Piedmont Office Realty Trust, Inc.
Form 10-Q
August 03, 2016
Table of Contents

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 June 30, 2016
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 August 2, 2016:
145,229,642 shares

Table of Contents

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

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Form 10-Q may constitute forward-looking statements within the meaning of the federal securities laws. In addition, Piedmont Office Realty Trust, Inc. ("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 other written or 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," "con or other similar words. Examples of such statements in this report include descriptions of our real estate, financings, and operating objectives; discussions regarding future dividends and share repurchases; and discussions regarding the potential impact of economic conditions on our real estate and lease portfolio.

These statements are based on beliefs and assumptions of Piedmont's management, which in turn are based on information available at the time the statements are made. Important assumptions relating to the forward-looking statements include, among others, assumptions regarding the demands for office space in the markets 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:

- Economic, regulatory, and/or socio-economic changes (including accounting standards) that impact the real estate market generally, or that could affect patterns of use of commercial office space, may cause our operating results to suffer and decrease the value of our real estate properties;
- 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 affecting the office sector in general and the specific markets in which we operate, particularly in Washington, D.C., the New York metropolitan area, and Chicago where we have high concentrations of office properties;
- Lease terminations or lease defaults, particularly by one of our large lead tenants;
- Adverse market and economic conditions may negatively affect us and could cause us to recognize impairment charges on both our long-lived assets or goodwill or otherwise impact our performance;
- The success of our real estate strategies and investment objectives, including our ability to identify and consummate suitable acquisitions and divestitures;
- The illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our properties;
- Acquisitions of properties may have unknown risks and other liabilities at the time of acquisition;
- Development and construction delays and resultant increased costs and risks may negatively impact our operating results;
- Our real estate development strategies may not be successful;
- Future acts of terrorism in any of the major metropolitan areas in which we own properties, or future cybersecurity attacks against us or any of our tenants, could significantly impact the demand for, and value of, our properties;
- Costs of complying with governmental laws and regulations;
- Additional risks and costs associated with directly managing properties occupied by government tenants;
- Future offerings of debt or equity securities may adversely affect the market price of our common stock;
- Changes in market interest rates may have an effect on the value of our common stock;
- 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;
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- 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 of 1986, as amended; and
- Other factors, including the risk factors discussed under Item 1A. of Piedmont’s Annual Report on Form 10-K for the year ended December 31, 2015.

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.

Table of Contents

PART I. FINANCIAL STATEMENTS

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

The information presented in the accompanying consolidated balance sheets and related consolidated statements of income, 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, 2015. Piedmont's results of operations for the six months ended June 30, 2016 are not necessarily indicative of the operating results expected for the full year.

Table of Contents

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

	(Unaudited) June 30, 2016	December 31, 2015
Assets:		
Real estate assets, at cost:		
Land	$656,240	$ 676,091
Buildings and improvements, less accumulated depreciation of $919,863 and $889,857 as of June 30, 2016 and December 31, 2015, respectively	2,780,501	2,837,463
Intangible lease assets, less accumulated amortization of $95,908 and $93,012 as of June 30, 2016 and December 31, 2015, respectively	71,794	84,663
Construction in progress	25,187	20,975
Real estate assets held for sale, net	69,766	76,614
Total real estate assets	3,603,488	3,695,806
Investments in and amounts due from unconsolidated joint ventures	7,413	7,577
Cash and cash equivalents	21,109	5,441
Tenant receivables, net of allowance for doubtful accounts of $141 and $83 as of June 30, 2016 and December 31, 2015, respectively	21,338	26,339
Straight-line rent receivables	154,627	147,393
Note receivable	—	45,400
Restricted cash and escrows	10,595	5,174
Prepaid expenses and other assets	29,731	24,777
Goodwill	180,097	180,097
Deferred lease costs, less accumulated amortization of $157,609 and $146,700 as of June 30, 2016 and December 31, 2015, respectively	261,340	288,041
Other assets held for sale, net	8,761	8,490
Total assets	$4,298,499	$ 4,434,535
Liabilities:		
Unsecured debt, net of discount and unamortized debt issuance costs of $11,551 and $12,779 as of June 30, 2016 and December 31, 2015, respectively	$ 1,508,449	$ 1,528,221
Secured debt, net of premiums and unamortized debt issuance costs of $1,249 and $1,319 as of June 30, 2016 and December 31, 2015, respectively	375,865	501,289
Accounts payable, accrued expenses, and accrued capital expenditures	122,387	128,465
Deferred income	24,036	27,270
Intangible lease liabilities, less accumulated amortization of $45,130 and $42,315 as of June 30, 2016 and December 31, 2015, respectively	38,970	42,853
Interest rate swaps	22,079	9,993
Total liabilities	2,091,786	2,238,091
Commitments and Contingencies	—	—
Stockholders’ Equity:		
Shares-in-trust, 150,000,000 shares authorized; none outstanding as of June 30, 2016 or December 31, 2015	—	—
Preferred stock, no par value, 100,000,000 shares authorized; none outstanding as of June 30, 2016 or December 31, 2015	—	—
Common stock, $.01 par value, 750,000,000 shares authorized; 145,229,642 and 145,511,644 shares issued and outstanding as of June 30, 2016 and December 31, 2015, respectively	1,452	1,455

