Piedmont Office Realty Trust, Inc.
Form 10-K
February 18, 2015

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

FORM 10-K

(Mark One)

x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2014

or

o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to 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

Securities registered pursuant to Section 12 (b) of the Act:

Title of each class	Name of exchange on which registered
COMMON STOCK	NEW YORK STOCK EXCHANGE

Securities registered pursuant to Section 12 (g) of the Act:
None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No x

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Act).

Large accelerated filer x Accelerated filer o Non-accelerated filer o 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

As of June 30, 2014, the aggregate market value of the common stock of Piedmont Office Realty Trust, Inc., held by non-affiliates was $2,905,773,082 based on the closing price as reported on the New York Stock Exchange. As of February 17, 2015, 154,339,315 shares of common stock were outstanding.

Documents Incorporated by Reference:

Registrant incorporates by reference portions of the Piedmont Office Realty Trust, Inc. Definitive Proxy Statement for the 2015 Annual Meeting of Stockholders (Items 10, 11, 12, 13, and 14 of Part III) to be filed no later than April 30, 2015.

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Certain statements contained in this Form 10-K 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, financing, and operating objectives; discussions regarding future dividends; 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 information available at the time the statements are made. 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:

- 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 of the office market in general and of 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;
-

- 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 this Annual Report on Form 10-K.

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

ITEM 1. BUSINESS

General

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, commenced operations in 1998, and listed its common stock on the New York Stock Exchange ("NYSE") in 2010. 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.

Operating Objectives and Strategy

Based on our December 31, 2014 equity market capitalization of $2.9 billion, Piedmont is among the largest office REITs in the United States based on comparison to the constituents of the Bloomberg U.S. Office REIT Index. Our portfolio of primarily Class A commercial office buildings was 87.7% and 87.2% leased as of December 31, 2014 and 2013, respectively. Our average lease size is approximately 29,000 square feet with our tenant base being comprised of primarily investment grade or nationally recognized corporations or governmental agencies. As of December 31, 2014, we owned and operated 74 office properties, one redevelopment asset, and one office building through an unconsolidated joint venture. Approximately 90% of our Annualized Lease Revenue is generated from select office sub-markets in the following cities: Atlanta, Boston, Chicago, Dallas, Houston, Los Angeles, Minneapolis, New York, and Washington, D.C.

Due to the fact that many of our properties were originally acquired in 2002 and 2003 with typically seven to ten years of lease term remaining at the time of acquisition, we re-leased a significant portion of our portfolio over the last several years. As a result, no more than 10% of our lease portfolio is scheduled to expire in any given year over the next four years. In addition, one of our operating objectives has been to sell non-strategic assets and recycle the proceeds into assets and markets which we believe have greater potential to contribute to enterprise value over time.

Headquartered in metropolitan Atlanta, Georgia, with regional and/or local management offices in each of its major markets, Piedmont values operational excellence and ranks first among REITs based on the number of buildings owned and managed with Building Owners Management Association ("BOMA") 360 designations. BOMA 360 is a program that evaluates six major areas of building operations and management and benchmarks a building's performance against industry standards. The achievement of such a designation recognizes excellence in building operations and management. We also have focused on environmental sustainability initiatives at our properties, and approximately 76% of our office portfolio (based on ALR) maintains Energy Star labels (recognizing the top 25% of commercial buildings in energy consumption efficiency) as of December 31, 2014.

We foster long-term relationships with our high-credit quality, diverse tenant base as evidenced by our 74% tenant retention rate over the past nine years. No tenant other than the U.S. government accounts for more than 5% of our Annualized Lease Revenue, and 73% of our Annualized Lease Revenue is derived from investment grade or nationally recognized companies or government agencies.

Information Regarding Disclosures Presented

Annualized Lease Revenue ("ALR") is calculated by multiplying (i) rental payments (defined as base rent plus operating expense reimbursements, if payable by the tenant on a monthly basis under the terms of a lease that has been executed, but excluding (a) rental abatements and (b) rental payments related to executed but not commenced leases for space that was covered by an existing lease), by (ii) 12. In instances in which contractual rents or operating expense reimbursements are collected on an annual, semi-annual, or quarterly basis, such amounts are multiplied by a factor of 1, 2, or 4, respectively, to calculate the annualized figure. For leases that have been executed but not commenced relating to un-leased space, ALR is calculated by multiplying (i) the monthly base rental payment (excluding abatements) plus any operating expense reimbursements for the initial month of the lease term, by (ii) 12. Unless stated otherwise, this measure excludes our one redevelopment asset, and our one property held in unconsolidated joint ventures.

Employees

As of December 31, 2014, we had 130 full-time employees, with 52 of our employees working in our corporate office located in metropolitan Atlanta, Georgia. Our remaining employees work in regional and/or local management offices located in Atlanta, Georgia; Boston, Massachusetts; Minneapolis, Minnesota; Washington, D.C.; Tampa, Florida; Dallas, Texas; Houston, Texas; Chicago, Illinois; Detroit, Michigan; and the metropolitan areas surrounding New York, New York and Los Angeles, California. These employees are involved in acquiring and developing properties, as well as performing asset and property management services for our real estate properties and tenants.

Competition

We compete for tenants for our high-quality assets in major U.S. markets by fostering strong tenant relationships and by providing quality customer service including, asset management, property management, and construction management services. As the competition for high-credit-quality tenants is intense, we may be required to provide rent abatements, incur charges for tenant improvements and other concessions, or we may not be able to lease vacant space timely, all of which would adversely impact our results of operations. We compete with other buyers who are interested in properties we elect to acquire, which may result in an increase in the amount that we pay for such properties or may ultimately result in our inability to acquire such properties. We also compete with sellers of similar properties when we sell properties, which may result in our receiving lower proceeds from the disposal, or which may result in our inability to dispose of such properties due to the lack of an acceptable return.

Financial Information About Industry Segments

Our current business consists primarily of owning, managing, operating, leasing, acquiring, developing, investing in, and disposing of office real estate assets. We internally evaluate all of our real estate assets as one operating segment, and, accordingly, we do not report segment information.

Concentration of Credit Risk

We are dependent upon the ability of our current tenants to pay their contractual rent amounts as the rents become due. The inability of a tenant to pay future rental amounts would have a negative impact on our results of operations. As of December 31, 2014, no individual tenant represents 10% or more of our future revenues under non-cancelable leases. Additionally, no individual tenant represented 10% or more of our revenues for the year ended December 31, 2014.

Other Matters

Piedmont has contracts with various governmental agencies, exclusively in the form of operating leases in buildings we own. See Item 1A. “Risk Factors” for further discussion of the risks associated with these contracts.

Additionally, as the owner of real estate assets, we are subject to environmental risks. See Item 1A. “Risk Factors” for further discussion of the risks associated with environmental concerns.

Web Site Address

Access to copies of each of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, and other filings with the Securities and Exchange Commission (the "SEC"), including any amendments to such filings, may be obtained free of charge from the following Web site, http://www.piedmontreit.com, or directly from the SEC’s Web site at http://www.sec.gov. These filings are available promptly after we file them with, or furnish them to, the SEC.

ITEM 1A. RISK FACTORS

Risks Related to Our Business and Operations

Economic, regulatory, and/or socio-economic changes 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 investment returns available from equity investments in real estate depend on the amount of income earned and capital appreciation generated by the properties, as well as the expenses incurred in connection with the properties. If our properties do not generate income sufficient to meet operating expenses, including debt service and capital expenditures, then our ability to make distributions to our stockholders could be adversely affected. In addition, there are significant expenditures associated with

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an investment in real estate (such as mortgage payments, real estate taxes, and maintenance costs) that generally do not decline when circumstances reduce the income from the property. The following factors, among others, may adversely affect the operating performance and long- or short-term value of our properties:

- changes in the national, regional, and local economic climate, particularly in markets in which we have a concentration of properties;
- local office market conditions such as employment rates and changes in the supply of, or demand for, space in properties similar to those that we own within a particular area;
- changes in the patterns of office use due to technological advances which may make telecommuting more prevalent;
- the attractiveness of our properties to potential tenants;
- changes in interest rates and availability of permanent mortgage funds that may render the sale of a property difficult or unattractive or otherwise reduce returns to stockholders;
- the financial stability of our tenants, including bankruptcies, financial difficulties, or lease defaults by our tenants;
- changes in operating costs and expenses, including costs for maintenance, insurance, and real estate taxes, and our ability to control rents in light of such changes;
- the need to periodically fund the costs to repair, renovate, and re-let space;
- earthquakes, tornadoes, hurricanes and other natural disasters, civil unrest, terrorist acts or acts of war, which may result in uninsured or under insured losses;
- changes in, or increased costs of compliance with, governmental regulations, including those governing usage, zoning, the environment, and taxes; and
- changes in accounting standards.

In addition, periods of economic slowdown or recession, rising interest rates, or declining demand for real estate could result in a general decrease in rents or an increased occurrence of defaults under existing leases, which would adversely affect our financial condition and results of operations. Any of the above factors may prevent us from generating sufficient cash flow or maintaining the value of our real estate properties.

We face considerable competition in the leasing market and may be unable to renew existing leases or re-let space on terms similar to the existing leases, or we may expend significant capital in our efforts to re-let space, which may adversely affect our operating results.

Every year, we compete with a number of other developers, owners, and operators of office and office-oriented, mixed-use properties to renew leases with our existing tenants and to attract new tenants. To the extent that we are able to renew leases that are scheduled to expire in the short-term or re-let such space to new tenants, heightened competition resulting from adverse market conditions may require us to utilize rent concessions and tenant improvements to a greater extent than we historically have. In addition, competition for credit worthy tenants is intense and we may have difficulty competing with competitors who have purchased properties at discounted prices allowing them to offer space at reduced rental rates.

If our competitors offer office accommodations at rental rates below current market rates or below the rental rates we currently charge our tenants, we may lose potential tenants, and we may be pressured to reduce our rental rates below those we currently charge in order to retain tenants upon expiration of their existing leases. Even if our tenants renew their leases or we are able to re-let the space, the terms and other costs of renewal or re-letting, including the cost of required renovations, increased tenant improvement allowances, leasing commissions, declining rental rates, and other potential concessions, may be less favorable than the terms of our current leases and could require significant capital expenditures. If we are unable to renew leases or re-let space in a reasonable time, or if rental rates decline or tenant improvement, leasing commissions, or other costs increase, our financial condition, cash flows, cash available for distribution, value of our common stock, and ability to satisfy our debt service obligations could be adversely affected.

Our rental revenues will be significantly influenced by the economies and other conditions of the office market in general and of 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.

Because our portfolio consists of office properties, we are subject to risks inherent in investments in a single property type. This concentration exposes us to the risk of economic downturns in the office sector to a greater extent than if our portfolio also included other sectors of the real estate industry. Our properties located in Chicago, Washington, D.C. and the New York metropolitan area account for approximately 22.8%, 15.9%, and 14.0%, respectively, of our ALR. In addition, we currently have several large blocks of space in Washington, D. C. and downtown Chicago that are vacant. As a result, we are particularly susceptible to adverse market conditions in these particular areas, including the reduction in demand for office properties, industry slowdowns, governmental cut backs, relocation of businesses and changing demographics. Adverse economic or real estate developments in the markets in which we have a concentration of properties, or in any of the other markets in which we operate, or any decrease in demand for office space resulting from the local or national government and business climates, could adversely affect our rental revenues and operating results.

We depend on tenants for our revenue, and accordingly, lease terminations and/or tenant defaults, particularly by one of our significant lead tenants, could adversely affect the income produced by our properties, which may harm our operating performance, thereby limiting our ability to make distributions to our stockholders.

The success of our investments materially depends on the financial stability of our tenants, any of whom may experience a change in their business at any time. As a result, our tenants may delay lease commencements, decline to extend or renew their leases upon expiration, fail to make rental payments when due, or declare bankruptcy. Any of these actions could result in the termination of the tenants' leases, or expiration of existing leases without renewal, and the loss of rental income attributable to the terminated or expired leases. In the event of a tenant default or bankruptcy, we may experience delays in enforcing our rights as a landlord and may incur substantial costs in protecting our investment and re-letting our property. If significant leases are terminated or defaulted upon, we may be unable to lease the property for the rent previously received or sell the property without incurring a loss. In addition, significant expenditures, related to mortgage payments, real estate taxes, insurance, and maintenance costs, are generally fixed and do not decrease when revenues at the related property decrease.

The occurrence of any of the situations described above, particularly if it involves one of our significant lead tenants, could seriously harm our operating performance. As of December 31, 2014, our most substantial non-U.S. governmental lead tenants, based on ALR, were State of New York (approximately 4.1%), US Bancorp (approximately 3.6%), and Independence Blue Cross (approximately 3.0%). The revenues generated by the properties lead tenants occupy are substantially dependent upon the financial condition of these tenants and, accordingly, any event of bankruptcy, insolvency, or a general downturn in the business of any of these tenants may result in the failure or delay of such tenant's rental payments, which may have a substantial adverse effect on our operating performance.

Some of our leases provide tenants with the right to terminate their leases early, which could have an adverse effect on our cash flow and results of operations.

Certain of our leases permit our tenants to terminate their leases of all or a portion of the leased premises prior to their stated lease expiration dates under certain circumstances, such as providing notice by a certain date and, in many cases, paying a termination fee. In certain cases, such early terminations can be effectuated by our tenants with little or no termination fee being paid to us. As of December 31, 2014, approximately 6.6% of our ALR was comprised of leases that provided tenants with early termination rights (including contractions and terminations of whole leases) that could be effected during the subsequent twelve month period. Leases comprising approximately 5.6% of our ALR would require the tenant to pay a termination fee, while 1.0% of our ALR would not require a termination fee upon execution. To the extent that our tenants exercise early termination rights, our cash flow and earnings will be adversely affected, and we can provide no assurances that we will be able to generate an equivalent amount of net rental income by leasing the vacated space to new third party tenants.

We may face additional risks and costs associated with directly managing properties occupied by government tenants.

We currently own six properties in which some or all of the tenants in each property are federal government agencies. Lease agreements with these federal government agencies contain certain provisions required by federal law, which require, among other things, that the contractor (which is the lessor or the owner of the property) agree to comply with certain rules and regulations, including but not limited to, rules and regulations related to anti-kickback procedures, examination of records, audits and records, equal opportunity provisions, prohibitions against segregated facilities, certain executive orders, subcontractor costs or pricing data, and certain provisions intending to assist small businesses. Through one of our wholly-owned subsidiaries, we directly manage properties with federal government agency tenants and, therefore, we are subject to additional risks associated with compliance with all such federal rules and regulations. There are certain additional requirements relating to the potential application of the Employment Standards Administration’s Office of Federal Contract Compliance Programs and the related requirement to prepare written affirmative action plans applicable to government contractors and subcontractors. Some of the factors used to determine whether such requirements apply to a company that is affiliated with the actual government contractor (the legal entity that is the lessor under a lease with a federal government agency) include whether such company and the government contractor are under common ownership, have common management, and are under common control. One of our wholly-owned subsidiaries is considered a government contractor, increasing the risk that requirements of these equal opportunity provisions including the requirement to prepare affirmative action plans may be determined to be applicable to the entire operations of our company.

Adverse market and economic conditions may negatively affect us and could cause us to recognize impairment charges on tangible real estate and related lease intangible assets or otherwise impact our performance.

