

Piedmont Office Realty Trust, Inc.
Form 10-Q
April 30, 2014
Table of Contents

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 2014

OR

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

For the Transition Period From _____ To _____

Commission file number 001-34626

PIEDMONT OFFICE REALTY TRUST, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or
organization)

58-2328421

(I.R.S. Employer Identification Number)

11695 Johns Creek Parkway

Ste. 350

Johns Creek, Georgia 30097

(Address of principal executive offices)

(Zip Code)

(770) 418-8800

(Registrant's telephone number, including area code)

N/A

(Former name, former address, and former fiscal year, if changed since last report)

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

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

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

Large Accelerated filer

Accelerated filer

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

Smaller reporting company

Edgar Filing: Piedmont Office Realty Trust, Inc. - Form 10-Q

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

Yes No

Number of shares outstanding of the Registrant's
common stock, as of April 29, 2014:

154,270,549 shares

Table of Contents

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

	Page No.
PART I. Financial Statements	
Item 1. <u>Consolidated Financial Statements</u>	4
<u>Consolidated Balance Sheets—March 31, 2014 (unaudited) and December 31, 2013</u>	5
<u>Consolidated Statements of Income for the Three Months Ended March 31, 2014 (unaudited) and 2013 (unaudited)</u>	6
<u>Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2014 (unaudited) and 2013 (unaudited)</u>	7
<u>Consolidated Statements of Stockholders' Equity for the Three Months Ended March 31, 2014 (unaudited) and the Year Ended December 31, 2013</u>	8
<u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2014 (unaudited) and 2013 (unaudited)</u>	9
<u>Condensed Notes to Consolidated Financial Statements (unaudited)</u>	10
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	41
Item 4. <u>Controls and Procedures</u>	42
PART II. Other Information	
Item 1. <u>Legal Proceedings</u>	43
Item 1A. <u>Risk Factors</u>	43
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
Item 3. <u>Defaults Upon Senior Securities</u>	43
Item 4. <u>Mine Safety Disclosures</u>	43
Item 5. <u>Other Information</u>	44
Item 6. <u>Exhibits</u>	44

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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 operations, comprehensive income, stockholders' equity, and cash flows reflects all adjustments that are, in management's opinion, necessary for a fair and consistent presentation of financial position, results of operations, and cash flows in accordance with U.S. generally accepted accounting principles.

The accompanying financial statements should be read in conjunction with the notes to Piedmont's financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this report on Form 10-Q and with Piedmont's Annual Report on Form 10-K for the year ended December 31, 2013. Piedmont's results of operations for the three months ended March 31, 2014 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) March 31, 2014	December 31, 2013
Assets:		
Real estate assets, at cost:		
Land	\$682,429	\$686,359
Buildings and improvements, less accumulated depreciation of \$997,350 and \$972,531 as of March 31, 2014 and December 31, 2013, respectively	3,129,993	3,154,001
Intangible lease assets, less accumulated amortization of \$69,997 and \$71,588 as of March 31, 2014 and December 31, 2013, respectively	69,144	73,359
Construction in progress	28,847	24,269
Real estate assets held for sale, net	13,939	13,995
Total real estate assets	3,924,352	3,951,983
Investments in and amounts due from unconsolidated joint ventures	13,855	14,388
Cash and cash equivalents	9,271	6,973
Tenant receivables, net of allowance for doubtful accounts of \$273 and \$346 as of March 31, 2014 and December 31, 2013, respectively	22,196	31,145
Straight-line rent receivables	147,360	138,293
Restricted cash and escrows	751	394
Prepaid expenses and other assets	28,154	24,771
Goodwill	180,097	180,097
Interest rate swaps	464	24,176
Deferred financing costs, less accumulated amortization of \$4,506 and \$13,041 as of March 31, 2014 and December 31, 2013, respectively	8,545	8,759
Deferred lease costs, less accumulated amortization of \$123,582 and \$125,882 as of March 31, 2014 and December 31, 2013, respectively	273,709	281,790
Other assets held for sale, net	3,191	3,319
Total assets	\$4,611,945	\$4,666,088
Liabilities:		
Unsecured debt, net of discount of \$4,703 and \$1,320 as of March 31, 2014 and December 31, 2013, respectively	\$1,617,297	\$1,014,680
Secured debt	412,525	987,525
Accounts payable, accrued expenses, and accrued capital expenditures	130,530	128,818
Deferred income	23,042	22,267
Intangible lease liabilities, less accumulated amortization of \$44,462 and \$44,256 as of March 31, 2014 and December 31, 2013, respectively	45,227	47,113
Interest rate swaps	4,366	4,526
Total liabilities	2,232,987	2,204,929
Commitments and Contingencies	—	—
Stockholders' Equity:		
Shares-in-trust, 150,000,000 shares authorized; none outstanding as of March 31, 2014 or December 31, 2013	—	—
Preferred stock, no par value, 100,000,000 shares authorized; none outstanding as of March 31, 2014 or December 31, 2013	—	—
Common stock, \$.01 par value, 750,000,000 shares authorized; 154,277,930 and 157,460,903 shares issued and outstanding as of March 31, 2014 and December 31,	1,543	1,575