Additional paid-in capital	3,671,475	3,669,977
Cumulative distributions in excess of earnings	(1,456,129)	(1,477,674)
Other comprehensive income/(loss)	(11,110)	1,661
Piedmont stockholders' equity	2,205,688	2,195,419
Noncontrolling interest	1,025	1,025
Total stockholders' equity	2,206,713	2,196,444
Total liabilities and stockholders' equity	$4,298,499	$4,434,535

See accompanying notes

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

	(Unaudited) Three Months Ended June 30,		(Unaudited) Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Rental income	$111,767	$117,454	$226,505	$235,261
Tenant reimbursements	23,086	28,813	45,837	60,203
Property management fee revenue	454	467	977	1,029
	135,307	146,734	273,319	296,493
Expenses:				
Property operating costs	52,280	61,479	106,468	125,715
Depreciation	31,556	36,039	63,338	72,271
Amortization	17,402	14,955	35,208	29,625
Impairment loss on real estate assets	8,308	5,354	8,308	5,354
General and administrative	8,328	8,083	16,192	14,490
	117,874	125,910	229,514	247,455
Real estate operating income	17,433	20,824	43,805	49,038
Other income (expense):				
Interest expense	(16,413)	(18,172)	(32,798)	(37,188)
Other income/(expense)	(41)	596	253	415
Equity in income of unconsolidated joint ventures	111	124	226	283
	(16,343)	(17,452)	(32,319)	(36,490)
Income from continuing operations	1,090	3,372	11,486	12,548
Discontinued operations:				
Operating loss	(1)	(3)	(1)	(3)
Loss from discontinued operations	(1)	(3)	(1)	(3)
Gain on sale of real estate assets	78,987	26,611	78,967	36,684
Net income	80,076	29,980	90,452	49,229
Less: Net income applicable to noncontrolling interest	(4)	(4)	(8)	(8)
Net income applicable to Piedmont	$80,072	$29,976	$90,444	$49,221
Per share information – basic and diluted:				
Income from continuing operations and gain on sale of real estate assets	$0.55	$0.20	$0.62	$0.32
Net income applicable to common stockholders	$0.55	$0.20	$0.62	$0.32
Weighted-average common shares outstanding – basic	145,178,601	153,559,076	145,227,539	153,946,898
Weighted-average common shares outstanding – diluted	145,698,723	153,757,404	145,765,149	154,174,270

See accompanying notes

Table of Contents

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

	(Unaudited) Three Months Ended June 30, 2016	2015	(Unaudited) Six Months Ended June 30, 2016	2015
Net income applicable to Piedmont	$80,072	$29,976	$90,444	$49,221
Other comprehensive income/(loss):				
Effective portion of gain/(loss) on derivative instruments that are designated and qualify as cash flow hedges (See Note 5)	(4,068)	16,079	(15,029)	874
Plus: Reclassification of previously recorded loss included in net income (See Note 5)	1,113	1,602	2,246	3,069
Gain/(loss) on investment in available for sale securities	13	(2)	12	(2)
Other comprehensive income/(loss)	(2,942)	17,679	(12,771)	3,941
Comprehensive income applicable to Piedmont	$77,130	$47,655	$77,673	$53,162