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

Projections of expected future cash flows require management to make assumptions to estimate future market rental income amounts subsequent to the expiration of current lease agreements, property operating expenses, the number of months it takes to re-lease the property, and the number of years the property is held for investment, among other factors. The current uncertainty in the U.S. economy increases the subjectivity involved in projecting future cash flows, discount and capitalization rates and other factors involved in these calculations. The subjectivity of assumptions used in the future cash flow analysis, including discount rates, could result in an incorrect assessment of the property’s estimated fair value and, therefore, could result in the misstatement of the carrying value of our real estate and related lease intangible assets and our net income. In addition, adverse economic conditions could also cause us to recognize additional asset impairment charges in the future, which could materially and adversely affect our business, financial condition and results of operations.

Adverse market and economic conditions could cause us to recognize impairment charges on our goodwill, or otherwise impact our performance.

We review the value of our goodwill on an annual basis and when events or changes in circumstances indicate that the carrying value of goodwill may exceed the estimated fair value of such assets. Such interim events could be adverse changes in legal matters or in the business climate, adverse action or assessment by a regulator, the loss of key personnel, or persistent declines in our stock price below our carrying value. Volatility in the overall market could cause the price of our common stock to fluctuate and cause the carrying value of our company to exceed the estimated fair value. If that occurs, our goodwill potentially could be impaired. Impairment charges recognized in order to reduce our goodwill could materially and adversely affect our financial condition and results of operations.

Our growth will partially depend upon future acquisitions of properties, and we may not be successful in identifying and consummating suitable acquisitions that meet our investment criteria, which may impede our growth and negatively affect our results of operations.

Our business strategy involves the acquisition of primarily high-quality office properties in selected markets. These activities require us to identify suitable acquisition candidates or investment opportunities that meet our criteria and are compatible with our growth strategy. We may not be successful in identifying suitable properties or other assets that meet our acquisition criteria or in consummating acquisitions on satisfactory terms, if at all. Failure to identify or consummate acquisitions could slow our growth.

Further, we face significant competition for attractive investment opportunities from an indeterminate number of other real estate investors, including investors with significant capital resources such as domestic and foreign corporations and financial institutions, publicly traded and privately held REITs, private institutional investment funds, investment banking firms, life insurance companies and pension funds. As a result of competition, we may be unable to acquire additional properties as we desire, the purchase price may be significantly elevated, or we may have to accept lease-up risk for a property with lower occupancy which could adversely affect our financial condition, results of operations, cash flows and the ability to pay dividends on, and the market price of our common stock.

The illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our properties.

Because real estate investments are relatively illiquid and large-scale office properties such as many of those in our portfolio are particularly illiquid, our ability to sell promptly one or more properties in our portfolio in response to changing economic, financial, and investment conditions is limited. The real estate market is affected by many forces, such as general economic conditions, availability of financing, interest rates, and other factors, including supply and demand, that are beyond our control. We cannot predict whether we will be able to sell any property for the price or on the terms set by us or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. We may be required to expend funds to correct defects or to make improvements

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before a property can be sold. We cannot provide any assurances that we will have funds available to correct such defects or to make such improvements. Our inability to dispose of assets at opportune times or on favorable terms could adversely affect our cash flows and results of operations, thereby limiting our ability to make distributions to stockholders.

Future acquisitions of properties may not yield anticipated returns, may result in disruptions to our business, and may strain management resources.

We intend to continue acquiring high-quality office properties, subject to the availability of attractive properties, to our ability to arrange financing, and to consummate acquisitions on satisfactory terms. In deciding whether to acquire a particular property, we make certain assumptions regarding the expected future performance of that property. However, newly acquired properties may fail to perform as expected. Costs necessary to bring acquired properties up to standards established for their intended market position may exceed our expectations, which may result in the properties' failure to achieve projected returns.

In particular, to the extent that we engage in acquisition activities, they will pose the following risks for our ongoing operations:

- we may acquire properties or other real estate-related investments that are not initially accretive to our results upon acquisition or accept lower cash flows in anticipation of longer term appreciation, and we may not successfully manage and lease those properties to meet our expectations;
- we may not achieve expected cost savings and operating efficiencies;
- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations;
- management attention may be diverted to the integration of acquired properties, which in some cases may turn out to be less compatible with our operating strategy than originally anticipated;
- we may not be able to support the acquired property through one of our existing property management offices and may not successfully open new satellite offices to serve additional markets;
- the acquired properties may not perform as well as we anticipate due to various factors, including changes in macro-economic conditions and the demand for office space; and
- we may acquire properties without any recourse, or with only limited recourse, for liabilities, whether known or unknown, such as clean-up of environmental contamination, unknown/undisclosed latent structural issues or maintenance problems, claims by tenants, vendors or other persons against the former owners of the properties, and claims for indemnification by general partners, directors, officers, and others indemnified by the former owners of the properties.

Acquired properties may be located in new markets, where we may face risks associated with investing in an unfamiliar market.

We may acquire properties located in markets in which we do not have an established presence. We may face risks associated with a lack of market knowledge or understanding of the local economy, forging new business relationships in the area and unfamiliarity with local government and permitting procedures. As a result, the operating performance of properties acquired in new markets may be less than we anticipate, and we may have difficulty integrating such properties into our existing portfolio. In addition, the time and resources that may be required to obtain market knowledge and/or integrate such properties into our existing portfolio could divert our management's attention from our existing business or other attractive opportunities in our concentration markets.

We may invest in mezzanine debt, which is subject to increased risk of loss relative to senior mortgage loans.

We may invest in mezzanine debt. These investments, which are subordinate to the mortgage loans secured by the real property underlying the loan, are generally secured by pledges of the equity interests of the entities owning the underlying real estate. As a result, these investments involve greater risk of loss than investments in senior mortgage loans that are secured by real property since they are subordinate to the mortgage loan secured by the building and may be subordinate to the interests of other mezzanine lenders. Therefore, if the property owner defaults on its debt service obligations payable to us or on debt senior to us, or declares bankruptcy, such mezzanine loans will be satisfied only after the senior debt and the other senior mezzanine loans are paid in full, resulting in the possibility that we may be unable to recover some or all of our investment. In addition, the value of the assets securing or supporting our mezzanine debt investments could deteriorate over time due to factors beyond our control, including acts or omissions by owners, changes in business, economic or market conditions, or foreclosure, any of which could result in the recognition of impairment losses. In addition, there may be significant delays and costs associated with the process of foreclosing on the collateral securing or supporting such investments.

Our operating results may suffer because of potential development and construction delays and resultant increased costs and risks.

We are currently engaged in development and re-development projects where we may be subject to uncertainties associated with re-zoning, environmental concerns of governmental entities and/or community groups, and our builders' ability to build in conformity with plans, specifications, budgeted costs and timetables. A builder's performance may also be affected or delayed by conditions beyond the builder's control. Delays in completing construction could also give tenants the right to terminate preconstruction leases. We may incur additional risks when we make periodic progress payments or other advances to builders before they complete construction. Further, we may incur unanticipated additional costs related to disputes with existing tenants during redevelopment projects. These and other factors can result in increased costs of a project or loss of our investment. In addition, we will be subject to normal lease-up risks relating to newly constructed projects. Projects with long lead times may increase leasing risk due to changes in market conditions. We also must rely on rental income and expense projections and estimates of the fair market value of property upon completion of construction when agreeing upon a purchase price at the time we acquire the property. If our projections are inaccurate, we may pay too much for a property, and our return on our investment could suffer.

Our real estate development strategies may not be successful.

We are currently engaged in development and redevelopment activities and may continue to engage in additional development related activities to the extent attractive projects become available. When we engage in development activities, we are subject to risks associated with those activities that could adversely affect our financial condition, results of operations, cash flows and ability to pay distributions on, and the market price of, our common stock, including, but not limited to:

- development projects in which we have invested may be abandoned and the related investment will be impaired;
- we may not be able to obtain, or may experience delays in obtaining, all necessary zoning, land-use, building, occupancy and other governmental permits and authorizations;
- we may not be able to obtain land on which to develop;
- we may not be able to obtain financing for development projects, or obtain financing on favorable terms;
- construction costs of a project may exceed the original estimates or construction may not be concluded on schedule, making the project less profitable than originally estimated or not profitable at all (including the possibility of errors or omissions in the project's design, contract default, contractor or subcontactor default, performance bond surety default, the effects of local weather conditions, the possibility of local or national strikes and the possibility of shortages in materials, building supplies or energy and fuel for equipment);
- tenants which pre-lease space or contract with us for a build-to-suit project may default prior to occupying the project;
- upon completion of construction, we may not be able to obtain, or obtain on advantageous terms, permanent financing for activities that we financed through construction loans; and
- we may not achieve sufficient occupancy levels and/or obtain sufficient rents to ensure the profitability of a completed project.

Moreover, substantial renovation and development activities, regardless of their ultimate success, typically require a significant amount of management's time and attention, diverting their attention from our other operations.

Future terrorist attacks in the major metropolitan areas in which we own properties could significantly impact the demand for, and value of, our properties.

Our portfolio maintains significant holdings in markets such as Chicago, Washington, D.C., the New York metropolitan area, Boston, and greater Los Angeles, each of which has been, and continues to be, a high risk geographical area for terrorism and threats of terrorism. Future terrorist attacks and other acts of terrorism or war would severely impact the demand for, and value of, our properties. Terrorist attacks in and around any of the major metropolitan areas in which we own properties also could directly impact the value of our properties through damage, destruction, loss, or increased security costs, and could thereafter materially impact the availability or cost of insurance to protect against such acts. A decrease in demand could make it difficult to renew or re-lease our properties at lease rates equal to or above historical rates. To the extent that any future terrorist attacks otherwise disrupt our tenants' businesses, it may impair our tenants' ability to make timely payments under their existing leases with us, which would harm our operating results.

We face risks related to the occurrence of cyber incidents, or a deficiency in our cybersecurity, which could negatively impact our business by causing a disruption to our operations, a compromise or corruption of our confidential information, and/or damage to our business relationships, all of which could negatively impact our financial results.

A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity, or availability of our information resources. More specifically, a cyber incident is an intentional attack or an unintentional event that can include gaining unauthorized access to systems to disrupt operations, corrupt data, or steal confidential information. The risk of a security breach or disruption, particularly through cyber attacks or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. As our reliance on technology has increased, so have the risks posed to our systems, both internal and those we have outsourced. Risks that could directly result from the occurrence of a cyber incident include operational interruption, damage to our relationship with our tenants, potential errors from misstated financial reports, violations of loan covenants, missed reporting deadlines, and private data exposure, among others. Any or all of the preceding risks could have a material adverse effect on our results of operations, financial condition and cash flows. Although we make efforts to maintain the security and integrity of these types of information technology networks and related systems, and we have implemented various measures to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging.

Uninsured losses or losses in excess of our insurance coverage could adversely affect our financial condition and our cash flow, and there can be no assurance as to future costs and the scope of coverage that may be available under insurance policies.

We carry comprehensive general liability, fire, extended coverage, business interruption rental loss coverage, environmental, and umbrella liability coverage on all of our properties and earthquake, wind, and flood coverage on properties in areas where such coverage is warranted. We believe the policy specifications and insured limits of these policies are adequate and appropriate given the relative risk of loss, the cost of the coverage, and industry practice. However, we may be subject to certain types of losses, those that are generally catastrophic in nature, such as losses due to wars, conventional terrorism, chemical, biological, nuclear and radiation ("CBNR") acts of terrorism and, in some cases, earthquakes, hurricanes, and flooding, either because such coverage is not available or is not available at commercially reasonable rates. If we experience a loss that is uninsured or that exceeds policy limits, we could lose a significant portion of the capital we have invested in the damaged property, as well as the anticipated future revenue from the property. Inflation, changes in building codes and ordinances, environmental considerations, and other factors also might make it impractical or undesirable to use insurance proceeds to replace a property after it has been damaged or destroyed. In addition, if the damaged properties are subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if these properties were irreparably damaged. Furthermore, we may not be able to obtain adequate insurance coverage at reasonable costs in the future, as the costs associated with property and casualty renewals may be higher than anticipated.

In addition, insurance risks associated with potential terrorism acts could sharply increase the premiums we pay for coverage against property and casualty claims. With the recent reauthorization of the Terrorism Risk Insurance Act ("TRIA") through 2020, United States insurers cannot exclude conventional (non-CBNR) terrorism losses. These insurers must make terrorism insurance available under their property and casualty insurance policies; however, this legislation does not regulate the pricing of such insurance. In some cases, mortgage lenders may insist that commercial property owners purchase coverage against terrorism as a condition of providing mortgage loans. Such insurance policies may not be available at a reasonable cost, which could inhibit our ability to finance or refinance our properties. In such instances, we may be required to provide other financial support, either through financial assurances or self-insurance, to cover potential losses. We may not have adequate coverage for such losses.

We have four properties located in the Los Angeles metropolitan area, an area that is especially susceptible to earthquakes. Collectively, these properties represent approximately 5.2% of our ALR. Because these properties are located in close proximity to one another, an earthquake in the greater Los Angeles area could materially damage, destroy or impair the use by tenants of all of these properties. If any of our properties incurs a loss that is not fully insured, the value of that asset will be reduced by such uninsured loss. Also, to the extent we must pay unexpectedly large amounts for insurance, we could suffer reduced earnings that would result in lower distributions to our stockholders.

Should one of our insurance carriers become insolvent, we would be adversely affected.

We carry several different lines of insurance, placed with several large insurance carriers. If any one of these large insurance carriers were to become insolvent, we would be forced to replace the existing insurance coverage with another suitable carrier, and any outstanding claims would be at risk for collection. In such an event, we cannot be certain that we would be able to replace the coverage at similar or otherwise favorable terms. Replacing insurance coverage at unfavorable rates and the potential of uncollectible claims due to carrier insolvency could adversely impact our results of operations and cash flows.

Our current and future joint venture investments could be adversely affected by a lack of sole decision-making authority and our reliance on joint venture partners' financial condition.

As of December 31, 2014, we owned an interest in one property representing approximately 0.1 million rentable square feet through an unconsolidated joint venture. In the future we may enter into additional strategic joint ventures with institutional investors to acquire, develop, improve, or dispose of properties, thereby reducing the amount of capital required by us to make investments and diversifying our capital sources for growth. Such joint venture investments involve risks not otherwise present in a wholly-owned property, development, or redevelopment project, including the following:

- in these investments, we do not have exclusive control over the development, financing, leasing, management, and other aspects of the project, which may prevent us from taking actions that are opposed by our joint venture partners;

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- joint venture agreements often restrict the transfer of a co-venturer's interest or may otherwise restrict our ability to sell the interest when we desire or on advantageous terms;
- we would not be in a position to exercise sole decision-making authority regarding the property or joint venture, which could create the potential risk of creating impasses on decisions, such as acquisitions or sales;
- such co-venturer may, at any time, have economic or business interests or goals that are, or that may become, inconsistent with our business interests or goals;
- such co-venturer may be in a position to take action contrary to our instructions, requests, policies or objectives, including our current policy with respect to maintaining our qualification as a REIT;
- the possibility that our co-venturer in an investment might become bankrupt, which would mean that we and any other remaining co-venturers would generally remain liable for the joint venture's liabilities;
- our relationships with our co-venturers are contractual in nature and may be terminated or dissolved under the terms of the applicable joint venture agreements and, in such event, we may not continue to own or operate the interests or assets underlying such relationship or may need to purchase such interests or assets at a premium to the market price to continue ownership;
- disputes between us and our co-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and directors from focusing their time and efforts on our business and could result in subjecting the properties owned by the applicable joint venture to additional risk; or
- we may, in certain circumstances, be liable for the actions of our co-venturers, and the activities of a joint venture could adversely affect our ability to qualify as a REIT, even though we do not control the joint venture.

Any of the above might subject a property to liabilities in excess of those contemplated and thus reduce the returns to our investors.

