Piedmont Office Realty Trust, Inc.
Form 10-Q
July 29, 2015
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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 June 30, 2015

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 July 28, 2015:
151,314,018 shares

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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 Chicago, Washington, D.C., and the New York metropolitan area, 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;
- 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 terrorist attacks in the major metropolitan areas in which we own properties 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 (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, 2014.

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, 2014. Piedmont's results of operations for the six months ended June 30, 2015 are not necessarily indicative of the operating results expected for the full year.

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

	(Unaudited) June 30, 2015	December 31, 2014
Assets:		
Real estate assets, at cost:		
Land	$696,713	$698,519
Buildings and improvements, less accumulated depreciation of $1,108,333 and $1,075,395 as of June 30, 2015 and December 31, 2014, respectively	3,154,044	3,196,660
Intangible lease assets, less accumulated amortization of $88,954 and $79,860 as of June 30, 2015 and December 31, 2014, respectively	64,152	70,177
Construction in progress	64,804	63,382
Real estate assets held for sale	26,111	46,354
Total real estate assets	4,005,824	4,075,092
Investments in and amounts due from unconsolidated joint ventures	7,714	7,798
Cash and cash equivalents	8,997	12,306
Tenant receivables, net of allowance for doubtful accounts of $110 and $231 as of June 30, 2015 and December 31, 2014, respectively	25,474	27,711
Notes receivable	45,400	—
Straight-line rent receivables	171,241	167,657
Restricted cash and escrows	521	5,679
Prepaid expenses and other assets	32,791	27,820
Goodwill	180,097	180,097
Interest rate swaps	8,290	430
Deferred financing costs, less accumulated amortization of $6,629 and $6,067 as of June 30, 2015 and December 31, 2014, respectively	7,491	7,667
Deferred lease costs, less accumulated amortization of $156,509 and $142,132 as of June 30, 2015 and December 31, 2014, respectively	283,756	278,461
Other assets held for sale	3,706	4,783
Total assets	$4,781,302	$4,795,501
Liabilities:		
Unsecured debt, net of discount of $7,462 and $5,456 as of June 30, 2015 and December 31, 2014, respectively	$1,817,538	$1,828,544
Secured debt, inclusive of premium of $2,305 and $3,258 as of June 30, 2015 and December 31, 2014, respectively	502,757	449,045
Accounts payable, accrued expenses, and accrued capital expenditures	128,898	133,988
Deferred income	26,633	22,215
Intangible lease liabilities, less accumulated amortization of $41,446 and $37,964 as of June 30, 2015 and December 31, 2014, respectively	41,214	43,277
Interest rate swaps	8,411	6,417
Total liabilities	2,525,451	2,483,486
Commitments and Contingencies	—	—
Stockholders' Equity:		
Shares-in-trust, 150,000,000 shares authorized; none outstanding as of June 30, 2015 or December 31, 2014	—	—
Preferred stock, no par value, 100,000,000 shares authorized; none outstanding as of June 30, 2015 or December 31, 2014	—	—

Common stock, $.01 par value, 750,000,000 shares authorized; 151,833,222 and 154,324,089 shares issued and outstanding as of June 30, 2015 and December 31, 2014, respectively	1,518	1,543
Additional paid-in capital	3,668,378	3,666,182
Cumulative distributions in excess of earnings	(1,427,312)	(1,365,620)
Other comprehensive income	12,242	8,301
Piedmont stockholders’ equity	2,254,826	2,310,406
Noncontrolling interest	1,025	1,609
Total stockholders’ equity	2,255,851	2,312,015
Total liabilities and stockholders’ equity	$4,781,302	$4,795,501

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 June 30,		(Unaudited) Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues:				
Rental income	$117,454	$113,287	$235,261	$224,191
Tenant reimbursements	28,813	24,745	60,203	49,674
Property management fee revenue	467	548	1,029	1,035
	146,734	138,580	296,493	274,900
Expenses:				
Property operating costs	61,479	57,136	125,715	115,407
Depreciation	36,039	34,144	72,271	67,788
Amortization	14,955	13,599	29,625	28,172
Impairment loss on real estate asset	5,354	—	5,354	—
General and administrative	8,083	7,145	14,490	11,700
	125,910	112,024	247,455	223,067
Real estate operating income	20,824	26,556	49,038	51,833
Other income (expense):				
Interest expense	(18,172)	(18,012)	(37,188)	(36,938)
Other income/(expense)	596	(366)	415	(456)
Net recoveries from casualty events and litigation settlements	—	1,480	—	4,522
Equity in income/(loss) of unconsolidated joint ventures	124	(333)	283	(599)
	(17,452)	(17,231)	(36,490)	(33,471)
Income from continuing operations	3,372	9,325	12,548	18,362
Discontinued operations:				
Operating income/(loss)	(3)	514	(3)	980
Gain on sale of real estate assets	—	1,304	—	1,198
Income/(loss) from discontinued operations	(3)	1,818	(3)	2,178
Gain on sale of real estate assets	26,611	1,140	36,684	1,140
Net income	29,980	12,283	49,229	21,680
Less: Net income attributable to noncontrolling interest	(4)	(4)	(8)	(8)
Net income attributable to Piedmont	$29,976	$12,279	$49,221	$21,672
Per share information – basic and diluted:				
Income from continuing operations and gain on sale of real estate assets	$0.20	$0.07	$0.32	$0.13
Income from discontinued operations	—	0.01	—	0.01
Net income available to common stockholders	$0.20	$0.08	$0.32	$0.14
Weighted-average common shares outstanding – basic	153,559,076	154,318,592	153,946,898	154,582,519
Weighted-average common shares outstanding – diluted	153,757,404	154,444,508	154,174,270	154,727,805

See accompanying notes

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

	(Unaudited) Three Months Ended June 30, 2015	2014	(Unaudited) Six Months Ended June 30, 2015	2014
Net income attributable to Piedmont	$29,976	$12,279	$49,221	$21,672
Other comprehensive income/(loss):				
Effective portion of gain/(loss) on derivative instruments that are designated and qualify as cash flow hedges (See Note 5)	16,079	(3,617)	874	(13,502)
Plus: Reclassification of previously recorded loss included in net income (See Note 5)	1,602	1,159	3,069	2,328
Unrealized loss on investment in available for sale securities	(2)	—	(2)	—
Other comprehensive income/(loss)	17,679	(2,458)	3,941	(11,174)
Comprehensive income attributable to Piedmont	$47,655	$9,821	$53,162	$10,498