See accompanying notes

7

Table of Contents

PIEDMONT OFFICE REALTY TRUST, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2015
AND FOR THE SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)
(in thousands, except per share amounts)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Cumulative Distributions in Excess of Earnings	Other Comprehensive Income/(Loss)	Non-controlling Interest	Total Stockholders' Equity
Balance, December 31, 2014	154,324	$1,543	$3,666,182	$(1,365,620)	$ 8,301	$ 1,609	$2,312,015
Share repurchases as part of an announced plan	(8,980)	(90)	—	(158,770)	—	—	(158,860)
Offering costs	—	—	(326)	—	—	—	(326)
Redemption of noncontrolling interest in consolidated variable interest entity	—	—	54	—	—	—	54
Reallocation of noncontrolling interest of subsidiary	—	—	1,128	—	—	(584)	544
Dividends to common stockholders ($0.84 per share), dividends to stockholders of subsidiary, and dividends reinvested	—	—	(242)	(126,274)	—	(15)	(126,531)
Shares issued and amortized under the 2007 Omnibus Incentive Plan, net of tax	168	2	3,181	—	—	—	3,183
Net income applicable to noncontrolling interest	—	—	—	—	—	15	15
Net income applicable to Piedmont	—	—	—	172,990	—	—	172,990
Other comprehensive loss	—	—	—	—	(6,640)	—	(6,640)
Balance, December 31, 2015	145,512	1,455	3,669,977	(1,477,674)	1,661	1,025	2,196,444
Share repurchases as part of an announced plan	(462)	(5)	—	(7,938)	—	—	(7,943)
Offering costs	—	—	(42)	—	—	—	(42)
Dividends to common stockholders ($0.42 per share), dividends to stockholders of subsidiary, and dividends reinvested	—	—	(106)	(60,961)	—	(8)	(61,075)
Shares issued and amortized under the 2007 Omnibus Incentive Plan, net of tax	180	2	1,646	—	—	—	1,648
Net income applicable to noncontrolling interest	—	—	—	—	—	8	8
Net income applicable to Piedmont	—	—	—	90,444	—	—	90,444
Other comprehensive loss	—	—	—	—	(12,771)	—	(12,771)

Balance, June 30, 2016	145,230	$1,452	$3,671,475	$(1,456,129)	$ (11,110)	$ 1,025	$2,206,713

See accompanying notes

8

Table of Contents

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

	(Unaudited) Six Months Ended June 30, 2016	2015
Cash Flows from Operating Activities:		
Net income	$90,452	$ 49,229
Operating distributions received from unconsolidated joint ventures	389	368
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	63,338	72,271
Amortization of debt issuance costs	842	866
Loss on settlement of forward starting interest rate swaps	—	(1,284)
Other amortization	34,912	29,890
Impairment loss on real estate assets	8,308	5,354
Stock compensation expense	5,653	4,071
Equity in income of unconsolidated joint ventures	(226)	(283)
Gain on sale of real estate assets	(78,967)	(36,684)
Changes in assets and liabilities:		
Increase in tenant and straight-line rent receivables, net	(8,795)	(16,447)
Decrease/(increase) in restricted cash and escrows	4,230	(266)
Increase in prepaid expenses and other assets	(4,745)	(5,071)
Decrease in accounts payable and accrued expenses	(9,785)	(9,762)
(Decrease)/increase in deferred income	(2,862)	4,235
Net cash provided by operating activities	102,744	96,487
Cash Flows from Investing Activities:		
Acquisition of real estate assets and related intangibles	(10,000)	(45,185)
Capitalized expenditures, net of accruals	(54,422)	(62,587)
Redemption of noncontrolling interest in unconsolidated variable interest entity	—	(4,000)
Net sales proceeds from wholly-owned properties	201,690	87,925
Deferred lease costs paid	(6,266)	(10,678)
Net cash provided by/(used in) investing activities	131,002	(34,525)
Cash Flows from Financing Activities:		
Debt issuance costs paid	(138)	(830)
Proceeds from debt	211,000	1,054,857
Repayments of debt	(357,597)	(1,012,576)
Costs of issuance of common stock	(42)	(326)
Shares withheld to pay tax obligations related to employee stock compensation	(2,283)	(1,654)
Repurchases of common stock as part of announced plan	(7,943)	(39,914)
Dividends paid and discount on dividend reinvestments	(61,075)	(64,828)
Net cash used in financing activities	(218,078)	(65,271)
Net increase/(decrease) in cash and cash equivalents	15,668	(3,309)
Cash and cash equivalents, beginning of period	5,441	12,306
Cash and cash equivalents, end of period	$21,109	$ 8,997
Supplemental Disclosures of Significant Noncash Investing and Financing Activities:		
Change in accrued share repurchases as part of an announced plan	$—	$ 6,345
Accrued capital expenditures and deferred lease costs	$25,146	$ 15,930