Costs of complying with governmental laws and regulations may reduce our net income and the cash available for distributions to our stockholders.

All real property and the operations conducted on real property are subject to federal, state, and local laws and regulations relating to environmental protection and human health and safety. Tenants' ability to operate and to generate income to pay their lease obligations may be affected by permitting and compliance obligations arising under such laws and regulations. Some of these laws and regulations may impose joint and several liability on tenants, owners, or operators for the costs to investigate or remediate contaminated properties, regardless of fault or whether the acts causing the contamination were legal. In addition, the presence of hazardous substances, or the failure to properly remediate these substances, may hinder our ability to sell, rent, or pledge such property as collateral for future borrowings.

Compliance with new laws or regulations or stricter interpretation of existing laws by agencies or the courts may require us to incur material expenditures. Future laws, ordinances, or regulations may impose material environmental liability. Additionally, our tenants' operations, the existing condition of land when we buy it, operations in the vicinity of our properties such as the presence of underground storage tanks or activities of unrelated third parties may affect our properties. In addition, there are various local, state, and federal fire, health, life-safety, and similar regulations with which we may be required to comply, and which may subject us to liability in the form of fines or damages for noncompliance. Any material expenditures, fines, or damages we must pay will reduce our cash flows and ability to make distributions and may reduce the value of our stockholders' investment.

As the present or former owner or operator of real property, we could become subject to liability for environmental contamination, regardless of whether we caused such contamination.

Under various federal, state, and local environmental laws, ordinances, and regulations, a current or former owner or operator of real property may be liable for the cost to remove or remediate hazardous or toxic substances, wastes, or petroleum products on, under, from, or in such property. These costs could be substantial and liability under these laws may attach whether or not the owner or operator knew of, or was responsible for, the presence of such contamination. Even if more than one person may have been responsible for the contamination, each liable party may be held entirely responsible for all of the clean-up costs incurred. In addition, third parties may sue the owner or operator of a property for damages based on personal injury, natural resources, or property damage and/or for other costs, including investigation and clean-up costs, resulting from the environmental contamination. The presence of contamination on one of our properties, or the failure to properly remediate a contaminated property, could give rise to a lien in favor of the government for costs it may incur to address the contamination, or otherwise adversely affect our ability to sell or lease the property or borrow using the property as collateral. In addition, if contamination is discovered on our properties, environmental laws may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require substantial expenditures or prevent us from entering into leases with prospective tenants.

Some of our properties are adjacent to or near other properties that have contained or currently contain underground storage tanks used to store petroleum products or other hazardous or toxic substances. In addition, certain of our properties are on, adjacent to, or near sites upon which others, including former owners or tenants of our properties, have engaged, or may in the future engage, in activities that have released or may have released petroleum products or other hazardous or toxic substances.

The cost of defending against claims of liability, of remediating any contaminated property, or of paying personal injury claims could reduce the amounts available for distribution to our stockholders.

As the owner of real property, we could become subject to liability for adverse environmental conditions in the buildings on our property.

Some of our properties contain asbestos-containing building materials. Environmental laws require that owners or operators of buildings containing asbestos properly manage and maintain the asbestos, adequately inform or train those who may come into contact with asbestos, and undertake special precautions, including removal or other abatement, in the event that asbestos is disturbed during building renovation or demolition. These laws may impose fines and penalties on building owners or operators who fail to comply with these requirements. In addition, environmental laws and the common law may allow third parties to seek recovery from owners or operators for personal injury associated with exposure to asbestos.

The properties also may contain or develop harmful mold or suffer from other air quality issues. Any of these materials or conditions could result in liability for personal injury and costs of remediating adverse conditions, which could have an adverse effect on our cash flows and ability to make distributions to our stockholders.

As the owner of real property, we could become subject to liability for a tenant's failure to comply with environmental requirements regarding the handling and disposal of regulated substances and wastes or for non-compliance with health and safety requirements, which requirements are subject to change.

Some of our tenants may handle regulated substances and wastes as part of their operations at our properties. Environmental laws regulate the handling, use, and disposal of these materials and subject our tenants, and potentially us, to liability resulting from non-compliance with these requirements. The properties in our portfolio also are subject to various federal, state, and local health and safety requirements, such as state and local fire requirements. If we or our tenants fail to comply with these various requirements, we might incur governmental fines or private damage awards. Moreover, we do not know whether or the extent to which existing requirements or their enforcement will change or whether future requirements will require us to make significant unanticipated expenditures that will materially adversely impact our financial condition, results of operations, cash flows, cash available for distribution to stockholders, the market price of our common stock, and our ability to satisfy our debt service obligations. If our tenants become subject to liability for noncompliance, it could affect their ability to make rental payments to us.

We depend on key personnel, each of whom would be difficult to replace.

Our continued success depends to a significant degree upon the continued contributions of certain key personnel including, but not limited to, Donald A. Miller, CFA, Robert E. Bowers, Joseph H. Pangburn, Thomas R. Prescott, Raymond L. Owens, Carroll A. Reddic, and Robert K. Wiberg, each of whom would be difficult to replace. Our ability to retain our management team, or to attract suitable replacements should any member of the executive management team leave, is dependent on the competitive nature of the employment market. The loss of services of one or more of these key members of our management team could adversely affect our results of operations and slow our future growth. We have not obtained and do not expect to obtain "key person" life insurance on any of our key personnel.

We may be subject to litigation, which could have a material adverse effect on our financial condition.

From time to time, we may be subject to legal action arising in the ordinary course of our business or otherwise. Such action could result in additional expenses which, if uninsured, could adversely impact our earnings and cash flows, thereby impacting our ability to service debt and make quarterly distributions to our stockholders. There can be no assurance that our insurance policies will fully cover any payments or legal costs associated with any potential legal action. Further, the ultimate resolution of such action could impact the availability or cost of some of our insurance coverage, which could adversely impact our results of operations and cash flows, expose us to increased risks that would be uninsured, and/or adversely impact our ability to attract officers and directors.

If our disclosure controls or internal control over financial reporting is not effective, investors could lose confidence in our reported financial information, which could adversely affect the perception of our business and the trading price of our common stock.

The design and effectiveness of our disclosure controls and procedures and internal control over financial reporting may not prevent all errors, misstatements, or misrepresentations. Although management will continue to review the effectiveness of our disclosure controls and procedures and internal control over financial reporting, there can be no guarantee that our internal control over financial reporting will be effective in accomplishing all control objectives all of the time. Deficiencies, including any material weakness, in our internal control over financial reporting which may occur in the future could result in misstatements of our results of operations, restatements of our financial statements, a decline in the trading price of our common stock, or otherwise materially adversely affect our business, reputation, results of operations, financial condition, or liquidity.

Compliance or failure to comply with the Americans with Disabilities Act and other similar regulations could result in substantial costs.

Under the Americans with Disabilities Act, places of public accommodation must meet certain federal requirements related to access and use by disabled persons. Noncompliance could result in the imposition of fines by the federal government or the award of damages to private litigants. If we are required to make unanticipated expenditures to comply with the Americans with Disabilities Act, including removing access barriers, then our cash flows and the amounts available for distributions to our stockholders may be adversely affected. Although we believe that our properties are currently in material compliance with these regulatory requirements, we have not conducted an audit or investigation of all of our properties to determine our compliance, and we cannot predict the ultimate cost of compliance with the Americans with Disabilities Act or other legislation. If one or more of our properties is not in compliance with the Americans with Disabilities Act or other legislation, then we would be required to incur additional costs to achieve compliance. If we incur substantial costs to comply with the Americans with Disabilities Act or other legislation, our financial condition, results of operations, the market price of our common stock, cash flows, and our ability to satisfy our debt obligations and to make distributions to our stockholders could be adversely affected.

Risks Related to Our Organization and Structure

Our organizational documents contain provisions that may have an anti-takeover effect, which may discourage third parties from conducting a tender offer or seeking other change of control transactions that could involve a premium price for our common stock or otherwise benefit our stockholders.

Our charter and bylaws contain provisions that may have the effect of delaying, deferring, or preventing a change in control of our company (including an extraordinary transaction such as a merger, tender offer, or sale of all or substantially all of our assets) that might provide a premium price for our common stock or otherwise be in the best interest of our stockholders. These provisions include, among other things, restrictions on the ownership and transfer of our stock, advance notice requirements for stockholder nominations for directors and other business proposals, and our board of directors' power to classify or reclassify unissued shares of common or preferred stock and issue additional shares of common or preferred stock.

In order to preserve our REIT status, our charter limits the number of shares a person may own, which may discourage a takeover that could result in a premium price for our common stock or otherwise benefit our stockholders.

Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT for federal income tax purposes. Unless exempted by our board of directors, no person may actually or constructively own more than 9.8% (by value or number of shares, whichever is more restrictive) of the outstanding shares of our common stock or the outstanding shares of any class or series of our preferred stock, which may inhibit large investors from desiring to purchase our stock. This restriction may have the effect of delaying, deferring, or preventing a change in control, including an extraordinary transaction (such as a merger, tender offer, or sale of all or substantially all of our assets) that might provide a premium price for our common stock or otherwise be in the best interest of our stockholders.

Our board of directors can take many actions without stockholder approval.

Our board of directors has overall authority to oversee our operations and determine our major corporate policies. This authority includes significant flexibility. For example, our board of directors can do the following:

- within the limits provided in our charter, prevent the ownership, transfer, and/or accumulation of stock in order to protect our status as a REIT or for any other reason deemed to be in our best interest and the interest of our stockholders;
- issue additional shares of stock without obtaining stockholder approval, which could dilute the ownership of our then-current stockholders;
- amend our charter to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue, without obtaining stockholder approval;
- classify or reclassify any unissued shares of our common or preferred stock and set the preferences, rights and other terms of such classified or reclassified shares, without obtaining stockholder approval;
- employ and compensate affiliates;
- direct our resources toward investments, which ultimately may not appreciate over time;

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- change creditworthiness standards with respect to our tenants;
- change our investment or borrowing policies;
- determine that it is no longer in our best interest to attempt to qualify, or to continue to qualify, as a REIT; and
- suspend, modify or terminate the dividend reinvestment plan.

Any of these actions could increase our operating expenses, impact our ability to make distributions, or reduce the value of our assets without giving our stockholders the right to vote.

Our charter permits our board of directors to issue stock with terms that may subordinate the rights of our common stockholders, which may discourage a third party from acquiring us in a manner that could result in a premium price for our common stock or otherwise benefit our stockholders.

Our board of directors may, without stockholder approval, issue authorized but unissued shares of our common or preferred stock and amend our charter to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue. In addition, our board of directors may, without stockholder approval, classify or reclassify any unissued shares of our common or preferred stock and set the preferences, rights and other terms of such classified or reclassified shares. Thus, our board of directors could authorize the issuance of preferred stock with terms and conditions that could have priority with respect to distributions and amounts payable upon liquidation over the rights of the holders of our common stock. Such preferred stock also could have the effect of delaying, deferring, or preventing a change in control, including an extraordinary transaction (such as a merger, tender offer, or sale of all or substantially all of our assets) that might provide a premium price for our common stock, or otherwise be in the best interest of our stockholders.

Our board of directors could elect for us to be subject to certain Maryland law limitations on changes in control that could have the effect of preventing transactions in the best interest of our stockholders.

Certain provisions of Maryland law may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control under certain circumstances that otherwise could provide the holders of shares of our common stock with the opportunity to realize a premium over the then-prevailing market price of such shares, including:

- “business combination” provisions that, subject to limitations, prohibit certain business combinations between us and an “interested stockholder” (defined generally as any person who beneficially owns 10% or more of the voting power of our outstanding voting stock or any affiliate or associate of ours who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of our then outstanding stock) or an affiliate thereof for five years after the most recent date on which the stockholder becomes an interested stockholder and thereafter impose supermajority voting requirements on these combinations; and
- “control share” provisions that provide that “control shares” of our company (defined as shares which, when aggregated with other shares controlled by the stockholder, except solely by virtue of a revocable proxy, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a “control share acquisition” (defined as the direct or indirect acquisition of ownership or control of “control shares”) have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

Our bylaws contain a provision exempting any acquisition by any person of shares of our stock from the control share acquisition statute, and our board of directors has adopted a resolution exempting any business combination with any person from the business combination statute. As a result, these provisions currently will not apply to a business combination or control share acquisition involving our company. However, our board of directors may opt into the business combination provisions and the control share provisions of Maryland law in the future.

Additionally, Maryland law permits our board of directors, without stockholder approval and regardless of what is currently provided in our charter or our bylaws, to implement takeover defenses, some of which (for example, a classified board) we do not currently employ. These provisions may have the effect of inhibiting a third party from making an acquisition proposal for our company or of delaying, deferring, or preventing a change in control of our company under circumstances that otherwise could provide the holders of our common stock with the opportunity to realize a premium over the then-current market price.

Our charter, our bylaws, the limited partnership agreement of our operating partnership, and Maryland law also contain other provisions that may delay, defer, or prevent a transaction or a change of control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders. In addition, the employment agreements with our named executive officers contain, and grants under our incentive plan also may contain, change-in-control provisions that might similarly have an anti-takeover effect, inhibit a change of our management, or inhibit in certain circumstances tender offers for our common stock or proxy contests to change our board.

Our rights and the rights of our stockholders to recover claims against our directors and officers are limited, which could reduce our recovery and our stockholders' recovery against them if they negligently cause us to incur losses.

Maryland law provides that a director or officer has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interest and with the care that an ordinarily prudent person in a like position would use under similar circumstances. Our charter eliminates our directors' and officers' liability to us and our stockholders for money damages except for liability resulting from actual receipt of an improper benefit or profit in money, property, or services or active and deliberate dishonesty established by a final judgment and which is material to the cause of action. Our charter and bylaws require us to indemnify our directors and officers to the maximum extent permitted by Maryland law for any claim or liability to which they may become subject or which they may incur by reason of their service as directors or officers, except to the extent that the act or omission of the director or officer was material to the matter giving rise to the proceeding and was committed in bad faith or was the result of active and deliberate dishonesty, the director or officer actually received an improper personal benefit in money, property, or services, or, in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist under common law, which could reduce our and our stockholders' recovery from these persons if they act in a negligent manner. In addition, we may be obligated to fund the defense costs incurred by our directors and officers (as well as by our employees and agents) in some cases.

Risks Related to Our Common Stock

Any change in our dividend policy could have a material adverse effect on the market price of our common stock.

Distributions are authorized and determined by our board of directors in its sole discretion and depend upon a number of factors, including:

- cash available for distribution;
- our results of operations and anticipated future results of operations;
- our financial condition, especially in relation to our anticipated future capital needs of our properties;
- the level of reserves we establish for future capital expenditures;
- the distribution requirements for REITs under the Code;
- the level of distributions paid by comparable listed REITs;
- our operating expenses; and
- other factors our board of directors deems relevant.

We expect to continue to pay quarterly distributions to our stockholders; however, we bear all expenses incurred by our operations, and our funds generated by operations, after deducting these expenses, may not be sufficient to cover desired levels of distributions to our stockholders. Any change in our distribution policy could have a material adverse effect on the market price of our common stock.

There are significant price and volume fluctuations in the public markets, including on the exchange which we listed our common stock.