See accompanying notes

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PIEDMONT OFFICE REALTY TRUST, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2014
AND FOR THE SIX MONTHS ENDED JUNE 30, 2015 (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, 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	(3,190)	(32)	—	(52,764)	—	—	(52,796)
Retirement of shares returned from escrow	(85)	(1)	(1,478)	—	—	—	(1,479)
Redemption of noncontrolling interest in consolidated variable interest entity	—	—	(4,054)	—	—	—	(4,054)
Dividends to common stockholders ($0.81 per share), dividends to shareholders of subsidiary, and dividends reinvested	—	—	(188)	(124,995)	—	(15)	(125,198)
Shares issued and amortized under the 2007 Omnibus Incentive Plan, net of tax	138	1	2,996	—	—	—	2,997
Net income attributable to noncontrolling interest	—	—	—	—	—	15	15
Net income attributable to Piedmont	—	—	—	43,348	—	—	43,348
Other comprehensive income	—	—	—	—	(11,977)	—	(11,977)
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	(2,649)	(26)	—	(46,233)	—	—	(46,259)
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 ($0.42 per share), dividends to shareholders of subsidiary, and dividends reinvested	—	—	(140)	(64,680)	—	(8)	(64,828)
Shares issued and amortized under the 2007 Omnibus Incentive Plan, net of tax	158	1	1,480	—	—	—	1,481
	—	—	—	—	—	8	8

Net income attributable to noncontrolling interest							
Net income attributable to Piedmont	—	—	—	49,221	—	—	49,221
Other comprehensive loss	—	—	—	—	3,941	—	3,941
Balance, June 30, 2015	151,833	$1,518	$3,668,378	$(1,427,312)	$ 12,242	$ 1,025	$2,255,851

See accompanying notes

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

	(Unaudited) Six Months Ended June 30, 2015	2014
Cash Flows from Operating Activities:		
Net income	$49,229	$21,680
Operating distributions received from unconsolidated joint ventures	368	266
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	72,271	67,871
Amortization of deferred financing costs	866	1,047
Gain/(loss) on settlement of forward starting interest rate swaps	(1,284)	14,960
Other amortization	29,890	27,649
Impairment loss on real estate asset	5,354	—
Stock compensation expense	2,417	1,907
Equity in loss/(income) of unconsolidated joint ventures	(283)	599
Gain on sale of real estate assets	(36,684)	(2,338)
Retirement of shares returned from escrow	—	(1,479)
Changes in assets and liabilities:		
Increase in tenant and straight-line rent receivables, net	(16,447)	(14,236)
Increase in restricted cash and escrows	(266)	(117)
Increase in prepaid expenses and other assets	(5,071)	(7,062)
Decrease in accounts payable and accrued expenses	(9,762)	(1,396)
Increase/(decrease) in deferred income	4,235	(456)
Net cash provided by operating activities	94,833	108,895
Cash Flows from Investing Activities:		
Acquisition of real estate assets and related intangibles	(45,185)	(29,180)
Capitalized expenditures, net of accruals	(62,587)	(68,936)
Redemption of noncontrolling interest in unconsolidated variable interest entity	(4,000)	—
Net sales proceeds from wholly-owned properties	87,925	46,240
Net sales proceeds from unconsolidated joint ventures	—	6,017
Investments in unconsolidated joint ventures	—	(42)
Deferred lease costs paid	(10,678)	(11,370)
Net cash used in investing activities	(34,525)	(57,271)
Cash Flows from Financing Activities:		
Deferred financing costs paid	(830)	(1,016)
Proceeds from debt	1,054,857	846,564
Repayments of debt	(1,012,576)	(779,070)
Costs of issuance of common stock	(326)	—
Repurchases of common stock as part of announced plan	(39,914)	(54,685)
Dividends paid and discount on dividend reinvestments	(64,828)	(61,827)
Net cash used in financing activities	(63,617)	(50,034)
Net (decrease)/increase in cash and cash equivalents	(3,309)	1,590
Cash and cash equivalents, beginning of period	12,306	6,973
Cash and cash equivalents, end of period	$8,997	$8,563

Supplemental Disclosures of Significant Noncash Investing and Financing Activities:

Change in accrued share repurchases as part of an announced plan	$6,345	$(2,005)
Accrued capital expenditures and deferred lease costs	$15,930	$13,010
Accrued deferred financing costs	$75	$5

See accompanying notes

PIEDMONT OFFICE REALTY TRUST, INC.
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015
(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, 2015, Piedmont owned 71 office properties, one redevelopment asset, one office property under development, and one office building through an unconsolidated joint venture. Piedmont's 71 consolidated office properties comprise 21.0 million square feet of primarily Class A commercial office space, and were 88.8% leased as of June 30, 2015. As of June 30, 2015, approximately 90% of Piedmont's Annualized Lease Revenue was generated from select office sub-markets in the following cities: 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.

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, 2014.

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 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.

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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 (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 (the "FASB") 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 2018 for Piedmont, and Piedmont is currently evaluating the potential impact, if any, of adoption.

The FASB has issued Accounting Standards Update No. 2015-02, Consolidation (Topic 810), Amendments to the Consolidation Analysis ("ASU 2015-02"). The amendments in ASU 2015-02 modify the consolidation analysis of certain types of entities. Specifically, ASU 2015-02 changes the assessment criteria of whether limited partnerships are VIEs, eliminates the presumption that general partners should consolidate a limited partner, eliminates certain conditions from the evaluation of whether a fee paid to a decision maker constitutes a VIE, and changes the evaluation regarding the impact of related parties in the primary beneficiary determination of a VIE. The amendments in ASU 2015-02 are effective in the first quarter of 2016 for Piedmont, and Piedmont is currently evaluating the potential impact, if any, of adoption.

The FASB has issued Accounting Standards Update No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). The amendments in ASU 2015-03 require debt issuance costs to be presented in the balance sheet as a reduction to the underlying debt instrument, as opposed to a separate asset. The amendments do not change the method by which such costs are amortized against earnings, nor do they change their classification in the consolidated statements of income, as a component of interest expense. The amendments in ASU 2015-03 are effective in the first quarter of 2016 for Piedmont, and Piedmont is currently evaluating the potential impact of adoption.