Edgar Filing: Piedmont Office Realty Trust, Inc. - Form 10-Q

2013, respectively		
Additional paid-in capital	3,669,561	3,668,906
Cumulative distributions in excess of earnings	(1,305,321)	(1,231,209)
Other comprehensive income	11,562	20,278
Piedmont stockholders' equity	2,377,345	2,459,550
Noncontrolling interest	1,613	1,609
Total stockholders' equity	2,378,958	2,461,159
Total liabilities and stockholders' equity	\$4,611,945	\$4,666,088
See accompanying notes		

5

Table of Contents

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

	(Unaudited)	
	Three Months Ended	
	March 31,	
	2014	2013
Revenues:		
Rental income	\$ 110,904	\$ 106,055
Tenant reimbursements	24,929	25,465
Property management fee revenue	487	631
	136,320	132,151
Expenses:		
Property operating costs	58,271	52,155
Depreciation	33,644	28,825
Amortization	14,573	9,009
General and administrative	4,555	4,548
	111,043	94,537
Real estate operating income	25,277	37,614
Other income (expense):		
Interest expense	(18,926) (16,373
Other income/(expense)	(90) (1,277
Net recoveries/(loss) from casualty events and litigation settlements	3,042	(161
Equity in income/(loss) of unconsolidated joint ventures	(266) 395
	(16,240) (17,416
Income from continuing operations	9,037	20,198
Discontinued operations:		
Operating income	466	859
Impairment loss	—	(6,402
Loss on sale of real estate assets	(106) —
Income/(loss) from discontinued operations	360	(5,543
Net income	9,397	14,655
Less: Net income attributable to noncontrolling interest	(4) (4
Net income attributable to Piedmont	\$9,393	\$ 14,651
Per share information – basic and diluted:		
Income from continuing operations	\$0.06	\$0.12
Income/(loss) from discontinued operations	—	(0.03
Net income available to common stockholders	\$0.06	\$0.09
Weighted-average common shares outstanding – basic	154,849,378	167,555,407
Weighted-average common shares outstanding – diluted	155,024,545	167,810,319
See accompanying notes.		

Table of Contents

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

	(Unaudited) Three Months Ended March 31,	
	2014	2013
Net income attributable to Piedmont	\$9,393	\$14,651
Other comprehensive income/(loss):		
Effective portion of gain/(loss) on derivative instruments that are designated and qualify as cash flow hedges (See Note 4)	(9,886)	(340)
Plus: Reclassification of previously recorded loss included in net income (See Note 4)	1,170	769
Other comprehensive income/(loss)	(8,716)	429
Comprehensive income attributable to Piedmont	\$677	\$15,080