The U.S. stock markets, including the NYSE on which our common stock is listed, have historically experienced significant price and volume fluctuations. The market price of our common stock may be highly volatile and could be subject to wide fluctuations and investors in our common stock may experience a decrease in the value of their shares, including decreases unrelated to our operating performance or prospects. If the market price of our common stock declines significantly, stockholders may be unable to resell their shares at or above their purchase price. We cannot assure stockholders that the market price of our common stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect our stock price or result in fluctuations in the price or trading volume of our common stock include:

- actual or anticipated variations in our quarterly operating results;
- changes in our earnings estimates or publication of research reports about us or the real estate industry, although no assurance can be given that any research reports about us will be published or the accuracy of such reports;
- changes in our dividend policy;
- future sales of substantial amounts of our common stock by our existing or future stockholders;
- increases in market interest rates, which may lead purchasers of our stock to demand a higher yield;
- changes in market valuations of similar companies;
- adverse market reaction to any increased indebtedness we incur in the future;
- additions or departures of key personnel;

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- actions by institutional stockholders;
- material, adverse litigation judgments;
- speculation in the press or investment community; and
- general market and economic conditions.

Future offerings of debt securities, which would be senior to our common stock upon liquidation, or equity securities, which would dilute our existing stockholders and may be senior to our common stock for the purposes of distributions, may adversely affect the market price of our common stock.

We may attempt to increase our capital resources by making additional offerings of debt or equity securities, including medium term notes, senior or subordinated notes and classes of preferred or common stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common stock or both. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our common stock and diluting their proportionate ownership.

Market interest rates may have an effect on the value of our common stock.

One of the factors that investors may consider in deciding whether to buy or sell our common stock is our distribution rate as a percentage of our share price, relative to market interest rates. If market interest rates increase, prospective investors may desire a higher yield on our common stock or seek securities paying higher dividends or yields. It is likely that the public valuation of our common stock will be based primarily on our earnings and cash flows and not from the underlying appraised value of the properties themselves. As a result, interest rate fluctuations and capital market conditions can affect the market value of our common stock. For instance, if interest rates rise, it is possible that the market price of our common stock will decrease, because potential investors may require a higher dividend yield on our common stock as market rates on interest-bearing securities, such as bonds, rise.

If securities analysts do not publish research or reports about our business or if they downgrade our common stock or our sector, the price of our common stock could decline.

The trading market for our common stock relies in part on the research and reports that industry or financial analysts publish about us or our business. We do not control these analysts. Furthermore, if one or more of the analysts who do cover us downgrades our shares or our industry, or the stock of any of our competitors, the price of our shares could decline. If one or more of these analysts ceases coverage of our company, we could lose attention in the market, which in turn could cause the price of our common stock to decline.

Federal Income Tax Risks

Our failure to qualify as a REIT could adversely affect our operations and our ability to make distributions.

We are owned and operated in a manner intended to qualify us as a REIT for U.S. federal income tax purposes; however, we do not have a ruling from the IRS as to our REIT status. In addition, we own all of the common stock of a subsidiary that has elected to be treated as a REIT, and if our subsidiary REIT were to fail to qualify as a REIT, it is possible that we also would fail to qualify as a REIT unless we (or the subsidiary REIT) could qualify for certain relief provisions. Our qualification and the qualification of our subsidiary REIT as a REIT will depend on satisfaction, on an annual or quarterly basis, of numerous requirements set forth in highly technical and complex provisions of the Code for which there are only limited judicial or administrative interpretations. A determination as to whether such requirements are satisfied involves various factual matters and circumstances not entirely within our control. The fact that we hold substantially all of our assets through our operating partnership and its subsidiaries further complicates the application of the REIT requirements for us. No assurance can be given that we, or our subsidiary REIT, will qualify as a REIT for any particular year.

If we, or our subsidiary REIT, were to fail to qualify as a REIT in any taxable year for which a REIT election has been made, the non-qualifying REIT would not be allowed a deduction for dividends paid to its stockholders in computing our taxable income and would be subject to U.S. federal income tax (including any applicable alternative minimum tax) on its taxable income at corporate rates. Moreover, unless the non-qualifying REIT were to obtain relief under certain statutory provisions, the non-qualifying REIT also would be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost. This treatment would reduce our net earnings available for investment or distribution to our stockholders because of the additional tax liability to us for the years involved. As a result of such additional tax liability, we might need to borrow funds or liquidate certain investments on terms that may be disadvantageous to us in order to pay the applicable tax.

Changes in tax laws may eliminate the benefits of REIT status or prevent us from maintaining our qualification as a REIT.

New legislation, regulations, administrative interpretations or court decisions could change the tax laws or interpretations of the tax laws regarding qualification as a REIT, or the federal income tax consequences of that qualification, in a manner that is materially adverse to our stockholders. Accordingly, there is no assurance that we can continue to operate with the current benefits of our REIT status. If there is a change in the tax laws that prevents us from qualifying as a REIT, that eliminates REIT status generally, or that requires REITs generally to pay corporate level income taxes, our results of operations may be adversely affected and we may not be able to make the same level of distributions to our stockholders.

Even if we qualify as a REIT, we may incur certain tax liabilities that would reduce our cash flow and impair our ability to make distributions.

Even if we maintain our status as a REIT, we may be subject to U.S. federal income taxes or state taxes, which would reduce our cash available for distribution to our stockholders. For example, we will be subject to federal income tax on any undistributed taxable income. Further, if we fail to distribute during each calendar year at least the sum of (a) 85% of our ordinary income for such year, (b) 95% of our net capital gain income for such year, and (c) any undistributed taxable income from prior periods, we will be subject to a 4% excise tax on the excess of the required distribution over the sum of (i) the amounts actually distributed by us, plus (ii) retained amounts on which we pay income tax at the corporate level. If we realize net income from foreclosure properties that we hold primarily for sale to customers in the ordinary course of business, we must pay tax thereon at the highest corporate income tax rate, and if we sell a property, other than foreclosure property, that we are determined to have held for sale to customers in the ordinary course of business, any gain realized would be subject to a 100% “prohibited transaction” tax. The determination as to whether or not a particular sale is a prohibited transaction depends on the facts and circumstances related to that sale. We cannot guarantee that sales of our properties would not be prohibited transactions unless we comply with certain safe-harbor provisions. The need to avoid prohibited transactions could cause us to forego or defer sales of properties that might otherwise be in our best interest to sell. In addition, we own interests in certain taxable REIT subsidiaries that are subject to federal income taxation and we and our subsidiaries may be subject to state and local taxes on our income or property.

Differences between the recognition of taxable income and the actual receipt of cash could require us to sell assets or borrow funds on a short-term or long-term basis to meet the distribution requirements of the Code.

We intend to make distributions to our stockholders to comply with the requirements of the Code for REITs and to minimize or eliminate our corporate tax obligations; however, differences between the recognition of taxable income and the actual receipt of cash could require us to sell assets or borrow funds on a short-term or long-term basis to meet the distribution requirements of the Code. Certain types of assets generate substantial disparity between taxable income and available cash, such as real estate that has been financed through financing structures which require some or all of available cash flows to be used to service borrowings. As a result, the requirement to distribute a substantial portion of our taxable income could cause us to: (1) sell assets in adverse market conditions, (2) borrow on unfavorable terms, or (3) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures, or repayment of debt, in order to comply with REIT requirements. Any such actions could increase our costs and reduce the value of our common stock. Further, we may be required to make distributions to our stockholders when it would be more advantageous to reinvest cash in our business or when we do not have funds readily available for distribution. Compliance with REIT qualification requirements may, therefore, hinder our ability to operate solely on the basis of maximizing profits.

We face possible adverse changes in tax laws including changes to state tax laws regarding the treatment of REITs and their stockholders, which may result in an increase in our tax liability.

From time to time, changes in state and local tax laws or regulations are enacted, including changes to a state's treatment of REITs and their stockholders, which may result in an increase in our tax liability. Any shortfall in tax revenues for states and municipalities may lead to an increase in the frequency and size of such changes. If such changes occur, we may be required to pay additional taxes on our assets or income. These increased tax costs could adversely affect our financial condition and results of operations and the amount of cash available for payment of dividends.

Distributions made by REITs do not qualify for the reduced tax rates that apply to certain other corporate distributions.

The maximum tax rate for distributions made by corporations to individuals, trusts and estates is generally 20%. Distributions made by REITs; however, generally are taxed at the normal rate applicable to the individual recipient rather than the 20% preferential rate. The more favorable rates applicable to regular corporate distributions could cause investors who are individuals to perceive investments in REITs to be relatively less attractive than investments in non-REIT corporations that make distributions.

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A recharacterization of transactions undertaken by our operating partnership may result in lost tax benefits or prohibited transactions, which would diminish cash distributions to our stockholders, or even cause us to lose REIT status.

The IRS could recharacterize transactions consummated by our operating partnership, which could result in the income realized on certain transactions being treated as gain realized from the sale of property that is held as inventory or otherwise held primarily for the sale to customers in the ordinary course of business. In such event, the gain would constitute income from a prohibited transaction and would be subject to a 100% tax. If this were to occur, our ability to make cash distributions to our stockholders would be adversely affected. Moreover, our operating partnership may purchase properties and lease them back to the sellers of such properties. While we will use our best efforts to structure any such sale-leaseback transaction such that the lease will be characterized as a “true lease,” thereby allowing us to be treated as the owner of the property for federal income tax purposes, we can give stockholders no assurance that the IRS will not attempt to challenge such characterization. In the event that any such sale-leaseback transaction is challenged and recharacterized as a financing transaction or loan for U.S. federal income tax purposes, deductions for depreciation and cost recovery relating to such property would be disallowed. If a sale-leaseback transaction were so recharacterized, the amount of our adjusted REIT taxable income could be recalculated, which might cause us to fail to meet the distribution requirement for a taxable year. We also might fail to satisfy the REIT qualification asset tests or income tests and, consequently, lose our REIT status. Even if we maintain our status as a REIT, an increase in our adjusted REIT taxable income could cause us to be subject to additional federal and state income and excise taxes. Any federal or state taxes we pay will reduce our cash available for distribution to our stockholders.

Legislative or regulatory action could adversely affect our stockholders.

Numerous legislative, judicial and administrative changes have been made to the federal income tax laws applicable to investments in REITs and similar entities. Additional changes to tax laws are likely to continue to occur in the future, and we cannot assure stockholders that any such changes will not adversely affect the taxation of a stockholder. Any such changes could have an adverse effect on an investment in our common stock. Stockholders are urged to consult with their tax advisor with respect to the status of legislative, regulatory, or administrative developments and proposals and their potential effect on an investment in common stock.

Risks Associated with Debt Financing

We have incurred and are likely to continue to incur mortgage and other indebtedness, which may increase our business risks.

As of December 31, 2014, we had total outstanding indebtedness of approximately $2.3 billion and a total debt to gross assets ratio of 38.2%. Although the instruments governing our unsecured and secured indebtedness limit our ability to incur additional indebtedness, these restrictions are subject to a number of qualifications and exceptions and, under certain circumstances, debt incurred in compliance with these restrictions could be substantial.We may incur additional indebtedness to acquire properties or other real estate-related investments, to fund property improvements, and other capital expenditures or for other corporate purposes, such as to repurchase shares of our common stock through repurchase programs that our board of directors has authorized or to fund future distributions to our stockholders.

Significant borrowings by us increase the risks of an investment in us. Our ability to make payments on and to refinance our indebtedness and to fund our operations, working capital and capital expenditures, depends on our ability to generate cash in the future. Our cash flow is subject to general economic, industry, financial, competitive, operating, legislative, regulatory and other factors, many of which are beyond our control. If there is a shortfall between the cash flow from properties and the cash flow needed to service our indebtedness, then the amount available for distributions to stockholders may be reduced.

Our failure to pay amounts due in respect of any of our indebtedness when due may constitute an event of default under the instrument governing that indebtedness, which could permit the holders of that indebtedness to require the immediate repayment of that indebtedness in full and, in the case of secured indebtedness, could allow them to sell the collateral securing that indebtedness and use the proceeds to repay that indebtedness. For example, defaults on indebtedness secured by a property may result in lenders initiating foreclosure actions. Although we believe no such instances exist as of December 31, 2014, in those cases, we could lose the property securing the loan that is in default. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but we would not receive any cash proceeds.

Moreover, any acceleration of or default in respect of any of our indebtedness could, in turn, constitute an event of default under other debt instruments or agreements, thereby resulting in the acceleration and required repayment of that other indebtedness. In addition, while we do not currently anticipate doing so, we may give full or partial guarantees to lenders of mortgage debt on behalf of the entities that own our properties if circumstances warrant that action. If we were to give a guaranty on behalf of an entity that owns one of our properties, we would be responsible to the lender for satisfaction of the debt if it were not paid by such entity. If any mortgages or other indebtedness contain cross-collateralization or cross-default provisions, a default on a single loan could affect multiple properties. If any of our properties are foreclosed on due to a default, our ability to pay cash distributions to our stockholders will be limited.

We cannot give any assurance that our business will generate sufficient cash flow from operations or that future sources of cash will be available to us in an amount sufficient to enable us to pay amounts due on our indebtedness or to fund our other liquidity needs.

We may need to refinance all or a portion of our indebtedness on or before maturity. Our ability to refinance our indebtedness or obtain additional financing will depend on, among other things our financial condition, results of operations and market conditions at the time; and restrictions in the agreements governing our indebtedness.

As a result, we may not be able to refinance our indebtedness on commercially reasonable terms, or at all. If we do not generate sufficient cash flow from operations, and additional borrowings or refinancings or proceeds of assets sales or other sources of cash are not available to us, we may not have sufficient cash to enable us to meet all of our obligations. Accordingly, if we cannot service our indebtedness, we may have to take actions such as seeking additional equity financing, delaying capital expenditures or strategic acquisitions and alliances. Any of these events or circumstances could have a material adverse effect on our financial condition, results of operations, cash flows, the trading price of our securities and our ability to satisfy our debt service obligations.

High mortgage rates may make it difficult for us to finance or refinance properties, which could reduce the number of properties we can acquire, our net income, and the amount of cash distributions we can make.

If mortgage debt is unavailable at reasonable rates, we may not be able to finance the purchase of properties. If we place mortgage debt on properties, we run the risk of being unable to refinance the properties when the loans become due, or of being unable to refinance on favorable terms. If interest rates are higher when we refinance our properties, our income could be reduced. We may be unable to refinance properties. If any of these events occur, our cash flow could be reduced. This, in turn, could reduce cash available for distribution to our stockholders and may hinder our ability to raise more capital by issuing more stock or by borrowing more money.

Agreements governing our existing indebtedness contain, and future financing arrangements will likely contain, restrictive covenants relating to our operations, which could limit our ability to make distributions to our stockholders.

We are subject to certain restrictions pursuant to the restrictive covenants of our outstanding indebtedness, which may affect our distribution and operating policies and our ability to incur additional debt. Loan documents evidencing our existing indebtedness contain, and loan documents entered into in the future will likely contain, certain operating covenants that limit our ability to further mortgage the property or discontinue insurance coverage. In addition, the agreements governing our existing indebtedness contain financial covenants, including certain coverage ratios and limitations on our ability to incur secured and unsecured debt, make dividend payments, sell all or substantially all of our assets, and engage in mergers and consolidations and certain acquisitions. Covenants under our existing indebtedness do, and under any future indebtedness likely will, restrict our ability to pursue certain business initiatives or certain acquisition transactions. In addition, failure to meet any of these covenants, including the financial coverage ratios, could cause an event of default under and/or accelerate some or all of our indebtedness, which would have a material adverse effect on us.

Increases in interest rates would increase the amount of our variable-rate debt payments and could limit our ability to pay dividends to our stockholders.