3. Acquisitions

During the six months ended June 30, 2015, Piedmont acquired 100% ownership of the following property and land parcel using proceeds from the $500 Million Unsecured Line of Credit, proceeds from the sales of the 3900 Dallas Parkway and 5601 Headquarters Drive buildings in Plano, Texas (see Note 9), and cash on hand, as noted below:

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Property	Metropolitan Statistical Area	Date of Acquisition	Rentable Square Feet	Percentage Leased as of Acquisition	Purchase Price (in millions)
Park Place on Turtle Creek	Dallas, TX	January 16, 2015	177,844	88 %	$46.6

Land Parcel	Metropolitan Statistical Area	Date of Acquisition	Acreage	Contractual Purchase Price (in millions)
Two Pierce Land Parcel	Chicago, IL	June 2, 2015	4.73	$3.7

4.Debt

During the six months ended June 30, 2015, Piedmont replaced its existing $500 Million Unsecured Line of Credit with a new $500 million line of credit facility (the "$500 Million Unsecured 2015 Line of Credit"). The existing $500 Million Unsecured Line of Credit was scheduled to expire on August 19, 2016, and was terminated concurrently with the closing of the new facility. The term of the new $500 Million Unsecured 2015 Line of Credit is four years with a maturity date of June 18, 2019, and Piedmont may extend the term for up to one additional year (through two available six-month extensions) provided Piedmont is not then in default and upon payment of extension fees. Additionally, under certain terms of the agreement, Piedmont may increase the new facility by up to an additional $500 million, to an aggregate size of $1.0 billion, provided that no existing bank has any obligation to participate in such increase. In addition, the new facility agreement has a swing line sub-facility of up to $50 million. Piedmont paid customary arrangement and upfront fees to the lenders in connection with the closing of the new facility.

The $500 Million Unsecured 2015 Line of Credit has the option to bear interest at varying levels based on (i) the London Interbank Offered Rate (“LIBOR”) or Base Rate, defined as the greater of the prime rate, the federal funds rate plus 0.5%, or LIBOR for a one-month period plus one percent, (ii) the greater of the credit rating for Piedmont or Piedmont OP, and (iii) for LIBOR loans, an interest period selected by Piedmont of one, two (if available), three, or six months, or to the extent available from all lenders in each case, one year or periods of less than one month. The stated interest rate spread over LIBOR can vary from 0.875% to 1.55% based upon the greater of the then current credit rating of Piedmont or Piedmont OP. As of June 30, 2015, the stated interest rate spread over LIBOR on the $500 Million Unsecured 2015 Line of Credit is 1.00%, down from 1.175% on the prior line of credit.

Under the $500 Million Unsecured 2015 Line of Credit, Piedmont is subject to certain financial covenants that require, among other things, the maintenance of an unencumbered interest coverage ratio of at least 1.75, an unencumbered leverage ratio of at least 1.60, a fixed charge coverage ratio of at least 1.50, a leverage ratio of no more than 0.60, and a secured debt ratio of no more than 0.40. As of June 30, 2015, Piedmont believes it was in compliance with all financial covenants associated with its debt instruments.

Additionally, during the six months ended June 30, 2015, Piedmont entered into a $160 million note payable secured by a mortgage against its 1901 Market Street building located in Philadelphia, PA (the "$160 Million Fixed-Rate Loan"). The $160 Million Fixed-Rate Loan replaced the $105 Million Fixed-Rate Loan secured by the US Bancorp Center, which was paid in full in April 2015, and the remaining proceeds were used to pay down outstanding borrowings on the $500 Million Unsecured 2015 Line of Credit. The $160 Million Fixed-Rate Loan bears interest at 3.48% per year and matures on July 5, 2022. Piedmont may prepay the outstanding principal balance, in whole or in part, with 30 days written notice, subject to a prepayment penalty in certain circumstances. There is no penalty for prepaying within 90 days of the maturity date.

Finally, during the six months ended June 30, 2015, Piedmont entered into a $170 million unsecured term loan facility (the “$170 Million Unsecured 2015 Term Loan”) with a consortium of lenders. The term of the $170 Million Unsecured 2015 Term Loan is approximately three years with a maturity date of May 15, 2018; however, Piedmont may prepay the $170 Million Unsecured 2015 Term Loan, in whole or in part, at any time without premium or penalty. The stated interest rate spread over LIBOR can vary from 0.9% to 1.75% based upon the then current credit rating of Piedmont. As of June 30, 2015, the stated interest rate spread on the $170 Million Unsecured 2015 Term Loan was 1.125%. The proceeds of the $170 Million Unsecured 2015 Term Loan were used to pay off the principal maturing on the $50 Million Unsecured Term Loan, and the remaining net proceeds were used to pay down draws then outstanding under the $500 Million Unsecured Line of Credit (which was subsequently replaced with the $500 Million Unsecured 2015 Line of Credit).

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During the six months ended June 30, 2015, Piedmont incurred additional working capital borrowings on its $500 Million Unsecured Line of Credit (which was subsequently replaced with the $500 Million Unsecured 2015 Line of Credit) of $257.0 million and, utilizing a portion of the proceeds of the $170 Million Unsecured 2015 Term Loan and the $160 Million Fixed-Rate Loan described above, as well as other cash on hand, made repayments totaling $386.0 million on its line of credit facility.

Piedmont also made interest payments on all debt facilities, including interest rate swap cash settlements, of approximately $18.3 million and $16.7 million for the three months ended June 30, 2015 and 2014, respectively, and approximately $38.7 million and $33.2 million for the six months ended June 30, 2015 and 2014, respectively. Piedmont capitalized interest of approximately $0.9 million and $0.5 million for the three months ended June 30, 2015 and 2014, respectively, and approximately $1.7 million and $0.8 million for the six months ended June 30, 2015 and 2014, respectively.

The following table summarizes the terms of Piedmont's indebtedness outstanding as of June 30, 2015 and December 31, 2014 (in thousands):

Facility	Collateral	Stated Rate[1]		Maturity		Amount Outstanding as of June 30, 2015	Amount Outstanding as of December 31, 2014
Secured (Fixed)							
$105 Million Fixed-Rate Loan	US Bancorp Center	5.29	%	5/11/2015		$—	$ 105,000
$125 Million Fixed-Rate Loan	Four Property Collateralized Pool [2]	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 Fixed-Rate Loan	5 Wall Street	5.55	% [3]	9/1/2021		35,943	36,520
$160 Million Fixed-Rate Loan	1901 Market Street	3.48	% [4]	7/5/2022		159,289	—
Subtotal/Weighted Average [5]		4.95	%			502,757	449,045
Unsecured (Variable and Fixed)							
$300 Million Unsecured 2011 Term Loan		LIBOR + 1.15%	[6]	1/15/2020		299,048	298,944
$500 Million Unsecured Line of Credit		LIBOR + 1.175%		8/19/2016		—	434,000
$500 Million Unsecured 2015 Line of Credit		LIBOR + 1.00%	[7]	6/18/2019	[8]	303,020	—
$350 Million Unsecured Senior Notes		3.40	% [9]	6/1/2023		348,862	348,800
$300 Million Unsecured 2013 Term Loan		LIBOR + 1.20%	[10]	1/31/2019		300,000	300,000
$400 Million Unsecured Senior Notes		4.45	% [11]	3/15/2024		396,997	396,832
$50 Million Unsecured Term Loan		LIBOR + 1.15%		4/1/2015		—	49,968
$170 Million Unsecured 2015 Term Loan		LIBOR + 1.125%	[12]	5/15/2018		169,611	—
Subtotal/Weighted Average [5]		2.80	%			1,817,538	1,828,544
Total/ Weighted Average [5]		3.26	%			$2,320,295	$ 2,277,589

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(1) Other than the $35 Million Fixed-Rate Loan, all of Piedmont’s outstanding debt as of June 30, 2015 and December 31, 2014 is interest-only.