See accompanying notes

Table of Contents

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

	Common Shares	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, 2012	167,556	\$1,676	\$3,667,051	\$(1,022,681)	\$ (7,160)	\$ 1,609	\$2,640,495
Share repurchases as part of an announced plan	(10,246)	(102)	—	(175,167)	—	—	(175,269)
Offering costs associated with the issuance of common stock	—	—	(91)	—	—	—	(91)
Dividends to common stockholders (\$0.80 per share), distributions to noncontrolling interest, and dividends reinvested	—	—	(197)	(132,089)	—	(15)	(132,301)
Shares issued and amortized under the 2007 Omnibus Incentive Plan, net of tax	151	1	2,143	—	—	—	2,144
Net income attributable to noncontrolling interest	—	—	—	—	—	15	15
Net income attributable to Piedmont	—	—	—	98,728	—	—	98,728
Other comprehensive income	—	—	—	—	27,438	—	27,438
Balance, December 31, 2013	157,461	1,575	3,668,906	(1,231,209)	20,278	1,609	2,461,159
Share repurchases as part of an announced plan	(3,183)	(32)	—	(52,647)	—	—	(52,679)
Dividends to common stockholders (\$0.20 per share), distributions to noncontrolling interest, and dividends reinvested	—	—	(47)	(30,858)	—	—	(30,905)
Shares issued and amortized under the 2007 Omnibus Incentive Plan, net of tax	—	—	702	—	—	—	702
Net income attributable to noncontrolling interest	—	—	—	—	—	4	4
Net income attributable to Piedmont	—	—	—	9,393	—	—	9,393
Other comprehensive loss	—	—	—	—	(8,716)	—	(8,716)
Balance, March 31, 2014	154,278	\$1,543	\$3,669,561	\$(1,305,321)	\$ 11,562	\$ 1,613	\$2,378,958

See accompanying notes

Table of Contents

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

	(Unaudited)	
	Three Months Ended	
	March 31,	
	2014	2013
Cash Flows from Operating Activities:		
Net income	\$9,397	\$14,655
Operating distributions received from unconsolidated joint ventures	266	463
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	33,727	29,684
Amortization of deferred financing costs	774	594
Settlement of forward starting interest rate swaps	14,960	—
Other amortization	14,346	8,964
Impairment loss on real estate assets	—	6,402
Stock compensation expense	636	594
Equity in loss/(income) of unconsolidated joint ventures	266	(395)
Loss on sale of real estate assets, net	106	—
Changes in assets and liabilities:		
Increase in tenant and straight-line rent receivables, net	(1,371)	(9,685)
Decrease in restricted cash and escrows	43	9
Increase in prepaid expenses and other assets	(3,467)	(171)
Decrease in accounts payable and accrued expenses	(350)	(11,122)
Increase in deferred income	720	2,033
Net cash provided by operating activities	70,053	42,025
Cash Flows from Investing Activities:		
Acquisition of real estate assets and related intangibles	(400)	(247,499)
Capitalized expenditures, net of accruals	(27,187)	(34,114)
Net sales proceeds from wholly-owned properties	22,322	3,403
Investments in unconsolidated joint ventures	—	(672)
Deferred lease costs paid	(4,180)	(7,897)
Net cash used in investing activities	(9,445)	(286,779)
Cash Flows from Financing Activities:		
Deferred financing costs paid	(454)	(47)
Proceeds from debt	764,564	294,000
Repayments of debt	(737,000)	(11,000)
Repurchases of common stock as part of announced plan	(54,515)	(11)
Dividends paid and discount on dividend reinvestments	(30,905)	(33,570)
Net cash (used in)/provided by financing activities	(58,310)	249,372
Net increase in cash and cash equivalents	2,298	4,618
Cash and cash equivalents, beginning of period	6,973	12,957
Cash and cash equivalents, end of period	\$9,271	\$17,575
Supplemental Disclosures of Significant Noncash Investing and Financing Activities:		
Change in accrued share repurchases as part of an announced plan	\$(1,836)	\$—
Accrued capital expenditures and deferred lease costs	\$13,721	\$30,994
Accrued deferred financing costs	\$176	\$—