Currently, outstanding draws on our $500 Million Unsecured Line of Credit and our $50 Million Unsecured Term Loan are our only debt instruments that bear interest at a floating rate. All of our other debt is either fixed rate or has been effectively fixed through interest rate swap agreements. In addition, under the terms of both the $500 Million Unsecured Line of Credit and $50 Million Unsecured Term Loan, our existing draws are subject to various length LIBOR locks. As the $50 Million Unsecured Term Loan is fully drawn, increases in interest rates will increase our interest costs associated with any future draws that we may make on our $500 Million Line of Credit. Such increases would reduce our cash flows and could impact our ability to pay dividends to our stockholders. In addition, if we are required to repay existing debt during periods of higher interest rates, we may need to sell one or more of our investments in order to repay the debt, which might not permit realization of the maximum return on such investments.

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Changes in interest rates could have adverse affects on our cash flows as a result of our interest rate derivative contracts.

We have entered into various interest rate derivative agreements to effectively fix our exposure to interest rates under certain of our existing and anticipated debt facilities. To the extent interest rates are higher than the fixed rate in the respective contract, we would realize cash savings as compared to other market participants. However, to the extent interest rates are below the fixed rate in the respective contract, we would make higher cash payments than other similar market participants, which would have an adverse affect on our cash flows as compared to other market participants.

Additionally, there is counterparty risk associated with entering into interest rate derivative contracts. Should market conditions lead to insolvency or make a merger necessary for one or more of our counterparties, or potential future counterparties, it is possible that the terms of our interest rate derivative contracts will not be honored in their current form with a replacement counterparty. The potential termination or renegotiation of the terms of the interest rate derivative contracts as a result of changing counterparties through insolvency or merger could result in an adverse impact on our results of operations and cash flows.

A downgrade in our credit rating could materially adversely affect our business and financial condition.

The credit ratings assigned to our debt securities could change based upon, among other things, our results of operations and financial condition. If any of the credit rating agencies that have rated our debt securities downgrades or lowers its credit rating, or if any credit rating agency indicates that it has placed any such rating on a so-called “watch list” for a possible downgrading or lowering or otherwise indicates that its outlook for that rating is negative, it could have a material adverse effect on our costs and availability of capital, which could in turn have a material adverse effect on our financial condition, results of operations, cash flows and our ability to satisfy our debt service obligations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

There were no unresolved SEC staff comments as of December 31, 2014.

ITEM 2. PROPERTIES

Overview

As of December 31, 2014, we owned interests in 74 office properties, one redevelopment asset, and one office building through an unconsolidated joint venture. Approximately 90% of our ALR (unaudited) 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. As of December 31, 2014 and 2013, the portfolio was 87.7% and 87.2% leased, respectively, with an average lease term remaining as of each period end of approximately seven years.

ALR (see "Information Regarding Disclosures Presented" above) related to our portfolio of properties was $583.3 million, or $30.98 per leased square foot, as of December 31, 2014 as compared with $569.8 million, or $30.41 per leased square foot, as of December 31, 2013.

Property Statistics

The tables below include statistics for our properties that we own directly and through our consolidated joint ventures, but do not include our respective ownership interests in properties that we own through our unconsolidated joint ventures. "ALR" is defined in Item 1 of this Annual Report on Form 10-K.

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The following table shows lease expirations of our office portfolio as of December 31, 2014, during each of the next thirteen years and thereafter, assuming no exercise of renewal options or termination rights.

Year of Lease Expiration	Annualized Lease Revenue (in thousands)	Rentable Square Feet Expiring (in thousands)	Percentage of Annualized Lease Revenue (%)
Vacant	$—	2,643	—
2015 [1]	20,438	685	3.5
2016	32,320	1,146	5.6
2017	58,493	1,363	10.0
2018	52,912	1,673	9.1
2019	74,810	2,537	12.8
2020	49,808	1,814	8.5
2021	38,988	1,293	6.7
2022	31,524	1,054	5.4
2023	29,883	1,061	5.1
2024	46,751	1,518	8.0
2025	23,766	896	4.1
2026	17,051	697	2.9
2027	57,241	1,412	9.8
Thereafter	49,292	1,679	8.5
	$583,277	21,471	100.0

(1) Includes leases with an expiration date of December 31, 2014 aggregating 44,000 square feet and ALR of $0.9 million.

The following table shows the geographic diversification of our portfolio as of December 31, 2014.

Location	Annualized Lease Revenue (in thousands)	Rentable Square Feet (in thousands)	Percentage of Annualized Lease Revenue (%)
Chicago	$132,861	4,833	22.8
Washington, D.C.	92,822	3,035	15.9
New York	81,711	2,434	14.0
Dallas	44,628	1,906	7.7
Minneapolis	44,192	1,617	7.6
Boston	40,940	1,476	7.0
Atlanta	30,997	1,446	5.3
Los Angeles	30,335	1,010	5.2
Detroit	17,628	817	3.0
Philadelphia	17,613	801	3.0
Central & South Florida	11,088	473	1.9
Houston	10,583	313	1.8
Nashville	10,384	513	1.8
Phoenix	8,238	432	1.4
Austin	6,499	195	1.1
Other [1]	2,758	170	0.5
	$583,277	21,471	100.0

(1) Not more than 0.5% is attributable to any individual geographic region.

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The following table shows the tenant industry diversification of our portfolio as of December 31, 2014.

Industry	Annualized Lease Revenue (in thousands)	Leased Square Footage (in thousands)	Percentage of Annualized Lease Revenue (%)
Governmental Entity	$79,053	1,702	13.6
Business Services	61,222	2,312	10.5
Depository Institutions	45,985	1,619	7.9
Engineering, Accounting, Research, Management & Related Services	43,328	1,197	7.4
Nondepository Credit Institutions	38,685	1,308	6.6
Insurance Agents, Brokers & Services	38,524	1,335	6.6
Insurance Carriers	32,135	1,289	5.5
Communications	23,043	732	4.0
Security & Commodity Brokers, Dealers, Exchanges & Services	22,375	778	3.8
Real Estate	15,117	465	2.6
Educational Services	14,586	395	2.5
Automotive Repair, Services & Parking	13,577	49	2.3
Food & Kindred Products	12,465	408	2.1
Electronic & Other Electrical Equipment & Components, Except Computer	12,131	428	2.1
Legal Services	11,707	343	2.0
Other [1]	119,344	4,468	20.5
	$583,277	18,828	100.0

[1] Not more than 2% is attributable to any individual industry.

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The following table shows the tenant diversification of our portfolio as of December 31, 2014.

Tenant	Number of Properties	Expiration Date(s) [1]		Annualized Lease Revenues (in thousands) [2]	Percentage of Annualized Lease Revenues (%)
U.S. Government	6	Various	[3]	$44,768	7.7
State of New York	1	2019		23,926	4.1
US Bancorp	3	2023 / 2024		21,107	3.6
Independence Blue Cross	1	2033		17,613	3.0
GE	2	2027		16,315	2.8
Aon	2	2028		14,900	2.6
Nestle	1	2021		12,235	2.1
City of New York	1	2020		10,009	1.7
KPMG	1	2027		9,157	1.6
Gallagher	1	2018		8,539	1.5
Caterpillar Financial	1	2022		7,805	1.3
DDB Needham	1	2018		7,734	1.3
Technip	1	2018		7,691	1.3
Catamaran	1	2025		7,394	1.3
Jones Lang LaSalle	1	2032		7,164	1.2
Harvard University	2	2017/2018		7,145	1.2
Gemini	1	2021		6,544	1.1
Harcourt	1	2016		6,494	1.1
Edelman	1	2024		6,489	1.1
Key Bank	2	2016		6,422	1.1
Raytheon	2	2019		6,271	1.1
Epsilon Data Management	2	2026		6,058	1.0
First Data Corporation	1	2020		6,008	1.0
Archon Group	2	2018		5,810	1.0
Ralph Lauren	1	2019		5,808	1.0
Integrys	1	2029		5,640	1.0
Henry M Jackson	2	2022		5,577	1.0
Other		Various	[4]	292,654	50.2
				$583,277	100.0

(1) Represents the expiration year of the majority of the square footage leased by the tenant.
(2) Approximately 73% of our ALR is derived from investment grade or nationally recognized companies or government agencies.
(3) Various expirations ranging from 2015 to 2027.
(4) Not more than 1% of ALR is attributable to any individual tenant.

Certain Restrictions Related to our Properties

Control of certain properties is limited to a certain extent because the properties are owned through joint ventures. In addition, certain of our properties are subject to ground leases and certain properties are held as collateral for debt. Refer to Schedule III listed in the index of Item 15(a) of this report, which details two properties subject to ground leases and twenty properties held as collateral for debt facilities as of December 31, 2014.

ITEM 3. LEGAL PROCEEDINGS

Piedmont is not subject to any material pending legal proceedings. However, we are subject to routine litigation arising in the ordinary course of owning and operating real estate assets. Our management expects that these ordinary routine legal proceedings will be covered by insurance and does not expect these legal proceedings to have a material adverse effect on our financial condition,

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results of operations, or liquidity. Additionally, management is not aware of any legal proceedings contemplated by governmental authorities.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information and Holders

Our common stock is listed on the New York Stock Exchange under the symbol "PDM." As of February 17, 2015, there were 13,720 common stockholders of record of our common stock.

The high and low sales prices for Piedmont's common stock and the dividend distributions paid on all outstanding classes of common stock to stockholders during 2014 and 2013 were as follows:

	2014 Quarters			
	First	Second	Third	Fourth
High	$17.42	$19.80	$19.97	$20.05
Low	$15.83	$16.82	$17.64	$17.44
Dividend per common share	$0.20	$0.20	$0.20	$0.21

	2013 Quarters			
	First	Second	Third	Fourth
High	$20.00	$21.09	$19.06	$18.93
Low	$17.94	$16.49	$16.83	$15.86
Dividend per common share	$0.20	$0.20	$0.20	$0.20

Performance Graph

The following graph compares the cumulative total return of Piedmont's common stock with the S&P 500 Index, the FTSE NAREIT Equity REITs Index, and the FTSE NAREIT Equity Office Index for the period beginning on February 10, 2010 (Piedmont's initial listing of its common stock on the NYSE) through December 31, 2014. The graph assumes a $100 investment in each of the indices on February 10, 2010 and the reinvestment of all dividends.

Comparison of Cumulative Total Return of One or More Companies, Peer Groups, Industry Indices, and/or Broad Markets

	For the Period from February 10, 2010 to December 31, 2014					
	2/10/2010	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Piedmont Office Realty Trust, Inc.	$100.00	$138.02	$124.94	$138.67	$132.60	$157.99
FTSE NAREIT Equity Office	$100.00	$119.36	$121.88	$141.38	$187.17	$212.80
FTSE NAREIT Equity REITs	$100.00	$134.99	$146.19	$172.59	$176.85	$230.15
S&P 500	$100.00	$124.61	$123.66	$141.17	$149.04	$187.57

The performance graph above is being furnished as part of this Annual Report solely in accordance with the requirement under Rule 14a-3(b)(9) to furnish Piedmont’s stockholders with such information and, therefore, is not deemed to be filed, or incorporated by reference in any filing, by Piedmont under the Securities Act of 1933 or the Securities Exchange Act of 1934.

Purchases of Equity Securities By the Issuer and Affiliated Purchasers

During the quarter ended December 31, 2014, Piedmont repurchased shares of its common stock in the open market, in order to reissue such shares under its dividend reinvestment plan (the “DRP”), as well as repurchasing and retiring shares as part of our announced stock repurchase plan.
Of the 129,733 shares repurchased during the fourth quarter of 2014, 6,682 shares (at an average price of $17.48 per share) related to repurchase of our common stock pursuant to our announced stock repurchase plan, and 123,051 shares (at an average price of $18.43 per share) related to shares purchased and conveyed to participants in the DRP. The aggregate stock repurchases for the quarter ended December 31, 2014 are as follows:

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Period	Total Number of Shares Purchased (in 000's)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (in 000's)[1]	Maximum Approximate Dollar Value of Shares Available That May Yet Be Purchased Under the Program (in 000's)[1]	
October 1, 2014 to October 31, 2014	7	$ 17.48	7	$ 37,040	
November 1, 2014 to November 30, 2014	—	$ —	—	$ 37,040	
December 1, 2014 to December 31, 2014	123	$ 18.43	—	$ 37,040	[1]
Total	130	$ 18.38	7		

(1) Under our amended and restated DRP, as set forth in a Current Report on Form 8-K filed February 24, 2011, we have the option to either issue shares that we purchase in the open market or issue shares directly from Piedmont from authorized but unissued shares. Such election will take place at the settlement of each quarterly dividend in which there are participants in our DRP, and may change from quarter to quarter based on our judgment of the best use of proceeds for Piedmont. Therefore, the "Maximum Approximate Dollar Value of Shares Available That May Yet Be Purchased Under the Program" relates only to our Amended and Restated Stock Repurchase Plan authorizing the repurchase of up to $150 million in stock repurchases. The stock repurchase plan was announced on November 3, 2011 and is currently scheduled to expire during the third quarter 2015, and is separate from shares purchased for DRP issuance.

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ITEM 6. SELECTED FINANCIAL DATA

The following sets forth a summary of our selected financial data as of and for the years ended December 31, 2014, 2013, 2012, 2011, and 2010 (in thousands except for per-share data). Our selected financial data is prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), except as noted below.

	2014	2013	2012	2011	2010
Statement of Income Data(1):					
Total revenues	$566,252	$549,610	$520,704	$520,647	$511,207
Property operating costs	$239,436	$220,779	$206,189	$200,159	$189,277
Depreciation and amortization	$195,175	$166,070	$158,277	$153,017	$129,465
General and administrative expenses	$23,820	$21,881	$20,767	$25,070	$28,119
Other income/(expense)	$(67,742)	$(68,682)	$(75,937)	$(58,761)	$(60,367)
Income from continuing operations(1)	$40,079	$72,198	$59,534	$83,640	$103,979
Income from discontinued operations(1)	$2,152	$26,545	$33,685	$141,416	$16,415
Gain on sale of real estate assets not classified as discontinued operations	$1,132	$—	$—	$—	$—
Net income attributable to noncontrolling interest	$(15)	$(15)	$(15)	$(15)	$(15)
Net income attributable to Piedmont	$43,348	$98,728	$93,204	$225,041	$120,379
Per-Share Data(1):					
Per weighted-average common share data:					
Income from continuing operations per share—basic	$0.27	$0.44	$0.35	$0.48	$0.61
Income from continuing operations per share—diluted	$0.27	$0.44	$0.35	$0.48	$0.60
Income from discontinued operations per share—basic and diluted	$0.01	$0.16	$0.20	$0.82	$0.10
Net income attributable to Piedmont per share—basic	$0.28	$0.60	$0.55	$1.30	$0.71
Net income attributable to Piedmont per share—diluted	$0.28	$0.60	$0.55	$1.30	$0.70
Dividends declared and paid to common stockholders	$0.81	$0.80	$0.80	$1.26	$1.26
Weighted-average shares outstanding—basic (in thousands)	154,452	165,013	170,312	172,765	170,753
Weighted-average shares outstanding—diluted (in thousands)	154,585	165,137	170,441	172,981	170,967
Balance Sheet Data (at period end):					
Total assets	$4,795,501	$4,666,088	$4,254,875	$4,447,834	$4,373,480
Total stockholders' equity	$2,312,015	$2,461,159	$2,640,495	$2,773,428	$2,773,454
Outstanding debt	$2,277,589	$2,002,205	$1,416,525	$1,472,525	$1,402,525
Ratio of Earnings to Fixed Charges	1.5	2.1	1.9	2.2	2.5
Funds from Operations Data(2):					
Net income attributable to Piedmont	$43,348	$98,728	$93,204	$225,041	$120,379
Depreciation and Amortization	195,345	170,158	164,750	170,553	150,441
Loss/(gain) on consolidation	—	898	—	(1,532)	—
Impairment loss	—	12,046	—	—	9,640
(Gain)/loss on sale	(2,161)	(31,292)	(27,577)	(122,773)	792

Funds From Operations(2)	$236,532	$250,538	$230,377	$271,289	$281,252
Acquisition costs	560	1,763	141	1,347	600
Gain on extinguishment of debt	—	—	—	(1,039)	—
Net (recoveries)/loss of casualty loss and litigation settlements	(6,992)	(11,828)	12,670	—	—
Core Funds From Operations(2)	$230,100	$240,473	$243,188	$271,597	$281,852
Amortization of deferred financing costs, fair market adjustments on notes payable, and discount on Senior Notes	2,632	2,664	2,648	4,608	2,608
Depreciation of non real estate assets	508	406	502	499	707
Straight-line effects of lease revenue and amortization of below-market in-place lease intangibles	(33,848)	(23,375)	(22,831)	(16,572)	(11,881)
Stock-based and other non-cash compensation	3,975	1,590	2,246	4,705	3,681
Acquisition costs	(560)	(1,763)	(141)	(1,347)	(600)
Income from amortization of discount on purchase of mezzanine loans	—	—	—	(484)	(2,405)
Non-incremental capital expenditures	(84,630)	(102,977)	(87,657)	(60,401)	(45,286)
Adjusted Funds From Operations(2)	$118,177	$117,018	$137,955	$202,605	$228,676

(1) Prior period amounts have been adjusted to conform with the current period presentation, including classifying revenues from sold properties as discontinued operations for all periods presented.