(2) Property collateralized pool includes 1430 Enclave Parkway in Houston, Texas, Windy Point I and II in Schaumburg, Illinois, and 1055 East Colorado Boulevard in Pasadena, California.

(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, 2015.

(6) 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.

(7) Piedmont may select from multiple interest rate options with each draw, including the prime rate and various-length LIBOR locks. All LIBOR selections are subject to an additional spread (1.00% as of June 30, 2015) over the selected rate based on Piedmont’s current credit rating. The outstanding balance as of June 30, 2015 consisted of 30-day LIBOR draws at a rate of 0.19% (subject to the additional spread mentioned above).

(8) 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.

(9) 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%.

(10) 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% .

(11) 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%.

(12) 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, 2015) over the selected rate based on Piedmont’s current credit rating. The principal balance as of June 30, 2015 consisted of the 30-day LIBOR rate of 0.19% (subject to the additional spread mentioned above).

5.Derivative Instruments

Risk Management Objective of Using Derivatives

In addition to operational risks which arise in the normal course of business, Piedmont is exposed to economic risks such as interest rate, liquidity, and credit risk. In certain situations, Piedmont has entered into derivative financial instruments such as interest rate swap agreements and other similar agreements to manage interest rate risk exposure arising from current or future 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. As of June 30, 2015, Piedmont was party to various forward starting interest rate swap agreements which fully hedge the variable cash flows associated with all of its outstanding unsecured, variable-rate debt, other than the $500 Million 2015 Line of Credit and the $170 Million Unsecured 2015 Term Loan. During the three months ended June 30, 2015, Piedmont settled various forward starting swaps with a total notional value of $250 million in conjunction with the issuance of the $160 Million Fixed-Rate Loan (see Note 4) for a net loss totaling $1.3 million, of which approximately $0.1 million was expensed immediately upon termination. The remaining loss was recorded as accumulated other comprehensive income and is being amortized as an increase to interest expense over the seven-year term of the $160 Million Fixed-Rate Loan. Additionally, as of June 30, 2015, Piedmont held $250 million of forward starting interest rate swaps to hedge its exposure to the variability in future cash flows associated with potential future debt issuances in 2016. The maximum length of time over which Piedmont is hedging its exposure to the variability in future cash flows for forecasted transactions is 128 months.

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The detail of Piedmont’s interest rate derivatives outstanding as of June 30, 2015 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
Forward starting interest rate swaps	4	Potential Future Issuance	250	2/25/2016	2/25/2026
Total			$ 1,150		

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. The detail of Piedmont’s interest rate derivatives on a gross and net basis as of June 30, 2015 and December 31, 2014, respectively, is as follows (in thousands):

Interest rate swaps classified as:	June 30, 2015	December 31, 2014
Gross derivative assets	$8,290	$430
Gross derivative liabilities	(8,411)	(6,417)
Net derivative liability	$(121)	$(5,987)

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 senior notes during the years ended December 31, 2014 and 2013, as well as the issuance of the $160 Million Fixed-Rate Loan mentioned above, Piedmont settled various forward starting swap agreements for gains/losses which were recorded as accumulated other comprehensive income during the respective period 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). 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 settlements were the result of hedging Piedmont's exposure to interest rate changes and their effect on interest expense, they are classified as operating cash flows in the accompanying consolidated statements of cash flows.

The effective portion of Piedmont's interest rate derivatives, including the gain/(loss) on settlement of forward swaps described above, and other gains/(losses) associated with the swap that were recorded in the accompanying consolidated statements of income for the three and six months ended June 30, 2015 and 2014, respectively, was as follows:

Derivative in Cash Flow Hedging Relationships (Interest Rate Swaps) (in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014

Amount of gain/(loss) recognized in OCI on derivative	$16,079	$(3,617)	$874	$(13,502)
Amount of previously recorded loss reclassified from accumulated OCI into interest expense	$1,602	$1,159	$3,069	$2,328

Piedmont estimates that approximately $4.4 million will be reclassified from accumulated other comprehensive loss to interest expense over the next twelve months. Approximately $0.1 million and $0 of loss was recognized related to hedge ineffectiveness and terminations of Piedmont’s cash flow hedges during the three and six months ended June 30, 2015 or 2014, respectively.

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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 estimated fair values plus accrued interest, or approximately $8.7 million as of June 30, 2015. 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.

During the six months ended June 30, 2015, Piedmont paid $4.0 million to settle the redemption option associated with an equity participation in Medici Atlanta, LLC, eliminating any ongoing third party interest.

A summary of Piedmont's interests in and consolidation treatment of its outstanding VIEs as of June 30, 2015 and their related carrying values as of December 31, 2014 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, 2015	Net Carrying Amount as of December 31, 2014	Primary Beneficiary Considerations
1201 Eye Street NW Associates, LLC	49.5%	1201 Eye Street	Consolidated	$(3.4)	$(2.8)	In accordance with the partnership's governing documents, Piedmont is entitled to 100% of the cash flow of the entity until certain financial returns are achieved 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	$1.1	$(1.1)	In accordance with the partnership's governing documents, Piedmont is entitled to 100% of the cash flow of the entity until certain financial returns are achieved 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	$243.6	$245.3	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.
Piedmont TownPark Land, LLC	100%	Land Parcel Adjacent to 400 TownPark building	Consolidated	$ 8.0	$ 7.9	The equity participation and service fee agreement includes equity participation rights for the third party manager if certain defined events occur and 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 events occur and returns are achieved.

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Each of the VIEs described above 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.