Accrued deferred financing costs	$—	$ 75

See accompanying notes

9

Table of Contents

PIEDMONT OFFICE REALTY TRUST, INC.
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016
(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, development, management, 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 June 30, 2016, Piedmont owned 66 office properties, one redevelopment asset and two development assets, and one building through an unconsolidated joint venture. Piedmont's 66 office properties comprise 18.5 million square feet of primarily Class A commercial office space, and were 91.4% leased as of June 30, 2016. As of June 30, 2016, approximately 80% of Piedmont's Annualized Lease Revenue was generated from select office sub-markets in the following cities: Atlanta, Boston, Chicago, Dallas, Minneapolis, New York, Orlando, 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.

Piedmont’s consolidated financial statements include the accounts of Piedmont, Piedmont’s wholly-owned subsidiaries, any variable interest entity ("VIE") of which Piedmont or any of its wholly-owned subsidiaries is considered to have the power to direct the activities of the entity and the obligation to absorb losses/right to receive benefits, or any entity in which Piedmont or any of its wholly-owned subsidiaries owns a controlling interest. In determining whether Piedmont or Piedmont OP has a controlling interest, the following factors, among others, are considered: equity ownership, voting rights, protective rights of investors, and participatory rights of investors. 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, 2015.

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

Further, Piedmont has formed special purpose entities to acquire and hold real estate. Each special purpose entity is a separate legal entity. Consequently, the assets of these 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.

Table of Contents

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.

Income Taxes

Piedmont has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, 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.

Accounting Pronouncements Adopted during the Six Months Ended June 30, 2016

As of January 1, 2016, Piedmont early adopted the provisions of Financial Accounting Standards Board (the "FASB") Accounting Standards Update No. 2016-09, Compensation- Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). The provisions in ASU 2016-09 simplify the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The implementation of ASU 2016-09 resulted in the reclassification of approximately $1.7 million related to income tax consequences for share-based compensation from cash outflows from operating activities to cash outflows from financing activities in the accompanying consolidated statements of cash flows for the six months ended June 30, 2015. Additionally, as of January 1, 2016, Piedmont also adopted Accounting Standards Update No. 2015-05, Intangibles- Goodwill and Other-Internal-Use Software (Subtopic 350-40) “Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement on a prospective basis.

Other Recent Accounting Pronouncements

The FASB has issued Accounting Standards Update No. 2016-05, Derivatives and Hedging (Topic 815), Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships ("ASU 2016-05"). The amendments in ASU 2016-05 clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require de-designation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The amendments in ASU 2016-05 are effective in the first quarter of 2017, and Piedmont does not anticipate any material impact to its consolidated financial statements as a result of adoption.

The FASB has issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09") and Accounting Standards Update No. 2016-08, Revenue from Contracts with Customers (Topic 606) Principal versus Agent Considerations (Reporting Revenue Gross versus Net) ("ASU 2016-08"). The amendments in ASU 2014-09, which are further clarified in ASU 2016-08, as well as ASU 2016-10 and ASU 2016-12, 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 and ASU 2016-08 are effective in the first quarter of 2018, and Piedmont is currently evaluating the potential impact, if any, of adoption.