(2) Net income calculated in accordance with GAAP is the starting point for calculating Funds from Operations, Core Funds From Operations, and Adjusted Funds From Operations. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Funds from Operations, Core Funds from Operations, and Adjusted Funds From Operations" below for a description and reconciliation of the calculations as presented.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements and notes thereto as of December 31, 2014 and 2013, and for the years ended December 31, 2014, 2013, and 2012 included elsewhere in this Annual Report on Form 10-K. See also “Cautionary Note Regarding Forward-Looking Statements” preceding Part I of this report and “Risk Factors” set forth in Item 1A. of this report.

Overview

We are a fully integrated, self-managed real estate investment trust specializing in the acquisition, ownership, management, development, and disposition of primarily high-quality Class A office buildings located in major U.S. office markets and leased primarily to high-credit-quality tenants. We operate as a real estate investment trust for federal income tax purposes.

Our common stock is listed on the New York Stock Exchange (NYSE:PDM) and based on our December 31, 2014 equity market capitalization of $2.9 billion, Piedmont is among the largest office REITs in the United States based on comparison to the constituents of the Bloomberg U.S. Office REIT Index.

Our portfolio of primarily Class A commercial office buildings was 87.7% and 87.2% leased as of December 31, 2014 and 2013, respectively. Our average lease size is approximately 29,000 square feet with our tenant base being comprised of primarily investment grade or nationally recognized corporations or governmental agencies. As of December 31, 2014, we owned and operated 74 office properties, one redevelopment asset, and one office building through an unconsolidated joint venture, and approximately 90% of our ALR 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.

Due to the fact that many of our properties were originally acquired in 2002 and 2003 with typically seven to ten years of lease term remaining at the time of acquisition, we re-leased a significant portion of our portfolio over the last several years. As a result, no more than 10% of our lease portfolio is scheduled to expire in any given year over the next four years. In addition, one of our operating objectives has been to sell non-strategic assets and recycle the proceeds into assets and markets which we believe have the greatest potential to contribute to enterprise value over time

Liquidity and Capital Resources

We intend to use cash flows generated from the operation of our properties, proceeds from our $500 Million Unsecured Line of Credit, and proceeds from selective property dispositions as our primary sources of immediate liquidity. During the three months ended December 31, 2014, we entered into a $50 Million Unsecured Term Loan, the proceeds from which were used to fund the difference in the acquisition price of Park Place at Turtle Creek and the disposition proceeds of our 3900 Dallas Parkway asset, and to pay down our $500 Million Unsecured Line of Credit.

As of the time of this filing, we had approximately $48.6 million of capacity remaining under our $500 Million Unsecured Line of Credit available for future borrowing and were shortly intending to market certain properties for sale which, if consummated, would generate approximately $260 to $270 million of proceeds over the next ten to twelve months. Further, subject to market conditions, we anticipate incurring additional unsecured debt during the first half of 2015 to refinance a maturing mortgage loan, repay the $50 Million Unsecured Term Loan, and provide additional liquidity. To that end, during the fourth quarter we entered into $250 million of forward starting interest rate swaps to lock a portion of the interest rate for the potential debt we may incur in 2015. We may continue to issue additional equity or debt securities from time to time and/or seek additional secured or unsecured borrowings from third-party lenders as additional sources of capital. The availability and attractiveness of terms for these additional sources of capital is highly dependent on market conditions.

Our most consistent use of capital has historically been, and we believe will continue to be to fund capital expenditures for our existing portfolio of properties. During the years ended December 31, 2014 and 2013, we incurred the following types of capital expenditures (in thousands):

	Years Ended December 31, 2014	December 31, 2013
Capital expenditures for new development	$25,256	$543
Capital expenditures for redevelopment/ renovations	14,151	215
Other capital expenditures, including tenant improvements	129,484	175,230
Total capital expenditures[1]	$168,891	$175,988

(1) Of the total amounts paid, approximately $3.5 million and $0.2 million related to soft costs such as capitalized interest, payroll, and other general and administrative expenses for the year ended December 31, 2014 and 2013, respectively.

"Capital expenditures for new development" relate to the construction of a 300,000 square foot, 11-story office tower in Houston, Texas. We broke ground on the development during the second quarter of 2014 and anticipate expending an additional $38-40 million to complete the project by the third quarter of 2015, as well as expending approximately $21-24 million in leasing commissions and tenant improvements during subsequent lease-up of the property.

"Capital expenditures for redevelopment/renovations" relate to repositioning our 3100 Clarendon Boulevard building in Arlington, Virginia from governmental use to private sector use. We anticipate spending an additional $19-20 million to complete the office tower on schedule by the first quarter of 2015. Retail and plaza work may continue into the third quarter of 2015. Following completion of the redevelopment of the asset, we also anticipate spending approximately $21-$22 million in re-leasing costs, consisting of both leasing commissions and tenant improvements.

"Other capital expenditures" include two types of specifically identified projects: (i) building improvement projects that we as the owner may choose to perform at our discretion at any of our various properties; and (ii) tenant improvement allowances that we have committed to as part of executed leases with our tenants, with the majority of such expenditures typically relating to the latter type. During the year ended December 31, 2014 and 2013, we committed to spend approximately $3.48 and $2.64 per square foot per year of lease term, respectively, for tenant improvement allowances related to new and renewal leases executed during such years. As of December 31, 2014, unrecorded contractual obligations that we expect to spend over the next five years for non-incremental tenant improvements related to our existing lease portfolio totaled $46.2 million, down from $76.6 million as of December 31, 2013 as a result of completing several significant tenant build outs during the year. The timing of the funding of these commitments is largely dependent upon tenant requests for reimbursement; however, we anticipate that a significant portion of these improvement allowances may be requested over the next three years based on when the underlying leases commence. In some instances, these obligations may expire with the respective lease, without further recourse to us. Commitments for incremental tenant improvements associated with new leases, primarily at value-add properties, totaled approximately $23.0 million as of December 31, 2014.

During the year ended December 31, 2014 and 2013, we paid $27.7 million and $34.3 million, respectively, in leasing commissions and other lease acquisition costs and committed to pay $1.53 and $0.91 per square foot per year of lease term, respectively, of such costs to procure new and renewal leases for our portfolio of office properties.

In addition to the amounts described above that we have committed to as part of already executed leases, we anticipate continuing to incur similar market-based tenant improvement allowances and leasing commissions in conjunction with procuring future leases. Given that our primary operating model is to lease large blocks of space to credit-worthy tenants, some of these items can result in significant capital outlays. Both the timing and magnitude of such expenditures have yet to be determined and are highly dependent on competitive market conditions of the respective office market at the time of lease negotiations. In particular, exclusive of our redevelopment project at 3100 Clarendon Boulevard discussed above, there are a total of three blocks of space in excess of 200,000 square feet in our Chicago and Washington, D.C portfolios that are currently vacant, and we may grant significant concession packages to secure new tenants for those spaces, among others.

Subject to the identification and availability of attractive investment opportunities and our ability to consummate such acquisitions on satisfactory terms, acquiring new assets compatible with our investment strategy could also be a significant use of capital. In addition, our board of directors has authorized a repurchase plan for our common stock for use when we believe that our stock is trading at a meaningful discount to what we believe the estimated fair value of our net assets to be and we may use capital resources to make purchases under this plan. As of December 31, 2014, there was $37.0 million of authorized capacity remaining on the program which may be spent prior to the program's expiration in third quarter 2015.

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Finally, although our only near term debt maturities are the $105.0 million note payable secured by our US Bancorp building in Minneapolis, Minnesota that matures in May 2015, and the $50 Million Unsecured Term Loan that matures in April 2015, on a longer term basis, we expect to use capital to repay debt when obligations become due.

The amount and form of payment (cash or stock issuance) of future dividends to be paid to our stockholders will continue to be largely dependent upon (i) the amount of cash generated from our operating activities; (ii) our expectations of future cash flows; (iii) our determination of near-term cash needs for debt repayments, development projects, and selective acquisitions of new properties; (iv) the timing of significant expenditures for tenant improvements, building redevelopment projects, and general property capital improvements; (v) long-term payout ratios for comparable companies; (vi) our ability to access sources of debt and equity capital, plus potential sales of our properties; and (vii) the amount required to be distributed to maintain our status as a REIT. Given the fluctuating nature of cash flows and expenditures, we may periodically borrow funds on a short-term basis to cover timing differences in cash receipts and cash disbursements.

Results of Operations

Comparison of the accompanying consolidated statements of income for the year ended December 31, 2014 vs. the year ended December 31, 2013

Income from Continuing Operations

Income from continuing operations per share on a fully diluted basis decreased from $0.44 for the year ended December 31, 2013 to $0.27 for the year ended December 31, 2014 primarily due to higher depreciation expense mostly associated with new tenant and building improvements put into service after January 1, 2013 and higher amortization expense due mainly to additional amortization of intangible lease assets recognized as part of acquiring new properties during 2013 and 2014.

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The following table sets forth selected data from our consolidated statements of income for the years ended December 31, 2014 and 2013, respectively, as well as each balance as a percentage of total revenues for the years presented (dollars in millions):

	December 31, 2014	%	December 31, 2013	%	Variance
Revenue:					
Rental income	$454.6		$443.1		$11.5
Tenant reimbursements	109.6		104.3		5.3
Property management fee revenue	2.1		2.2		(0.1)
Total revenues	566.3	100 %	549.6	100 %	16.7
Expense:					
Property operating costs	239.5	42 %	220.7	40 %	18.8
Depreciation	138.6	24 %	121.0	22 %	17.6
Amortization	56.6	11 %	45.1	8 %	11.5
General and administrative	23.8	4 %	21.9	4 %	1.9
Real estate operating income	107.8	19 %	140.9	26 %	(33.1)
Other income (expense):					
Interest expense	(74.4)	13 %	(73.6)	13 %	(0.8)
Other income/(expense)	0.1	— %	(2.3)	— %	2.4
Net recoveries of casualty loss and litigation settlements	7.0	1 %	11.8	2 %	(4.8)
Equity in loss of unconsolidated joint ventures	(0.4)	— %	(3.7)	1 %	3.3
Loss on consolidation	—	— %	(0.9)	1 %	0.9
Income from continuing operations	$40.1	7 %	$72.2	13 %	$(32.1)
Income from discontinued operations	$2.2		$26.5		$(24.3)

Revenue

Rental income increased approximately $11.5 million for the year ended December 31, 2014 as compared to the same period in the prior year. Although we recognized approximately $21.6 million of additional revenue attributable to properties acquired during 2013 and 2014, the increase was primarily offset by the expiration of a large governmental lease at our 3100 Clarendon Boulevard building in December 2013.

Tenant reimbursements increased approximately $5.3 million for the year ended December 31, 2014 compared to the same period in the prior year primarily due to additional tenant reimbursements associated with properties acquired during 2013 and 2014, and partial reimbursements of higher property operating expenses discussed below; specifically property taxes, maintenance costs, utility costs, and snow removal.

Expense

Property operating costs increased approximately $18.8 million for the year ended December 31, 2014 compared to the same period in the prior year. The increase is primarily due to approximately $10.6 million of additional operating expenses attributable to properties acquired during 2013 and 2014. Additionally, we incurred higher property tax expense of $3.7 million and repair and maintenance costs of $1.7 million at certain of our existing properties. We also incurred higher utility and snow removal costs of $1.7 million and $0.5 million, respectively, due to the harsh weather in some of the markets in which we own and operate properties.

Depreciation expense increased approximately $17.6 million for the year ended December 31, 2014 compared to the same period in the prior year. The variance is largely attributable to depreciation on additional tenant and building improvements placed in service subsequent to January 1, 2013, which contributed approximately $11.3 million to the increase. An additional $4.2 million of the increase is attributable to properties acquired during 2013 and 2014, as well as a $1.6 million increase associated with higher accelerated depreciation expense as a result of lease modifications or terminations as compared to the prior year.

Amortization expense increased approximately $11.5 million for the year ended December 31, 2014 compared to the same period in the prior year. Approximately $8.6 million of the increase is due to additional amortization of intangible lease assets recognized as part of acquiring new properties during 2013 and 2014. The acceleration of amortization expense related to the early termination of a lease at our 400 Bridgewater Crossing building in Bridgewater, New Jersey and a structured partial lease termination at our 1430 Enclave Parkway building in Houston, Texas also contributed approximately $2.7 million to the increase.

General and administrative expenses increased approximately $1.9 million for the year ended December 31, 2014 compared to the prior year primarily due to higher non-cash stock compensation costs as a result of stronger stock performance in the current year.

Other Income (Expense)

Interest expense increased approximately $0.8 million for the year ended December 31, 2014 as compared to the prior year as a result of higher outstanding debt balances during the current year, partially offset by lower average interest rates due to refinancing activity during the first and third quarters of 2014.

Other income/expense increased approximately $2.4 million for the year ended December 31, 2014 as compared to the prior year. The variance is primarily due to a decrease in costs associated with the acquisition of new properties of approximately $1.7 million compared to the prior period, as well as the sale of density rights related to our Sarasota Commerce Center II building to a third-party for approximately $0.7 million during the current year.

We recognized a decrease in net recoveries of casualty loss and litigation settlement expense for the year ended December 31, 2014 compared to the prior year of approximately $4.8 million. These recoveries are non-recurring in nature and are largely associated with the receipt of insurance proceeds related to litigation settlement expense previously incurred, as well as insurance proceeds associated with damage to certain of our assets in the New York/New Jersey markets as a result of Hurricane Sandy. The timing of such reimbursements is dependent upon outside parties.

Equity in income of unconsolidated joint ventures increased approximately $3.3 million during the year ended December 31, 2014, as compared to the prior year, primarily as a result of recognizing a $4.4 million, other-than-temporary impairment loss related to our equity interest in an unconsolidated joint venture in the prior year. This increase was partially offset by lower operating income in 2014 compared to the prior year due to the purchase and consolidation of the remaining interests in three office properties held through two unconsolidated joint ventures in 2013 (see discussion in paragraph below) and the sale of the Two Park Center building, held through our sole remaining unconsolidated joint venture, in May 2014. We expect equity in income of unconsolidated joint ventures to continue to decrease as we anticipate disposing of the remaining property held through an unconsolidated joint venture.