7.Fair Value Measurement of Financial Instruments

Piedmont considers its cash, tenant receivables, 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, 2015 and December 31, 2014, respectively (in thousands):

	June 30, 2015			December 31, 2014		
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)]	$8,997	$ 8,997	Level 1	$12,306	$ 12,306	Level 1
Tenant receivables, net[(1)]	$25,474	$ 25,474	Level 1	$27,711	$ 27,711	Level 1
Notes receivable [(1)]	$45,400	$ 45,400	Level 1	$—	$ —	Level 1
Restricted cash and escrows[(1)]	$521	$ 521	Level 1	$5,679	$ 5,679	Level 1
Interest rate swap asset	$8,290	$ 8,290	Level 2	$430	$ 430	Level 2
Liabilities:						
Accounts payable and accrued expenses[(1)]	$18,814	$ 18,814	Level 1	$14,395	$ 14,395	Level 1
Interest rate swap liability	$8,411	$ 8,411	Level 2	$6,417	$ 6,417	Level 2
Debt	$2,320,295	$ 2,332,695	Level 2	$2,277,589	$ 2,314,020	Level 2

(1) For the periods presented, the carrying value of these financial instruments approximates estimated fair value due to their short-term maturity.

Piedmont's debt was carried at book value as of June 30, 2015 and December 31, 2014; however, Piedmont's estimate of its fair value is disclosed in the table above. Piedmont uses widely accepted valuation techniques including discounted cash flow analysis based on the contractual terms of the debt facilities, including the period to maturity of each instrument, and uses observable market-based inputs for similar debt facilities which have transacted recently in the market. Therefore, the estimated fair values determined are considered to be based on significant other observable inputs (Level 2). Scaling adjustments are made to these inputs to make them applicable to the remaining life of Piedmont's outstanding debt. Piedmont has not changed its valuation technique for estimating the fair value of its debt.

Piedmont's interest rate swap and forward starting interest rate swap agreements presented above, and further discussed in Note 5, are classified as "Interest rate swap" assets and liabilities in the accompanying consolidated balance sheets and were carried at estimated fair value as of June 30, 2015 and December 31, 2014. The valuation of these derivative instruments was determined using widely accepted valuation techniques including discounted cash flow analysis based on the contractual terms of the derivatives, including the period to maturity of each instrument, and uses observable market-based inputs, including interest rate curves and implied volatilities. Therefore, the estimated fair values determined are considered to be based on significant other observable inputs (Level 2). In addition, Piedmont considered both its own and the respective counterparties' risk of nonperformance in determining the estimated fair value of its derivative financial instruments by estimating the current and potential future exposure under the derivative financial instruments that both Piedmont and the counterparties were at risk for as of the valuation date. The credit risk of Piedmont and its counterparties was factored into the calculation of the estimated fair value of the interest rate swaps; however, as of June 30, 2015 and December 31, 2014, this credit valuation adjustment did not comprise a material portion of the estimated fair value. Therefore, Piedmont believes that any unobservable inputs used to determine the estimated fair values of its derivative financial instruments are not significant to the fair value measurements in their entirety, and does not consider any of its derivative financial instruments to be Level 3 assets or liabilities.

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8.Commitments and Contingencies

Commitments Under Existing Lease Agreements

Certain lease agreements include provisions that, at the option of the tenant, may obligate Piedmont to provide funding for capital improvements. Under its existing lease agreements, Piedmont may be required to fund significant tenant improvements, leasing commissions, and building improvements. In addition, certain agreements contain provisions that require Piedmont to issue corporate or property guarantees to provide funding for capital improvements or other financial obligations. Further, Piedmont classifies such tenant and building improvements into two categories: (i) improvements which incrementally enhance the building's asset value by expanding its revenue generating capacity (“incremental capital expenditures”) and (ii) improvements which maintain the building's existing asset value and its revenue generating capacity (“non-incremental capital expenditures”). As of June 30, 2015, commitments for funding potential non-incremental capital expenditures over the next five years for tenant improvements totaled approximately $49.1 million related to Piedmont's existing lease portfolio over the respective lease terms, the majority of which Piedmont estimates may be required to be funded over the next three years based on when the underlying leases commence. For most of Piedmont’s leases, the timing of the actual funding of these tenant improvements is largely dependent upon tenant requests for reimbursement. In some cases, these obligations may expire with the leases without further recourse to Piedmont.

Additionally, as of June 30, 2015, commitments for incremental capital expenditures for tenant improvements associated with new and existing leases totaled approximately $26.6 million.

Contingencies Related to Tenant Audits/Disputes

Certain lease agreements include provisions that grant tenants the right to engage independent auditors to audit their annual operating expense reconciliations. Such audits may result in the re-interpretation of language in the lease agreements which could result in the refund of previously recognized tenant reimbursement revenues, resulting in financial loss to Piedmont. Piedmont recorded reductions in reimbursement revenues related to such tenant audits/disputes of approximately $0.1 million and $0.3 million during the three months ended June 30, 2015 and 2014, respectively, and approximately $0.1 million and $0.6 million during the six months ended June 30, 2015 and 2014, respectively.

Letters of Credit

As of June 30, 2015, Piedmont was subject to a letter of credit of approximately $0.4 million, which reduces the total outstanding capacity under its $500 Million 2015 Unsecured Line of Credit. This letter of credit agreement is scheduled to expire in December 2015.

9.Property Dispositions, Assets Held for Sale, and Discontinued Operations

Property Dispositions

Since April 1, 2014, we have sold six properties which did not meet the criteria to be reported as discontinued operations. The operational results for these properties for periods prior to their sale date are presented as continuing operations in the accompanying consolidated statements of income, and the gain on sale is presented separately on the face of the income statement unless otherwise indicated below. Details of such properties sold are presented below (in thousands):

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Buildings Sold	Location	Date of Sale	Gain/(Loss) on Sale	Net Sales Proceeds
2020 W. 89th Street	Leawood, Kansas	May 19, 2014	$1,132	$5,515
Two Park Center [1]	Hoffman Estates, Illinois	May 29, 2014	$(169)	$6,017
3900 Dallas Parkway	Plano, Texas	January 30, 2015	$10,073	$25,803
5601 Headquarters Drive	Plano, Texas	April 28, 2015	$7,959	$33,326
River Corporate Center	Tempe, Arizona	April 29, 2015	$5,303	$24,228
Copper Ridge Center	Lyndhurst, New Jersey	May 1, 2015	$13,349	$4,568 [2]

(1) Property was owned as part the unconsolidated joint venture, Fund XIII and REIT Joint Venture. As such, the loss on sale was presented as equity in income/(loss) of unconsolidated joint ventures.

(2) As part of the transaction, Piedmont accepted a secured promissory note from the buyer for the remaining $45.4 million owed on the sale. The note bears interest at a rate of 8.45% and a matures on December 31, 2015. The maturity date may be extended for two terms of six months each upon 30 days prior written notice and a 25 bps extension fee.