The FASB has issued Accounting Standards Update No. 2016-01, Financial Instruments - Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). The amendments in ASU 2016-01 require equity investments, except those accounted for under the equity method of accounting, to be measured at estimated fair value with changes in fair value recognized in net income. Additionally, ASU 2016-01 simplifies the impairment assessment of equity investments, and eliminates certain disclosure requirements. The amendments in ASU 2016-01 are effective in the first quarter of 2018, and Piedmont is currently evaluating the potential impact of adoption.

The FASB has issued Accounting Standards Update No. 2016-02, Leases (Topic 842), ("ASU 2016-02"). The amendments in ASU 2016-02 fundamentally change the definition of a lease, as well as the accounting for operating leases by requiring leasees to recognize assets and liabilities which arise from the lease, consisting of a liability to make lease payments (the lease liability) and

Table of Contents

a right-of-use asset, representing the right to use the leased asset over the term of the lease. Accounting for leases for lessors is substantially unchanged from prior practice, which means continuing to recognize lease revenue on a straight-line basis. The amendments in ASU 2016-02 are effective in the first quarter of 2019, and Piedmont is currently evaluating the potential impact of adoption.

The FASB has issued Accounting Standards Update No. 2016-13, Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). The provisions of ASU 2016-13 replace the "incurred loss" approach with an "expected loss" model for impairing trade and other receivables, held-to-maturity debt securities, net investment in leases, and off-balance-sheet credit exposures, which will generally result in earlier recognition of allowance for losses. Additionally, the provisions change the classification of credit losses on available-for-sale securities as an allowance rather than reductions in the amortized cost of the securities. ASU 2016-13 is effective in the first quarter of 2020, with early adoption permitted as of January 1, 2019. Piedmont is currently evaluating the potential impact of adoption.

3.Debt

During the six months ended June 30, 2016, Piedmont repaid the outstanding balance of its $125.0 Million Fixed-Rate Loan and the balance outstanding on its $500 Million Unsecured 2015 Line of Credit primarily using proceeds from the sale of three properties and cash on hand. As of June 30, 2016, Piedmont believes it was in compliance with all financial covenants associated with its debt instruments. See Note 6 for a description of Piedmont's estimated fair value of debt as of June 30, 2016.

Piedmont made interest payments on all debt facilities, including interest rate swap cash settlements, of approximately $15.4 million and $18.3 million for the three months ended June 30, 2016 and 2015, respectively, and approximately $34.7 million and $38.7 million for the six months ended June 30, 2016 and 2015, respectively. Piedmont capitalized interest of approximately $0.7 million and $0.9 million for the three months ended June 30, 2016 and 2015, respectively, and approximately $1.9 million and $1.7 million for the six months ended June 30, 2016 and 2015, respectively.

Table of Contents

The following table summarizes the terms of Piedmont's indebtedness outstanding as of June 30, 2016 and December 31, 2015 (in thousands):