Income from Discontinued Operations

In accordance with GAAP, the operations of assets that we have sold or classified as held for sale during any of the periods presented in the accompanying statement of operations which meet the amended definition of discontinued operations (see Note 2 and Note 14) are classified as discontinued operations for all periods presented. Income from discontinued operations decreased approximately $24.3 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013 primarily due to the recognition of the following gains on sale in the prior year: 1200 Enclave Parkway building in Houston, Texas, of approximately $16.2 million; 350 Spectrum Loop in Colorado Springs, Colorado of approximately $8.0 million; and 8700 South Price Road in Tempe, Arizona of approximately $7.1 million. These gains were offset by impairment charges in the prior period of $6.4 million related to 1111 Durham Avenue in South Plainfield, New Jersey and $1.2 million related to 11107 and 11109 Sunset Hills Road in Reston, Virginia. We do not expect that income from discontinued operations will be comparable to future periods, as such income is subject to the occurrence and timing of future property dispositions that may be classified as discontinued operations.

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Comparison of the accompanying consolidated statements of income for the year ended December 31, 2013 vs. the year ended December 31, 2012

Income from Continuing Operations

Income from continuing operations per share on a fully diluted basis increased from $0.35 for the year ended December 31, 2012 to $0.44 for the year ended December 31, 2013 primarily due to additional rental income associated with the acquisition of properties in 2013 as well as the commencement of certain significant leases during the same period, an impact of approximately $0.18 per diluted share. We also recognized net recoveries of casualty loss and litigation settlements of $11.8 million in 2013 compared to a net casualty loss of $12.7 million in 2012, a total increase of $0.15 per diluted share. These increases were offset by $0.16 per diluted share of increases in property operating costs due to newly acquired properties in 2013, as well as higher depreciation expense associated with new tenant and building improvements put into service after January 1, 2012. In addition, we recorded approximately $0.05 per diluted share of increased interest expense as a result of higher outstanding debt balances primarily caused by property acquisitions during 2013.

The following table sets forth selected data from our consolidated statements of income for the years ended December 31, 2013 and 2012, respectively, as well as each balance as a percentage of total revenues for the years presented (dollars in millions):

	December 31, 2013	%	December 31, 2012	%	$ Increase (Decrease)
Revenue:					
Rental income	$443.1		$411.8		$31.3
Tenant reimbursements	104.3		106.6		(2.3)
Property management fee revenue	2.2		2.3		(0.1)
Total revenues	549.6	100 %	520.7	100 %	28.9
Expense:					
Property operating costs	220.7	40 %	206.2	40 %	14.5
Depreciation	121.0	22 %	108.9	21 %	12.1
Amortization	45.1	8 %	49.3	9 %	(4.2)
General and administrative expense	21.9	4 %	20.8	4 %	1.1
Real estate operating income	140.9	26 %	135.5	26 %	5.4
Other income (expense):					
Interest expense	(73.6)	13 %	(65.0)	12 %	(8.6)
Other income/(expense)	(2.3)	— %	0.8	— %	(3.1)
Net recoveries/(loss) from casualty loss and litigation settlements	11.8	2 %	(12.7)	3 %	24.5
Equity in (loss)/income of unconsolidated joint ventures	(3.7)	1 %	0.9	— %	(4.6)
Gain on consolidation of variable interest entity	(0.9)	1 %	—	— %	(0.9)
Income from continuing operations	$72.2	13 %	$59.5	11 %	$12.7
Income from discontinued operations	$26.5		$33.7		$(7.2)

Revenue

Rental income for the year ended December 31, 2013 increased to approximately $443.1 million, as compared to $411.8 million for the year ended December 31, 2012 primarily due to approximately $22.0 million of additional revenue attributable to properties acquired and the commencement of several significant leases during the year ended December 31, 2013. Additionally, rental restructuring income, mostly at our 6021 Connection Drive building, contributed $5.9 million to the increase. These increases were offset by the expiration of a 330,000 square foot lease at our One Independence Square building in Washington, D.C. during March 2013.

Tenant reimbursements decreased from approximately $106.6 million for the year ended December 31, 2012 to approximately $104.3 million for the year ended December 31, 2013. The variance is mainly attributable to an approximate $4.8 million reduction in tenant reimbursements as a result of operating expense and tax abatements granted on a large lease renewal at the 500 W. Monroe building in Chicago, Illinois and an approximate $2.5 million reduction in reimbursements at the One Independence Square building due to the lease expiration discussed above. These decreases were offset by an increase in tenant reimbursements at our 60 Broad Street building in New York City, New York, our US Bancorp Center building, and our Aon Center building in Chicago, Illinois primarily driven by higher recoverable property tax expense and operating expenses in the current period, as well as an increase in reimbursements attributable to the acquisition of the Arlington Gateway building located in Arlington, Virginia.

Expense

Property operating costs increased approximately $14.5 million for the year ended December 31, 2013 compared to the same period in the prior year. Properties acquired during 2013 contributed approximately $6.6 million of additional operating costs and higher recoverable property tax expense at our existing properties contributed an additional $5.5 million of operating costs.

Depreciation expense increased approximately $12.1 million for the year ended December 31, 2013 compared to the same period in the prior year. The variance is largely attributable to depreciation on additional tenant and building improvements placed in service subsequent to January 1, 2012, which contributed approximately $8.3 million to the increase. The remainder of the increase is attributable to properties acquired during 2013.

Amortization expense decreased approximately $4.2 million for the year ended December 31, 2013 compared to the same period in the prior year. The variance is largely attributable to reduced amortization expense of approximately $14.3 million resulting from lease intangible assets becoming fully amortized at certain of our existing properties subsequent to January 1, 2012, as well as lower accelerated amortization expense from lease terminations compared to the year ended December 31, 2012. However, these decreases were largely offset by approximately $12.1 million of additional amortization expense related to property acquisitions during 2013.

General and administrative expenses increased approximately $1.1 million for the year ended December 31, 2013 compared to the prior year primarily due to higher personnel and benefits costs in 2013.

Other Income (Expense)

Interest expense increased approximately $8.6 million for the year ended December 31, 2013 as compared to the same period in the prior year and is attributable to higher outstanding debt balances during 2013 primarily as a result of property acquisitions and repurchases under our stock repurchase plan.

Other income/(expense) decreased approximately $3.1 million for the year ended December 31, 2013 as compared to the same period in the prior year. The decrease reflects approximately $1.6 million of costs associated with acquisition transactions during 2013, as well as a decrease in interest income associated with the repayment of a note receivable in October 2012. The remaining variance is attributable to higher costs related to unconsummated capital markets transactions during 2013.

For the year ended December 31, 2013 we recognized $11.8 million in insurance recoveries associated with litigation settlement expense related to settlement agreements of two class action lawsuits, as well as casualty losses related to damage incurred at certain of our assets in the New York/New Jersey markets as a result of Hurricane Sandy, as compared to net expense of approximately $12.7 million related to these same events during the year ended December 31, 2012.

Equity in income of unconsolidated joint ventures decreased approximately $4.6 million during the year ended December 31, 2013, as compared to the same period in the prior year, primarily as a result of recognizing a $4.4

million, other-than-temporary impairment loss related to an equity interest in an unconsolidated joint venture.

During the year ended December 31, 2013, Piedmont exercised its dissenter's right to buy out each of its co-venturers' interests in three office properties previously held through two unconsolidated joint ventures. The $0.9 million difference between the fair value of the properties acquired and the sum of Piedmont's previously recorded book value in investment in unconsolidated joint ventures plus cash consideration paid for the interests was recorded as a loss on consolidation in Piedmont's consolidated statement of operations for the year ended December 31, 2013. The acquisitions also resulted in a decrease in equity in income of unconsolidated joint ventures as compared to 2012, as the result of operations of these properties are now consolidated on the same basis as our other wholly-owned properties.

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Income from Discontinued Operations

In accordance with GAAP, the operations of assets that we have sold or classified as held for sale during any of the periods presented in the accompanying statement of operations which meet the amended definition of discontinued operations (see Note 2 and Note 14) are classified as discontinued operations for all periods presented. Income from discontinued operations decreased approximately $7.2 million for the year ended December 31, 2013 as compared to the same period in the prior year primarily due to the recognition of impairment charges of $6.4 million and $1.2 million at the 1111 Durham Avenue building in South Plainfield, New Jersey and the 11109 and 11107 Sunset Hills Road buildings in Reston, Virginia, respectively.

Funds From Operations ("FFO"), Core Funds From Operations ("Core FFO"), and Adjusted Funds From Operations (“AFFO”)

Net income calculated in accordance with GAAP is the starting point for calculating FFO, Core FFO, and AFFO. FFO, Core FFO, and AFFO are non-GAAP financial measures and should not be viewed as an alternative measurement of our operating performance to net income. Management believes that accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. As a result, we believe that the use of FFO, Core FFO, and AFFO, together with the required GAAP presentation, provides a more complete understanding of our performance relative to our competitors and a more informed and appropriate basis on which to make decisions involving operating, financing, and investing activities.

We calculate FFO in accordance with the current National Association of Real Estate Investment Trusts ("NAREIT") definition as follows: Net income (computed in accordance with GAAP), excluding gains or losses from sales of property and impairment charges (including our proportionate share of any impairment charges and/or gains or losses from sales of property related to investments in unconsolidated joint ventures), plus depreciation and amortization on real estate assets (including our proportionate share of depreciation and amortization related to investments in unconsolidated joint ventures). Other REITs may not define FFO in accordance with the NAREIT definition, or may interpret the current NAREIT definition differently than we do; therefore, our computation of FFO may not be comparable to such other REITs.

We calculate Core FFO as FFO (calculated as set forth above) less acquisition costs and other significant, non-recurring items, such as the infrequent and non-recurring litigation settlements expense and casualty losses, and their subsequent insurance recoveries.

We calculate AFFO as Core FFO (calculated as set forth above) exclusive of the net effects of: (i) amortization associated with deferred financing costs, note payable estimated fair value adjustments, and issuance discounts on Senior Notes; (ii) depreciation of non real estate assets; (iii) straight-line lease revenue/expense; (iv) amortization of above and below-market lease intangibles; (v) stock-based and other non-cash compensation expense; (vi) amortization of mezzanine discount income; (vii) acquisition costs, and (viii) non-incremental capital expenditures (as defined below). Our proportionate share of such adjustments related to investments in unconsolidated joint ventures are also included when calculating AFFO.

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

	2014	Per Share [1]	2013	Per Share[1]	2012	Per Share[1]
Net income attributable to Piedmont	$43,348	$0.28	$98,728	$0.60	$93,204	$0.55
Depreciation of real assets [2]	138,497	0.90	124,138	0.75	114,340	0.67
Amortization of lease-related costs [2]	56,848	0.37	46,020	0.28	50,410	0.29
Impairment loss [2]	—	—	12,046	0.07	—	—
Loss on consolidation	—	—	898	0.01	—	—
Gain on sale- wholly-owned properties	(2,330)	(0.02)	(31,292)	(0.19)	(27,577)	(0.16)
Loss on sale- unconsolidated partnerships	169	—	—	—	—	—
Funds From Operations	$236,532	$1.53	$250,538	$1.52	$230,377	$1.35
Adjustments:						
Acquisition costs	560	—	1,763	0.01	141	—
Net loss/(recoveries) from casualty loss and litigation settlements	(6,992)	(0.04)	(11,828)	(0.07)	12,670	0.08
Core Funds From Operations	$230,100	$1.49	$240,473	$1.46	$243,188	$1.43
Adjustments:						
Deferred financing cost amortization	2,703	0.02	2,587	0.01	2,648	0.01
Amortization of estimated fair market adjustments on notes payable	(246)	—	—	—	—	—
Amortization of discount on Senior Notes	175	—	77	—	—	—
Depreciation of non real estate assets	508	—	406	—	502	—
Straight-line effects of lease revenue [2]	(29,121)	(0.19)	(18,097)	(0.11)	(17,153)	(0.10)
Stock-based and other non-cash compensation	3,975	0.02	1,590	0.01	2,246	0.01
Net effect of amortization of below-market in-place lease intangibles [2]	(4,727)	(0.03)	(5,278)	(0.03)	(5,678)	(0.03)
Acquisition costs	(560)	—	(1,763)	(0.01)	(141)	—
Non-incremental capital expenditures [3]	(84,630)	(0.55)	(102,977)	(0.62)	(87,657)	(0.51)
Adjusted Funds From Operations	$118,177	$0.76	$117,018	$0.71	$137,955	$0.81
Weighted-average shares outstanding – diluted	154,585		165,137		170,441	

(1) Based on weighted-average shares outstanding—diluted.

(2) Includes adjustments for wholly-owned properties (including discontinued operations), as well as such adjustments for our proportionate ownership in unconsolidated joint ventures.

(3) Piedmont defines non-incremental capital expenditures as capital expenditures of a recurring nature related to tenant improvements, leasing commissions, and building capital that do not incrementally enhance the underlying assets' income generating capacity. Tenant improvements, leasing commissions, building capital and deferred lease incentives incurred to lease space that was vacant at acquisition, leasing costs for spaces vacant for greater than one year, leasing costs for spaces at newly acquired properties for which in-place leases expire shortly after acquisition, improvements associated with the expansion of a building, and renovations that either change the underlying classification from a Class B to a Class A property or enhance the marketability of a building are excluded from this measure.

Property and Same Store Net Operating Income (Cash Basis)

Property Net Operating Income on a cash basis ("Property NOI") is a non-GAAP measure which we use to assess our operating results. It is calculated as real estate operating income with the add-back of corporate general and administrative expense, depreciation and amortization, impairment losses and the deduction of income and expense associated with property management performed by Piedmont for other organizations. We present this measure on a cash basis, which eliminates the effects of straight lined rents and fair value lease revenue. We use this measure as a proxy for the cash generated by our real estate properties. Same Store Net Operating Income on a cash basis ("Same Store NOI") is another non-GAAP measure very similar to Property NOI; however, Same Store NOI only reflects Property NOI attributable to the properties owned or placed in service during the entire span of the current and prior year reporting periods. Same Store NOI excludes amounts attributable to unconsolidated joint venture assets. We believe Same Store NOI is an important measure because it allows us to compare the cash flows generated by our same real estate properties from one period to another. Other REITs may calculate Property NOI and Same Store NOI differently and our calculation should not be compared to that of other REITs.

The following table sets forth our Property NOI and Same Store NOI with a reconciliation to our net income attributable to common stockholders (GAAP basis) for the years ended December 31, 2014 and December 31, 2013, respectively (in thousands):

	December 31, 2014	December 31, 2013
Net income attributable to Piedmont	$43,348	$98,728
Net income attributable to noncontrolling interest	15	15
Interest expense	74,446	73,583
Depreciation [1]	139,004	124,545
Amortization [1]	56,848	46,020
Acquisition costs	560	1,763
Impairment loss [1]	—	12,046
Net recoveries of casualty loss and litigation settlements	(6,992)	(11,828)
Gain on sale of real estate assets [1]	(2,161)	(31,292)
Loss on consolidation	—	898
General & administrative expenses [1]	23,863	22,016
Management fee revenue	(1,110)	(1,231)
Other (income)/expense [1]	39	563
Straight line rent adjustment [1]	(29,121)	(18,097)
Net effect of amortization of below-market in-place lease intangibles [1]	(4,727)	(5,278)
Property NOI (cash basis)	294,012	312,451
Acquisitions [2]	(26,136)	(14,659)
Dispositions [3]	(1,478)	(5,087)
Unconsolidated joint ventures	(18)	(9,791)
Same Store NOI	$266,380	$282,914
Change period over period in Same Store NOI	(5.8)%	N/A

(1) Includes amounts attributable to consolidated properties, including discontinued operations, and our proportionate share of amounts attributable to unconsolidated joint ventures.