Assets Held for Sale

During the three months ended June 30, 2015, Piedmont reclassified the Eastpoint I and II buildings located in Mayfield Heights, Ohio, and the 3750 Brookside Parkway building located in Alpharetta, Georgia from real estate assets held for use to real estate assets held for sale. In addition to the aforementioned buildings, assets held for sale as of December 31, 2014 also included the 3900 Dallas Parkway building, which was sold on January 30, 2015. Details of assets held for sale as of June 30, 2015 and December 31, 2014 are presented below (in thousands):

	June 30, 2015	December 31, 2014
Real estate assets held for sale, net:		
Land	$4,281	$5,798
Building and improvements, less accumulated depreciation of $12,828 and $23,009 as of June 30, 2015 and December 31, 2014, respectively	21,633	40,546
Construction in progress	197	10
Total real estate assets held for sale, net	$26,111	$46,354
Other assets held for sale, net:		
Straight-line rent receivables	$1,904	$2,643
Deferred lease costs, less accumulated amortization of $919 and $2,335 as of June 30, 2015 and December 31, 2014, respectively	1,802	2,140
Total other assets held for sale, net	$3,706	$4,783

The fair value measurements used in the evaluation of these non-financial assets are considered to be Level 1 valuations within the fair value hierarchy as defined by GAAP, as there are direct observations and transactions involving the assets by unrelated, potential third-party purchasers. In conjunction with the reclassification of the Eastpoint I and II buildings during the three months ended June 30, 2015, Piedmont recorded a loss on impairment of approximately $5.4 million, which represents the difference between the fair value and the carrying value of the asset at the time the asset met the held for sale criteria. The sales of both the Eastpoint I and II buildings and the 3750 Brookside Parkway building are expected to close during third quarter 2015.

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Discontinued Operations

Asset disposals in previous periods that were previously classified as, and that continue to be reported as, discontinued operations for the three and six months ended June 30, 2014 were as follows (in thousands):

Buildings Sold	Location	Date of Sale	Gain/(Loss) on Sale	Net Sales Proceeds
11107 and 11109 Sunset Hills Road	Reston, Virginia	March 19, 2014	$(102)	$22,326
1441 West Long Lake Road	Troy, Michigan	April 30, 2014	$562	$7,202
4685 Investment Drive	Troy, Michigan	April 30, 2014	$747	$11,198

Details comprising income from discontinued operations for the three and six months ended ended June 30, 2015 and 2014 are presented below (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Revenues:				
Rental income	$—	$191	$—	$1,365
Tenant reimbursements	(3)	2	(3)	114
Property management fee revenue	—	1	—	1
	(3)	194	(3)	1,480
Expenses:				
Property operating costs	(1)	(323)	(1)	182
Depreciation	—	—	—	83
Amortization	—	—	—	223
General and administrative	1	3	1	6
	—	(320)	—	494
Other income/(expense)	—	—	—	(6)
Operating income/(loss), excluding gain on sale	(3)	514	(3)	980
Gain on sale of real estate assets	—	1,304	—	1,198
Income/(loss) from discontinued operations	$(3)	$1,818	$(3)	$2,178

10.Stock Based Compensation

From time to time, Piedmont has granted equity awards to all of its employees. The deferred stock awards are determined by the Compensation Committee of the board of directors of Piedmont and typically vest on the award anniversary date ratably over a multi-year period. Piedmont also has a multi-year performance share program for certain of its employees whereby equity awards may be earned based on the relative performance of Piedmont's total stockholder return as compared with a predetermined peer group's total stockholder return over the same multi-year period. Shares are not awarded until after the end of the multi-year performance period and vest upon award.

A rollforward of Piedmont's equity based award activity for the six months ended June 30, 2015 is as follows:

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	Shares	Weighted-Average Grant Date Fair Value
Unvested Deferred Stock Awards as of December 31, 2014	506,404	$ 18.12
Deferred Stock Awards Granted During Six Months Ended June 30, 2015	298,541	$ 17.59
Adjustment to Estimated Future Grants of Performance Share Awards During Six Months Ended June 30, 2015	202,658	$ 17.73
Deferred Stock Awards Vested During Six Months Ended June 30, 2015	(226,312)	$ 17.97
Deferred Stock Awards Forfeited During Six Months Ended June 30, 2015	(2,435)	$ 18.06
Unvested Deferred Stock Awards as of June 30, 2015	778,856	$ 17.86

The following table provides additional information regarding stock award activity during the three and six months ended June 30, 2015 and 2014, respectively (in thousands except for per share data):

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Weighted-Average Grant Date Fair Value of Shares Granted During the Period (per share)	$17.59	$18.51	$17.59	$17.78
Total Grant Date Fair Value of Shares Vested During the Period	$3,727	$3,191	$4,073	$3,195
Share-based Liability Awards Paid During the Period[1]	$—	$—	$—	$—

[1] Amount reflects the issuance of performance share awards during the period.

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A detail of Piedmont's outstanding employee stock awards as of June 30, 2015 is as follows:

Date of grant	Type of Award	Net Shares Granted [1]	Grant Date Fair Value	Vesting Schedule	Unvested Shares as of June 30, 2015	
April 4, 2012	Deferred Stock Award	20,121	$17.80	Of the shares granted, 25% vested on the date of grant, and 25% vested or will vest on April 4, 2013, 2014, and 2015, respectively.	6,770	(2)
April 2, 2013	Deferred Stock Award	118,174	$19.47	Of the shares granted, 25% vested on the date of grant, and 25% vested or will vest on April 2, 2014, 2015, and 2016, respectively.	38,065	
April 2, 2013	Fiscal Year 2013-2015 Performance Share Program	—	$18.91	Shares awarded, if any, will vest immediately upon determination of award in 2016.	—	(3)
January 3, 2014	Deferred Stock Award	95,476	$16.45	Of the shares granted, 20% will vest on January 3, 2015, 2016, 2017, 2018, and 2019, respectively.	82,673	
May 9, 2014	Deferred Stock Award	163,163	$18.47	Of the shares granted, 25% vested on the date of grant, and 25% vested or will vest on May 9, 2015, 2016, and 2017, respectively.	97,762	
May 9, 2014	Fiscal Year 2014-2016 Performance Share Program	—	$18.51	Shares awarded, if any, will vest immediately upon determination of award in 2017.	159,271	(4)
May 1, 2015	Deferred Stock Award	271,228	$17.59	Of the shares granted, 25% vested on the date of grant, and 25% vested or will vest on May 1, 2016, 2017, and 2018, respectively.	222,484	
May 1, 2015	Fiscal Year 2015-2017 Performance Share Program	—	$17.59	Shares awarded, if any, will vest immediately upon determination of award in 2018.	171,831	(4)
Total					778,856	

(1) Amounts reflect the total grant to employees, net of shares surrendered upon vesting to satisfy required minimum tax withholding obligations through June 30, 2015.