Facility	Collateral	Stated Rate[1]		Maturity	Amount Outstanding as of June 30, 2016		Amount Outstanding as of December 31, 2015
Secured (Fixed)							
$125.0 Million Fixed-Rate Loan	Four Property Collateralized Pool	5.50	%	4/1/2016	$—		$ 125,000
$42.5 Million Fixed-Rate Loan	Las Colinas Corporate Center I & II	5.70	%	10/11/2016	42,525	(2)	42,525
$140.0 Million WDC Fixed-Rate Loans	1201 & 1225 Eye Street	5.76	%	11/1/2017	140,000		140,000
$35.0 Million Fixed-Rate Loan	5 Wall Street	5.55	% (3)	9/1/2021	32,091		32,445
$160.0 Million Fixed-Rate Loan	1901 Market Street	3.48	% (4)	7/5/2022	160,000		160,000
Net premium and unamortized debt issuance costs					1,249		1,319
Subtotal/Weighted Average [5]		4.76	%		375,865		501,289
Unsecured (Variable and Fixed)							
$170 Million Unsecured 2015 Term Loan		LIBOR + 1.125%	(6)	5/15/2018	170,000		170,000
$300 Million Unsecured 2013 Term Loan		LIBOR + 1.20%	(7)	1/31/2019	300,000		300,000
$500 Million Unsecured 2015 Line of Credit		LIBOR + 1.00%	(8)	6/18/2019 (9)	—		21,000
$300 Million Unsecured 2011 Term Loan		LIBOR + 1.15%	(10)	1/15/2020	300,000		300,000
$350 Million Senior Notes		3.40	% (11)	6/01/2023	350,000		350,000
$400 Million Senior Notes		4.45	% (12)	3/15/2024	400,000		400,000
Discounts and unamortized debt issuance costs					(11,551)		(12,779)
Subtotal/Weighted Average [5]		3.15	%		1,508,449		1,528,221
Total/Weighted Average [5]		3.47	%		$ 1,884,314		$ 2,029,510

(1) Other than the $35 Million Fixed-Rate Loan, all of Piedmont's outstanding debt as of June 30, 2016 and December 31, 2015 is interest-only.

(2) Amount was repaid in full on July 11, 2016.

(3) The $35 Million Fixed-Rate Loan has a contractual fixed rate of 5.55% ; however, the amortization of the premium recorded in order to adjust the note to its estimated fair value, results in an effective interest rate of 3.75%.

(4) The $160 Million Fixed-Rate Loan has a fixed coupon rate of 3.48%, however, after consideration of the impact of settled interest rate swap agreements, the effective interest rate on this debt is 3.58%.

(5) Weighted average is based on contractual balance of outstanding debt and interest rates in the table as of June 30, 2016.

(6) On a periodic basis, Piedmont may select from multiple interest rate options, including the prime rate and various-length LIBOR locks. All LIBOR selections are subject to an additional spread (1.125% as of June 30, 2016) over the selected rate based on Piedmont's current credit rating. The principal balance as of June 30, 2016 consisted of the 30-day LIBOR rate of 0.45% (subject to the additional spread mentioned above).

(7) 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%.

(8) 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 (1.00% as of June 30, 2016) over the selected rate based on Piedmont’s current credit rating.

Table of Contents

(9) Piedmont may extend the term for up to one additional year (through two available six month extensions to a final extended maturity date of June 18, 2020) provided Piedmont is not then in default and upon payment of extension fees.

(10) The $300 Million Unsecured 2011 Term Loan has a stated variable rate; however, Piedmont has entered into interest rate swap agreements which effectively fix, exclusive of changes to Piedmont's credit rating, the rate on this facility to 2.39% through the original maturity date of November 22, 2016 and 3.35% from November 22, 2016 to January 15, 2020.

(11) 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%.

(12) 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%.

4. 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. Each of the following VIEs has the sole purpose of holding land and 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.

A summary of Piedmont's interests in, and consolidation treatment of, its VIEs and their related carrying values as of June 30, 2016 and December 31, 2015 is as follows (net carrying amount in millions):

Entity	Piedmont's % Ownership of Entity	Related Building	Consolidated/ Unconsolidated	Net Carrying Amount as of June 30, 2016	Net Carrying Amount as of December 31, 2015	Primary Beneficiary Considerations
1201 Eye Street N.W. Associates, LLC	49.5%	1201 Eye Street	Consolidated	$ (8.5)	$ (7.4)	In accordance with the partnership's governing documents, Piedmont is entitled to 100% of the cash flow of the entity and has sole discretion in directing the management and leasing activities of the building.
1225 Eye Street N.W. Associates, LLC	49.5%	1225 Eye Street	Consolidated	$ 9.3	$ 3.8	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	$ 252.1	$ 251.4	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 100% of the economic benefits of the property until such returns are met.

Piedmont TownPark Land, LLC previously had an equity participation rights agreement outstanding; however, during the six months ended June 30, 2016, Piedmont exercised its right to terminate the equity participation rights agreement related to Piedmont TownPark Land, LLC, without payment of any consideration.