See accompanying notes

9

Table of Contents

PIEDMONT OFFICE REALTY TRUST, INC.
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2014
(unaudited)

1. Organization

Piedmont Office Realty Trust, Inc. ("Piedmont") (NYSE: PDM) is a Maryland corporation that operates in a manner so as to qualify as a real estate investment trust ("REIT") for federal income tax purposes and engages in the acquisition and ownership of commercial real estate properties throughout the United States, including properties that are under construction, are newly constructed, or have operating histories. Piedmont was incorporated in 1997 and commenced operations in 1998. Piedmont conducts business primarily through Piedmont Operating Partnership, L.P. ("Piedmont OP"), a Delaware limited partnership, as well as performing the management of its buildings through two wholly-owned subsidiaries, Piedmont Government Services, LLC and Piedmont Office Management, LLC. Piedmont owns 99.9% of, and is the sole general partner of, Piedmont OP and as such, possesses full legal control and authority over the operations of Piedmont OP. The remaining 0.1% ownership interest of Piedmont OP is held indirectly by Piedmont through its wholly-owned subsidiary, Piedmont Office Holdings, Inc. ("POH"), the sole limited partner of Piedmont OP. Piedmont OP owns properties directly, through wholly-owned subsidiaries, and through both consolidated and unconsolidated joint ventures. References to Piedmont herein shall include Piedmont and all of its subsidiaries, including Piedmont OP and its subsidiaries and joint ventures.

As of March 31, 2014, Piedmont owned 75 office properties, one redevelopment asset, and two office buildings through an unconsolidated joint venture. Piedmont's 75 consolidated office properties comprise 21.1 million square feet of primarily Class A commercial office space, and were 86.7% leased as of March 31, 2014. As of March 31, 2014, approximately 90% of Piedmont's annualized lease revenue was generated from its primary markets: Atlanta, Boston, Chicago, Los Angeles, Minneapolis, the New York Metropolitan Statistical Area, Texas (Dallas, Houston and Austin), and Washington, D.C.

Piedmont internally evaluates all of the 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 and certain prior period amounts have been reclassified to conform to the current period financial statement presentation. The reclassifications relate to the required presentation of income from discontinued operations for properties sold during the three months ended March 31, 2014 and during the year ended December 31, 2013 (see Note 8), as well as reclassifying deferred common area maintenance costs from deferred lease costs to prepaid and other assets. None of these reclassifications affect net equity or net income attributable to Piedmont as presented in previous periods.

Piedmont's consolidated financial statements include the accounts of Piedmont, Piedmont's wholly-owned subsidiaries, any variable interest entity of which Piedmont or any of its wholly-owned subsidiaries is considered the primary beneficiary, or any entity in which Piedmont or any of its wholly-owned subsidiaries owns a controlling interest. For

further information, refer to the financial statements and footnotes included in Piedmont's Annual Report on Form 10-K for the year ended December 31, 2013.

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

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.

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.

Deferred Financing Costs

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

Income Taxes

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

Recent Accounting Pronouncements

The Financial Accounting Standards Board has issued Accounting Standards Update No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ("ASU 2014-08"). The amendments in ASU 2014-08 change the criteria for the transactions that qualify to be reported as discontinued operations, and enhance disclosures for transactions which meet the new criteria in this area. Under this new guidance, disposals representing a strategic shift that has (or will have) a major effect on operations should be presented as discontinued operations. The amendments in ASU 2014-08 are effective in the first quarter of 2015 for Piedmont, and early adoption is permitted. Piedmont is currently evaluating the amendments of ASU 2014-08; however, these amendments are expected to impact Piedmont's determination of which future property disposals qualify as discontinued operations, as well as requiring additional disclosures about discontinued operations.