(2) Unvested shares outstanding represent grants made to two employees beginning their employment in 2012 subsequent to April 4, 2012, and such shares will fully vest by November 7, 2015.

(3) Estimated based on Piedmont's cumulative total stockholder return ("TSR") for the respective performance period through June 30, 2015. As of June 30, 2015, Piedmont's TSR for the fiscal year 2013-2015 performance share

program was below threshold. Share estimates are subject to change in future periods based on both Piedmont's and its peers' stock performance and dividends paid.

(4) Estimated based on Piedmont's cumulative TSR for the respective performance period through June 30, 2015. Share estimates are subject to change in future periods based on both Piedmont's and its peers' stock performance and dividends paid.

During the three months ended June 30, 2015 and 2014, Piedmont recognized approximately $3.2 million and $2.5 million of compensation expense related to stock awards, of which $1.5 million and $1.1 million related to the amortization of unvested shares, respectively. During the six months ended June 30, 2015 and 2014, Piedmont recognized approximately $4.1 million and $3.1 million of compensation expense related to stock awards, of which $2.3 million and $1.7 million related to the amortization of unvested shares, respectively. During the six months ended June 30, 2015, a net total of 157,824 shares were issued to employees, directors, and officers. As of June 30, 2015, approximately $5.4 million of unrecognized compensation cost related to unvested deferred stock awards remained, which Piedmont will record in its consolidated statements of income over a weighted-average vesting period of approximately two years.

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11.Earnings Per Share

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

Net income per share-basic is calculated as net income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Net income per share-diluted is calculated as net income available to common stockholders divided by the diluted weighted average number of common shares outstanding during the period, including unvested deferred stock awards. Diluted weighted average number of common shares reflects the potential dilution under the treasury stock method that would occur if the remaining unvested deferred stock awards vested and resulted in additional common shares outstanding. Certain unvested deferred stock awards are not included in the calculation because they would be anti-dilutive and have no effect for the periods presented.

The following table reconciles the denominator for the basic and diluted earnings per share computations shown on the consolidated statements of income for the three and six months ended June 30, 2015 and 2014, respectively (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Weighted-average common shares – basic	153,559	154,319	153,947	154,583
Plus incremental weighted-average shares from time-vested conversions:				
Deferred stock awards	198	126	227	145
Weighted-average common shares – diluted[1]	153,757	154,445	154,174	154,728

(1) Due to repurchases of common stock in May and June 2015, Piedmont has 151,833,222 shares of common stock outstanding as of June 30, 2015.

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12.Guarantor and Non-Guarantor Financial Information

The following condensed consolidating financial information for Piedmont Operating Partnership, L.P. (the "Issuer"), Piedmont Office Realty Trust, Inc. (the "Guarantor"), and the other directly and indirectly owned subsidiaries of the Guarantor (the "Non-Guarantor Subsidiaries") is provided pursuant to the requirements of Rule 3-10 of Regulation S-X regarding financial statements of guarantors and issuers of guaranteed registered securities. The Issuer is a wholly-owned subsidiary of the Guarantor, and all guarantees by the Guarantor of securities issued by the Issuer are full and unconditional. The principal elimination entries relate to investments in subsidiaries and intercompany balances and transactions, including transactions with the Non-Guarantor Subsidiaries.

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Condensed Consolidated Balance Sheets
As of June 30, 2015

(in thousands)	Issuer	Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets:					
Real estate assets, at cost:					
Land	$66,997	$—	$629,716	$—	$696,713
Buildings and improvements, less accumulated depreciation	355,127	—	2,799,217	(300)	3,154,044
Intangible lease assets, less accumulated amortization	1,541	—	62,611	—	64,152
Construction in progress	2,298	—	62,506	—	64,804
Real estate assets held for sale, net	26,111	—	—	—	26,111
Total real estate assets	452,074	—	3,554,050	(300)	4,005,824
Investments in and amounts due from unconsolidated joint ventures	7,714	—	—	—	7,714
Cash and cash equivalents	6,164	150	2,683	—	8,997
Tenant and straight-line rent receivables, net	28,213	—	168,502	—	196,715
Advances to affiliates	6,337,046	1,261,120	—	(7,598,166)	—
Investment in subsidiary	—	3,814,131	189	(3,814,320)	—
Notes receivable	134,750	—	23,890	(113,240)	45,400
Prepaid expenses, restricted cash, escrows, and other assets	6,214	77	28,520	(1,499)	33,312
Goodwill	180,097	—	—	—	180,097
Interest rate swaps	8,290	—	—	—	8,290
Deferred financing costs, net	6,699	—	792	—	7,491
Deferred lease costs, net	23,388	—	260,368	—	283,756
Other assets held for sale, net	3,706	—	—	—	3,706
Total assets	$7,194,355	$5,075,478	$4,038,994	$(11,527,525)	$4,781,302
Liabilities:					
Debt, net	$1,841,428	$—	$592,107	$(113,240)	$2,320,295
Accounts payable, accrued expenses, and accrued capital expenditures	16,042	6,783	107,572	(1,499)	128,898
Advances from affiliates	558,055	4,925,597	2,180,736	(7,664,388)	—
Deferred income	4,069	—	22,564	—	26,633
Intangible lease liabilities, net	—	—	41,214	—	41,214
Interest rate swaps	8,411	—	—	—	8,411
Total liabilities	2,428,005	4,932,380	2,944,193	(7,779,127)	2,525,451
Stockholders' Equity:					
Common stock	—	1,518	—	—	1,518
Additional paid-in capital	3,810,131	3,671,250	1,317	(3,814,320)	3,668,378
Retained/(cumulative distributions in excess of) earnings	943,977	(3,529,670)	1,092,459	65,922	(1,427,312)
Other comprehensive loss	12,242	—	—	—	12,242
Piedmont stockholders' equity	4,766,350	143,098	1,093,776	(3,748,398)	2,254,826
Noncontrolling interest	—	—	1,025	—	1,025
Total stockholders' equity	4,766,350	143,098	1,094,801	(3,748,398)	2,255,851
Total liabilities and stockholders' equity	$7,194,355	$5,075,478	$4,038,994	$(11,527,525)	$4,781,302

