known and uncertain cash amounts, the value of which are 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 changing the underlying notional amount. During the three months ended September 30, 2014, Piedmont entered into two new interest rate swap agreements with a total notional value of $100 million which, combined with four existing interest rate swap agreements, fully hedge the variable cash flows associated with its $300 Million Unsecured 2013 Term Loan.

In addition, during the three months ended September 30, 2014, Piedmont continued to use four interest rate swap agreements with a total notional value of $300 million to hedge the variable cash flows associated with its $300 Million Unsecured 2011 Term Loan. These swaps will hedge these variable cash flows through November 22, 2016, the original maturity of the debt. During the three months ended September 30, 2014, the terms of the $300 Million Unsecured 2011 Term Loan were modified to extend its maturity until January 15, 2020, and, subsequent to quarter end, Piedmont entered into three additional forward starting interest rate swaps to hedge the cash flows through the extension period.

In conjunction with the issuance of the 2014 Senior Notes (see Note 4) during the nine months ended September 30, 2014, Piedmont settled five previously outstanding forward starting swap agreements for a gain of approximately $15.0 million. The gain was recorded as accumulated other comprehensive income and is being amortized as an offset to interest expense over the ten-year term of the 2014 Senior Notes on a straight line basis, which approximates the effective interest method. Piedmont classifies cash flows from the settlement of hedging derivative instruments in the same category as the underlying exposure which is being hedged. As the cash settlement of approximately $15.0 million was the result of hedging Piedmont's exposure to interest rate changes and their effect on interest expense, such cash settlement is classified as an operating cash flow in the accompanying consolidated statements of cash flows.

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The detail of Piedmont's interest rate derivatives outstanding as of September 30, 2014 is as follows:

Interest Rate Derivative	Notional Amount (in millions)	Effective Date	Maturity Date
Interest rate swap	$ 125	11/22/2011	11/22/2016
Interest rate swap	75	11/22/2011	11/22/2016
Interest rate swap	50	11/22/2011	11/22/2016
Interest rate swap	50	11/22/2011	11/22/2016
Interest rate swap	50	1/30/2014	1/31/2019
Interest rate swap	50	1/30/2014	1/31/2019
Interest rate swap	50	1/30/2014	1/31/2019
Interest rate swap	50	1/30/2014	1/31/2019
Interest rate swap	50	8/29/2014	1/31/2019
Interest rate swap	50	8/29/2014	1/31/2019
Total	$ 600		

Piedmont has elected to present its interest rate derivatives on its consolidated balance sheets on a gross basis as interest rate swap assets and interest rate swap liabilities. The detail of Piedmont's interest rate derivatives on a gross and net basis as of September 30, 2014 and December 31, 2013, respectively, is as follows (in thousands):

Interest rate swaps classified as:	September 30, 2014	December 31, 2013
Gross derivative assets	$434	$24,176
Gross derivative liabilities	(3,358)	(4,526)
Net derivative asset/(liability)	$(2,924)	$19,650

All of Piedmont's interest rate derivative agreements outstanding for the periods presented were designated as cash flow hedges of interest rate risk. As such, the effective portion of changes in the fair value of these derivatives designated as, and that qualify as, cash flow hedges is recorded in other comprehensive income ("OCI") and is reclassified into earnings as interest expense in the period that the hedged forecasted transaction affects earnings. The effective portion of Piedmont's interest rate derivatives that was recorded in the accompanying consolidated statements of income for the three and nine months ended September 30, 2014 and 2013, respectively, was as follows:

Derivative in Cash Flow Hedging Relationships (Interest Rate Swaps) (in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Amount of gain/(loss) recognized in OCI on derivative	$1,360	$ (2,201)	$(12,143)	$ 19,659
Amount of previously recorded loss reclassified from accumulated OCI into interest expense	$1,295	$ 783	$3,623	$ 2,328

Piedmont estimates that approximately $5.4 million will be reclassified from accumulated other comprehensive loss to interest expense over the next twelve months. No gain or loss was recognized related to hedge ineffectiveness or to amounts excluded from effectiveness testing on Piedmont's cash flow hedges during the three and nine months ended September 30, 2014 or 2013.

See Note 7 for fair value disclosures of Piedmont's derivative instruments.

Credit-risk-related Contingent Features

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

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plus accrued interest, or approximately $3.5 million as of September 30, 2014. Additionally, Piedmont has rights of set-off under certain of its derivative agreements related to potential termination fees and amounts payable under the agreements, if a termination were to occur.

6.Variable Interest Entities

Variable interest holders who have the power to direct the activities of the VIE that most significantly impact the entity's economic performance and have the obligation to absorb the majority of losses of the entity or the right to receive significant benefits of the entity must consolidate the VIE.

A summary of Piedmont's interests in and consolidation treatment of its VIEs as of September 30, 2014 and December 31, 2013 is as follows (net carrying amount in millions):

Entity	Piedmont's % Ownership of Entity	Related Building	Consolidated/ Unconsolidated	Net Carrying Amount as of Sept 30, 2014	Net Carrying Amount as of December 31, 2013	Primary Beneficiary Considerations
1201 Eye Street NW Associates, LLC	49.5%	1201 Eye Street	Consolidated	$(2.8)	$(5.3)	In accordance with the partnership's governing documents, Piedmont is entitled to 100% of the cash flow of the entity and has sole discretion in directing the management and leasing activities of the building.
1225 Eye Street NW Associates, LLC	49.5%	1225 Eye Street	Consolidated	$(1.8)	$(0.9)	In accordance with the partnership's governing documents, Piedmont is entitled to 100% of the cash flow of the entity and has sole discretion in directing the management and leasing activities of the building.
Piedmont 500 W. Monroe Fee, LLC	100%	500 W. Monroe	Consolidated	$244.1	$228.3	The Omnibus Agreement with the previous owner includes equity participation rights for the previous owner, if certain financial returns are achieved; however, Piedmont has sole decision making authority and is entitled to the economic benefits of the property until such returns are met.
Suwanee Gateway One, LLC	100%	Suwanee Gateway One	Consolidated	$7.3	$7.4	The fee agreement includes equity participation rights for the incentive manager, if certain returns on

						investment are achieved; however, Piedmont has sole decision making authority and is entitled to the economic benefits of the property until such returns are met.
Medici Atlanta, LLC	100%	The Medici	Consolidated	$16.7	$14.4	The fee agreement includes equity participation rights for the incentive manager, if certain returns on investment are achieved; however, Piedmont has sole decision making authority and is entitled to the economic benefits of the property until such returns are met.
400 TownPark, LLC	100%	400 TownPark	Consolidated	$21.4	$22.3	The fee agreement includes equity participation rights for the incentive manager, if certain returns on investment are achieved; however, Piedmont has sole decision making authority and is entitled to the economic benefits of the property until such returns are met.

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

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7.Fair Value Measurement of Financial Instruments

Piedmont considers its cash, tenant receivables, restricted cash and escrows, accounts payable and accrued payables, interest rate swap agreements, and debt 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 well as its level within the GAAP fair value hierarchy, as of September 30, 2014 and December 31, 2013, respectively (in thousands):

	September 30, 2014			December 31, 2013		
Financial Instrument	Carrying Value	Estimated Fair Value	Level Within Fair Value Hierarchy	Carrying Value	Estimated Fair Value	Level Within Fair Value Hierarchy
Assets:						
Cash and cash equivalents[1]	$8,815	$ 8,815	Level 1			