3. Debt

During the three months ended March 31, 2014, Piedmont drew down the entire principal of the \$300 Million Unsecured 2013 Term Loan, a delayed-draw loan facility established in December 2013. The proceeds of the \$300 Million Unsecured 2013 Term Loan were used to repay the \$200 Million Mortgage Note and the \$25 Million Mortgage Note, as well as a portion of the amounts outstanding under the \$500 Million Unsecured Line of Credit.

Additionally during the three months ended March 31, 2014, Piedmont, through its wholly owned operating partnership, Piedmont OP, issued \$400 million in aggregate principal amount of 4.450% senior notes which mature on March 15, 2024 (the "2014 Senior Notes"). The 2014 Senior Notes were offered as notes registered under the Securities Act of 1933, as amended. Upon issuance of the 2014 Senior Notes, Piedmont OP received proceeds of approximately \$399.2 million, reflecting a discount of approximately \$0.8 million which will be amortized as interest expense under

the effective interest method over the ten-year term of the 2014 Senior Notes. In addition, in conjunction with the issuance, Piedmont settled five forward starting rate swaps, consisting of notional amounts of \$350 million. These swaps were settled in Piedmont's favor, resulting in a gain of approximately \$15.0 million that was recorded as accumulated other comprehensive income and is being amortized as an offset to interest expense over the ten-year term of the 2014 Senior Notes. See Note 4 for further detail. The proceeds from the 2014 Senior Notes were used to repay the \$350 Million Secured Pooled Facility, as well as a portion of the amounts outstanding under the \$500 Million Unsecured Line of Credit.

Interest on the 2014 Senior Notes is payable semi-annually in arrears on March 1st and September 1st of each year, beginning on September 1, 2014. The 2014 Senior Notes are fully and unconditionally guaranteed on a senior unsecured basis by Piedmont. Piedmont OP may, at its option, redeem the 2014 Senior Notes, in whole or in part, prior to December 15, 2023, at a redemption price equal to the greater of (i) 100% of the principal amount of the 2014 Senior Notes to be redeemed and (ii) a "make-whole" amount, plus any unpaid accrued interest. In addition, at any time on or after December 15, 2023, Piedmont OP may, at its option,

Table of Contents

redeem the 2014 Senior Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the 2014 Senior Notes to be redeemed plus unpaid accrued interest. The 2014 Senior Notes are subject to certain covenants that, subject to certain exceptions: (a) limit the ability of Piedmont and Piedmont OP to, among other things, incur additional secured and unsecured indebtedness; (b) limit the ability of Piedmont and Piedmont OP to merge, consolidate, sell, lease or otherwise dispose of their properties and assets substantially as an entirety; and, (c) require Piedmont to maintain a pool of unencumbered assets. The 2014 Senior Notes are also subject to customary events of default which, if any of them occurs, would permit or require the principal of and accrued interest on the 2014 Senior Notes to become or to be declared due and payable.

During the three months ended March 31, 2014, Piedmont incurred additional working capital borrowings of \$68.0 million and, utilizing a portion of the proceeds of the \$300 Million Unsecured 2013 Term Loan and the 2014 Senior Notes issuance described above, as well as other cash on hand, made repayments totaling \$162.0 million on its \$500 Million Unsecured Line of Credit. Piedmont also made interest payments on all debt facilities, including interest rate swap cash settlements, of approximately \$16.1 million and \$15.7 million for the three months ended March 31, 2014 and 2013, respectively. For the three months ended March 31, 2014 and 2013, Piedmont capitalized interest of \$0.4 million and \$0, respectively.

As of March 31, 2014, Piedmont believes it is in compliance with its financial covenants on outstanding debt. Additionally, see Note 6 for a description of Piedmont's estimated fair value of debt as of March 31, 2014.

Table of Contents

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

Facility	Collateral	Rate ⁽¹⁾		Maturity	Amount Outstanding as of	
					March 31, 2014	December 31, 2013
Secured (Fixed)						
\$200 Million Mortgage Note	Aon Center	4.87	%	5/1/2014	\$—	