Condensed Consolidated Balance Sheets
As of December 31, 2014

(in thousands)	Issuer	Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets:					
Real estate assets, at cost:					
Land	$77,125	$—	$621,394	$—	$698,519
Buildings and improvements, less accumulated depreciation	414,515	—	2,782,445	(300)	3,196,660
Intangible lease assets, less accumulated amortization	1,812	—	68,365	—	70,177
Construction in progress	1,345	—	62,037	—	63,382
Real estate assets held for sale, net	46,354	—	—	—	46,354
Total real estate assets	541,151	—	3,534,241	(300)	4,075,092
Investments in and amounts due from unconsolidated joint ventures	7,798	—	—	—	7,798
Cash and cash equivalents	8,143	1,790	2,373	—	12,306
Tenant and straight-line rent receivables, net	35,363	—	160,005	—	195,368
Advances to affiliates	6,084,243	1,282,443	—	(7,366,686)	—
Investment in subsidiary	—	3,878,811	192	(3,879,003)	—
Notes receivable	161,350	—	23,890	(185,240)	—
Prepaid expenses, restricted cash, escrows, and other assets	10,912	—	23,541	(954)	33,499
Goodwill	180,097	—	—	—	180,097
Interest rate swaps	430	—	—	—	430
Deferred financing costs, net	7,242	—	425	—	7,667
Deferred lease costs, net	29,696	—	248,765	—	278,461
Other assets held for sale, net	4,783	—	—	—	4,783
Total assets	$7,071,208	$5,163,044	$3,993,432	$(11,432,183)	$4,795,501
Liabilities:					
Debt, net	$1,852,434	$—	$610,395	$(185,240)	$2,277,589
Accounts payable, accrued expenses, and accrued capital expenditures	19,403	465	115,074	(954)	133,988
Advances from affiliates	376,122	4,909,362	2,138,140	(7,423,624)	—
Deferred income	4,998	—	17,217	—	22,215
Intangible lease liabilities, net	—	—	43,277	—	43,277
Interest rate swaps	6,417	—	—	—	6,417
Total liabilities	2,259,374	4,909,827	2,924,103	(7,609,818)	2,483,486
Stockholders’ Equity:					
Common stock	—	1,543	—	—	1,543
Additional paid-in capital	3,874,757	3,670,236	192	(3,879,003)	3,666,182
Retained/(cumulative distributions in excess of) earnings	928,776	(3,418,562)	1,067,528	56,638	(1,365,620)
Other comprehensive loss	8,301	—	—	—	8,301
Piedmont stockholders’ equity	4,811,834	253,217	1,067,720	(3,822,365)	2,310,406
Noncontrolling interest	—	—	1,609	—	1,609
Total stockholders’ equity	4,811,834	253,217	1,069,329	(3,822,365)	2,312,015
Total liabilities and stockholders’ equity	$7,071,208	$5,163,044	$3,993,432	$(11,432,183)	$4,795,501

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Condensed Consolidated Statements of Income
For the three months ended June 30, 2015

(in thousands)	Issuer	Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Rental income	$17,046	$—	$ 101,137	$ (729)	$ 117,454
Tenant reimbursements	3,557	—	25,427	(171)	28,813
Property management fee revenue	—	—	4,501	(4,034)	467
	20,603	—	131,065	(4,934)	146,734
Expenses:					
Property operating costs	9,550	—	57,046	(5,117)	61,479
Depreciation	5,159	—	30,880	—	36,039
Amortization	1,096	—	13,859	—	14,955
Impairment loss on real estate asset	5,354	—	—	—	5,354
General and administrative	7,904	84	9,263	(9,168)	8,083
	29,063	84	111,048	(14,285)	125,910
Real estate operating income	(8,460)	(84)	20,017	9,351	20,824
Other income (expense):					
Interest expense	(13,441)	—	(7,769)	3,038	(18,172)
Other income/(expense)	3,392	—	242	(3,038)	596
Equity in income of unconsolidated joint ventures	124	—	—	—	124
	(9,925)	—	(7,527)	—	(17,452)
Income from continuing operations	(18,385)	(84)	12,490	9,351	3,372
Discontinued operations:					
Operating loss	(2)	—	(1)	—	(3)
Loss from discontinued operations	(2)	—	(1)	—	(3)
Gain on sale of real estate assets	26,611	—	—	—	26,611
Net income	8,224	(84)	12,489	9,351	29,980
Less: Net income attributable to noncontrolling interest	—	—	(4)	—	(4)
Net income attributable to Piedmont	$8,224	$(84)	$ 12,485	$ 9,351	$ 29,976

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Condensed Consolidated Statements of Income
For the three months ended June 30, 2014

(in thousands)	Issuer	Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Rental income	$17,109	$—	$97,694	$(1,516)	$113,287
Tenant reimbursements	3,917	—	20,921	(93)	24,745
Property management fee revenue	—	—	3,939	(3,391)	548
	21,026	—	122,554	(5,000)	138,580
Expenses:					
Property operating costs	10,330	—	52,008	(5,202)	57,136
Depreciation	5,650	—	28,494	—	34,144
Amortization	1,105	—	12,494	—	13,599
General and administrative	6,949	66	7,851	(7,721)	7,145
	24,034	66	100,847	(12,923)	112,024
Real estate operating income	(3,008)	(66)	21,707	7,923	26,556
Other income (expense):					
Interest expense	(12,482)	—	(8,664)	3,134	(18,012)
Other income/(expense)	2,797	35	(64)	(3,134)	(366)
Net recoveries from casualty events and litigation settlements	1	1,479	—	—	1,480
Equity in loss of unconsolidated joint ventures	(333)	—	—	—	(333)
	(10,017)	1,514	(8,728)	—	(17,231)
Income from continuing operations	(13,025)	1,448	12,979	7,923	9,325
Discontinued operations:					
Operating income	461	—	53	—	514
Gain on sale of real estate assets	557	—	747	—	1,304
Income from discontinued operations	1,018	—	800	—	1,818
Gain on sale of real estate assets	—	—	1,140	—	1,140
Net income	(12,007)	1,448	14,919	7,923	12,283
Less: Net income attributable to noncontrolling interest	—	—	(4)	—	(4)
Net income attributable to Piedmont	$(12,007)	$1,448	$14,915	$7,923	$12,279

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Condensed Consolidated Statements of Income
For the six months ended June 30, 2015

(in thousands)	Issuer	Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Rental income	$35,983	$—	$ 200,714	$ (1,436)	$ 235,261
Tenant reimbursements	7,802	—	52,700	(299)	60,203
Property management fee revenue	—	—	8,940	(7,911)	1,029
	43,785	—	262,354	(9,646)	296,493
Expenses:					
Property operating costs	20,211	—	115,541	(10,037)	125,715
Depreciation	10,961	—	61,310	—	72,271
Amortization	2,350	—	27,275	—	29,625
Impairment loss on real estate asset	5,354	—	—	—	5,354
General and administrative	14,104	195	16,988	(16,797)	14,490
	52,980	195	221,114	(26,834)	247,455
Real estate operating income	(9,195)	(195)			