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

Table of Contents

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. As of June 30, 2016, Piedmont was party to various interest rate swap agreements which fully hedge the variable cash flows associated with its $300 Million Unsecured 2011 Term Loan and its $300 Million Unsecured 2013 Term Loan. Piedmont continues to hold forward starting interest rate swap agreements related to the extension period of the $300 Million Unsecured 2011 Term Loan, and the maximum length of time over which Piedmont is hedging its exposure to the variability in future cash flows for forecasted transactions is 42 months.

A detail of Piedmont's interest rate derivatives outstanding as of June 30, 2016 is as follows:

Interest Rate Derivatives:	Number of Swap Agreements	Associated Debt Instrument	Total Notional Amount (in millions)	Effective Date	Maturity Date
Interest rate swaps	4	$300 Million Unsecured 2011 Term Loan	$ 300	11/22/2011	11/22/2016
Interest rate swaps	4	$300 Million Unsecured 2013 Term Loan	200	1/30/2014	1/31/2019
Interest rate swaps	2	$300 Million Unsecured 2013 Term Loan	100	8/29/2014	1/31/2019
Forward starting interest rate swaps	3	$300 Million Unsecured 2011 Term Loan	300	11/22/2016	1/15/2020
Total			$ 900		

Piedmont presents its interest rate derivatives on its consolidated balance sheets on a gross basis as interest rate swap assets and interest rate swap liabilities. A detail of Piedmont's interest rate derivatives on a gross and net basis as of June 30, 2016 and December 31, 2015, respectively, is as follows (in thousands):

Interest rate swaps classified as:	June 30, 2016	December 31, 2015
Gross derivative assets	$—	$ —
Gross derivative liabilities	22,079	9,993
Net derivative liability	$22,079	$ 9,993

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 estimated fair value of these derivatives 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. In addition, in conjunction with the issuance of various unsecured notes, Piedmont settled various forward starting swap agreements for gains/losses which were recorded as accumulated other comprehensive income and are being amortized as an offset to interest expense over the term of the respective notes on a straight line basis (which approximates the effective interest method).

The effective portion of Piedmont's interest rate derivatives, including the gain/(loss) on previously settled forward swaps, that were recorded in the accompanying consolidated statements of income for the three and six months ended June 30, 2016 and 2015, respectively, were as follows (in thousands):

Table of Contents

Interest Rate Swaps in Cash Flow Hedging Relationships	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Amount of gain/(loss) recognized in OCI on derivative	$(4,068)	$16,079	$(15,029)	$874
Amount of previously recorded loss reclassified from accumulated OCI into interest expense	$1,113	$1,602	$2,246	$3,069

Piedmont estimates that approximately $5.8 million will be reclassified from accumulated other comprehensive loss to interest expense over the next twelve months. Piedmont recognized no loss related to hedge ineffectiveness and terminations of its cash flow hedges during the three and six months ended June 30, 2016 and 2015, respectively.

Additionally, see Note 6 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 estimated fair values plus accrued interest, or approximately $22.5 million as of June 30, 2016. 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.Fair Value Measurement of Financial Instruments

Piedmont considers its cash and cash equivalents, tenant receivables, notes receivable, restricted cash and escrows, accounts payable and accrued expenses, 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 June 30, 2016 and December 31, 2015, respectively (in thousands):

Financial Instrument	June 30, 2016			December 31, 2015		
	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]	$21,109	$ 21,109	Level 1	$5,441	$ 5,441	Level 1
Tenant receivables, net[1]	$21,338	$ 21,338	Level 1	$26,339	$ 26,339	Level 1
Notes receivable [1]	$—	$ —	Level 1	$45,400	$ 45,400	Level 1
Restricted cash and escrows[1]	$10,595	$ 10,595	Level 1	$5,174	$ 5,174	Level 1
Liabilities:						
Accounts payable and accrued expenses[1]	$10,934	$ 10,934	Level 1	$13,188	$ 13,188	Level 1
Interest rate swap liability	$22,079	$ 22,079	Level 2	$9,993	$ 9,993	