(2) Acquisitions consist of Arlington Gateway in Arlington, Virginia, purchased on March 4, 2013; 5 & 15 Wayside Road in Burlington, Massachusetts, purchased on March 22, 2013; Royal Lane Land in Irving, Texas, purchased on August 1, 2013; 5301 Maryland Way in Brentwood, Tennessee, the remaining equity interest in which was purchased on August 12, 2013; 6565 North MacArthur Boulevard in Irving, Texas, purchased on December 5, 2013; One Lincoln Park in Dallas, Texas, purchased on December 20, 2013; 161 Corporate Center in Irving, Texas, purchased on December 30, 2013; 5 Wall Street in Burlington, Massachusetts, purchased on June 27, 2014; 1155 Perimeter Center West in Atlanta, Georgia, purchased on August 28, 2014; and TownPark Land in Lake Mary, Florida, purchased on November 21, 2014.

(3) Dispositions consist of of 1111 Durham Avenue in South Plainfield, New Jersey, sold on March 28, 2013; 1200 Enclave Parkway in Houston, Texas, sold on May 1, 2013; 350 Spectrum Loop in Colorado Springs, Colorado,

sold on November 1, 2013; 8700 South Price Road in Tempe, Arizona, sold on December 30, 2013; 11107 and 11109 Sunset Hills Road in Reston, Virginia, sold on March 19, 2014; 1441 West Long Lake Road and 4685 Investment Drive in Troy, Michigan, sold on April 30, 2014; and 2020 West 89th Street in Leawood, Kansas, sold on May 19, 2014.

Overview

Our portfolio is a national portfolio located in several geographic markets. We typically lease space to large, credit-worthy corporate or governmental tenants on a long-term basis. Our average lease is approximately 29,000 square feet with 7.1 years of lease term remaining as of December 31, 2014. As a result, occupancy as well as rent roll ups and roll downs, which we experience as a result of re-leasing, can fluctuate widely between markets, between buildings, and between tenants within a given market depending on when a particular lease is scheduled to expire. Over the last several years we have re-leased a significant portion of our portfolio which temporarily negatively impacted our Same Store NOI, most noticeably in the first and second quarter of 2014. However, as rental abatement periods related to certain significant renewals and replacement leases began to expire during 2014, Property NOI on a sequential quarter basis began to improve. As of December 31, 2014 we still had 0.4 million square feet of executed leases for currently vacant space that have yet to commence and another 1.3 million square feet of commenced leases in some form of rental abatement; therefore, we anticipate additional growth in Property NOI during 2015 as those leases commence and abatement periods expire. Additionally, any absorption of currently vacant space in the portfolio due to additional new leasing activity could also favorably impact Same Store NOI depending on commencement dates and abatement periods of the new leases.

Occupancy

Excluding one unconsolidated joint venture and one property that was not in service due to a redevelopment project as of December 31, 2014, our portfolio in total was 87.7% leased as of December 31, 2014, up from 87.2% leased as of December 31, 2013. As of December 31, 2014, scheduled expirations for the portfolio as a whole for 2015 and 2016 represented 3.5% and 5.6%, respectively, of our ALR; therefore, the majority of our leasing efforts over the next two years will be focused on leasing currently vacant space. To the extent we are able to execute leases for currently vacant space, these additional rental payments should favorably impact overall occupancy and our Same Store NOI comparisons once any associated abatement periods expire.

Impact of Downtime, Abatement Periods, and Rental Rate Changes

We have executed a large number of leasing transactions over the past several years, approximately 400,000 square feet of which relates to currently vacant space and which has not commenced as of December 31, 2014. Commencement of new leases typically occurs 6-24 months from the lease execution date, after refurbishment of the space is completed. The downtime between a lease expiration and the new lease's commencement can negatively impact Same Store NOI. In addition, office leases, both new and lease renewals, typically contain upfront rental and/or operating expense abatement periods which delay the cash flow benefits of the lease even after the new lease or renewal has commenced. As of December 31, 2014, approximately 1.3 million square feet of commenced leases were still in some form of abatement. Finally, in some cases we have not yet identified a replacement tenant for an expired lease or have entered into renewal leases for decreased square footage or for lower market rental rates than the previous lease, which will negatively impact Same Store NOI.
All of the above items negatively impacted Same Store NOI comparisons for the year ended December 31, 2014 as compared to the year ended December 31, 2013. On a prospective basis, however, we anticipate that Property NOI on a sequential quarter over quarter basis will continue to improve as certain significant leases for currently vacant space commence and rental abatement periods expire.

Election as a REIT

We have elected to be taxed as a REIT under the Code and have operated as such beginning with our taxable year ended December 31, 1998. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our adjusted REIT taxable income, computed without regard to the dividends-paid deduction and by excluding net capital gains attributable to our stockholders, as defined by the Code. As a REIT, we generally will not be subject to federal income tax on income that we distribute to our stockholders. If we fail to qualify as a REIT in any taxable year, we may be subject to federal income taxes on our taxable income for that year and for the four years following the year during which qualification is lost and/or penalties, unless the IRS grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to our stockholders. However, we believe that we are organized and operate in such a manner as to qualify for treatment as a REIT and intend to continue to operate in the foreseeable future in such a manner that we will remain qualified as a REIT for federal income tax purposes. We have elected to treat Piedmont Office Holdings, Inc. ("POH"), a wholly-owned subsidiary of Piedmont, as a taxable REIT subsidiary. POH performs non-customary services for tenants of buildings that we own, including real estate and non-real estate related-services; however, any earnings related to such services performed by our taxable REIT subsidiary are subject to federal and state income taxes. In addition, for us to continue to qualify as a REIT, our investments in taxable REIT subsidiaries cannot exceed 25% of the value of our total assets.

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Inflation

We are exposed to inflation risk, as income from long-term leases is the primary source of our cash flows from operations. There are provisions in the majority of our tenant leases that are intended to protect us from, and mitigate the risk of, the impact of inflation. These provisions include rent steps, reimbursement billings for operating expense pass-through charges, real estate tax, and insurance reimbursements on a per square-foot basis, or in some cases, annual reimbursement of operating expenses above certain per square-foot allowance. However, due to the long-term nature of the leases, the leases may not readjust their reimbursement rates frequently enough to fully cover inflation.

Off-Balance Sheet Arrangements

We are not dependent on off-balance sheet financing arrangements for liquidity. Our off-balance sheet arrangements are discussed in Note 4 "Unconsolidated Joint Ventures" and Note 10 "Commitments and Contingencies" (specifically related to Operating Lease Obligations) of the accompanying consolidated financial statements. The unconsolidated joint ventures in which we invest are prohibited by their governing documents from incurring debt. For further information regarding our commitments under operating lease obligations, see the notes of our accompanying consolidated financial statements, as well as the Contractual Obligations table below.

Application of Critical Accounting Policies

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

Investment in Real Estate Assets

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

Buildings	40 years
Building improvements	5-25 years
Land improvements	20-25 years
Tenant improvements	Shorter of economic life or lease term
Furniture, fixtures, and equipment	3-5 years
Intangible lease assets	Lease term

Allocation of Purchase Price of Acquired Assets

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

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

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

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

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

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

We continually monitor events and changes in circumstances that could indicate that the carrying amounts of the real estate and related intangible assets, both operating properties and properties under construction, in which we have an ownership interest, either directly or through investments in joint ventures, may not be recoverable. When indicators of potential impairment are present for wholly-owned properties, which indicate that the carrying amounts of real estate and related intangible assets may not be recoverable, we assess the recoverability of these assets by determining whether the carrying value will be recovered from the undiscounted future operating cash flows expected from the use of the asset and its eventual disposition. In the event that such expected undiscounted future cash flows do not exceed the carrying value, we adjust the real estate and related intangible assets to the estimated fair value and recognize an impairment loss. For our investments in unconsolidated joint ventures, we assess the estimated fair value of our investment, as compared to our carrying amount. If we determine that the carrying value is greater than the estimated fair value at any measurement date, we must also determine if such a difference is temporary in nature. Value fluctuations which are “other than temporary” in nature are then recorded to adjust the carrying value to the estimated fair value amount.

Projections of expected future cash flows require that we estimate future market rental income amounts subsequent to the expiration of current lease agreements, property operating expenses, the number of months it takes to re-lease the property, and the number of years the property is held for investment, among other factors. The subjectivity of assumptions used in the future cash flow analysis, including capitalization and discount rates, could result in an incorrect assessment of the property’s estimated fair value and, therefore, could result in the misstatement of the carrying value of our real estate and related intangible assets and our reported net income attributable to Piedmont.

Goodwill

Goodwill is the excess of cost of an acquired entity over the amounts specifically assigned to assets acquired and liabilities assumed in purchase accounting for business combinations, as well as costs incurred as part of the acquisition. We test the carrying value of our goodwill for impairment on an annual basis, or on an interim basis if an event occurs or circumstances change that would indicate the carrying amount may be impaired. Such interim circumstances may include, but are not limited to, significant adverse changes in legal factors or in the general business climate, adverse action or assessment by a regulator, unanticipated competition, the loss of key personnel, or persistent declines in an entity's stock price below carrying value of the entity. We have the option, should we choose to use it, to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the estimated fair value of the reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, we conclude that the estimated fair value is greater than the carrying amount, then performing the two-step impairment test is unnecessary. However, if we chose to forgo the availability of the qualitative analysis, the test prescribed by authoritative accounting guidance is a two-step test. The first step involves comparing the estimated fair value of the entity to its carrying value, including goodwill. Estimated fair value is determined by adjusting the trading price of the stock for a control premium, if necessary, multiplied by the common shares outstanding. If such calculated estimated fair value exceeds the carrying value, no further procedures or analysis is required. However, if the carrying value exceeds the calculated fair value, goodwill is potentially impaired and step two of the analysis would be required. Step two of the test involves calculating the implied fair value of goodwill by deducting the estimated fair value of all tangible and intangible net assets of the entity from the entity's estimated fair value calculated in step one of the test. If the implied value of the goodwill (the remainder left after deducting the estimated fair values of the entity from its calculated overall estimated fair value in step one of the test) is less than the carrying value of goodwill, an impairment loss would be recognized. We have determined through the testing noted above that there are no issues of impairment related to our goodwill as of December 31, 2014.

Investment in Variable Interest Entities

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

We evaluate each investment to determine whether it represents variable interests in a VIE. Further, we evaluate the sufficiency of the entities' equity investment at risk to absorb expected losses, and whether as a group, the equity has the characteristics of a controlling financial interest. See Note 6 to our accompanying consolidated financial statements for further detail on our investment in variable interest entities.

Interest Rate Derivatives

We periodically enter into interest rate derivative agreements to hedge our exposure to changing interest rates on variable rate debt instruments. As required by GAAP, we record all derivatives on the balance sheet at estimated fair value. We reassess the effectiveness of our derivatives designated as cash flow hedges on a regular basis to determine if they continue to be highly effective and also to determine if the forecasted transactions remain highly probable. Currently, we do not use derivatives for trading or speculative purposes.

The changes in estimated fair value of interest rate swap agreements designated as effective cash flow hedges are recorded in other comprehensive income ("OCI"), and subsequently reclassified to earnings when the hedged transactions occur. Changes in the estimated fair values of derivatives designated as cash flow hedges that do not qualify for hedge accounting treatment, if any, would be recorded as gain/(loss) on interest rate swap in the consolidated statements of income. The estimated fair value of the interest rate derivative agreement is recorded as interest rate derivative asset or as interest rate derivative liability in the accompanying consolidated balance sheets. Amounts received or paid under interest rate derivative agreements are recorded as interest expense in the consolidated income statements as incurred. All of our interest rate derivative agreements as of December 31, 2014 are designated as cash flow hedges. See Note 7 to our accompanying consolidated financial statements for further detail on our interest rate derivatives.

Stock-based Compensation

We have issued stock-based compensation in the form of restricted stock to our employees and directors. For employees, such compensation has been issued pursuant to our Long-term Incentive Compensation ("LTIC") program. The LTIC program is comprised of an annual restricted stock grant component and a multi-year performance share component. Awards granted pursuant to the annual restricted stock component are considered equity awards and expensed straight-line over the vesting period, with issuances recorded as a reduction to additional paid in capital. Awards granted pursuant to the performance share component are considered liability awards and are expensed over the service period, with issuances recorded as a reduction to accrued expense. The compensation expense recognized related to both of these award types is recorded as property operating costs for those employees whose job is related to property operation and as general and administrative expense for all other employees and directors in the accompanying consolidated statements of income. See Note 11 to our accompanying consolidated financial statements for further detail on our stock-based compensation.

Recent Accounting Pronouncements

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

Related-Party Transactions and Agreements

There were no related-party transactions during the three years ended December 31, 2014.

Contractual Obligations

Our contractual obligations as of December 31, 2014 are as follows (in thousands):

	Payments Due by Period				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt(1)	$2,279,787	$155,747	$743,292 (2)	$301,974 (3)	$1,078,774 (4)
Operating lease obligations(5)	42,875	451	902	902	40,620
Total	$2,322,662	$156,198	$744,194	$302,876	$1,119,394

(1) Amounts include principal payments only and balances outstanding as of December 31, 2014, not including unamortized issuance discounts or estimated fair value adjustments. We made interest payments, including payments under our interest rate swaps, of $72.1 million during the year ended December 31, 2014, and expect to pay interest in future periods on outstanding debt obligations based on the rates and terms disclosed herein and in Note 5 of our accompanying consolidated financial statements.

(2) Includes the balance outstanding as of December 31, 2014 of the $500 Million Unsecured Line of Credit. However, Piedmont may extend the term for up to one additional year (through two available six month extensions to a final extended maturity date of August 21, 2017) provided Piedmont is not then in default and upon payment of extension fees.

(3) Includes the $300 Million Unsecured 2013 Term Loan which has a stated variable rate; however, we entered into interest rate swap agreements which effectively fix, exclusive of changes to our credit rating, the rate on this portion of the facility to 2.78% through maturity. As such, we estimate incurring, exclusive of changes to our credit rating, approximately $8.3 million per annum in total interest (comprised of combination of variable contractual rate and settlements under interest rate swap agreements) through maturity in January 2019.

(4) Includes the $300 Million Unsecured 2011 Term Loan which has a stated variable rate; however, we entered into interest rate swap agreements which effectively fix, exclusive of changes to our credit rating, the rate on this facility to 2.39% through the original maturity date of November 22, 2016. Additionally, Piedmont entered into three forward starting swaps to effectively fix, absent any changes to Piedmont's credit rating, the rate of this facility to 3.35% for the extension period (November 22, 2016 to January 15, 2020). As such, we estimate incurring, exclusive of changes to our credit rating, approximately $7.2 million per annum in total interest (comprised of combination of variable contractual rate and settlements under interest rate swap agreements) through the original maturity of the debt facility in November 2016, and approximately $10.1 million per annum for the extension period ending in January 2020.

(5)

Two properties (the 2001 NW 64th Street building in Ft. Lauderdale, Florida and the River Corporate Center building in Tempe, Arizona) are subject to ground leases with expiration dates of 2048 and 2101, respectively. The aggregate remaining payments required under the terms of these operating leases as of December 31, 2014 are presented above.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Our future income, cash flows, and estimated fair values of our financial instruments depend in part upon prevailing market interest rates. Market risk is the exposure to loss resulting from changes in interest rates, foreign currency, exchange rates, commodity prices, and equity prices. Our potential for exposure to market risk includes interest rate fluctuations in connection with borrowings under our $500 Million Unsecured Line of Credit, our $300 Million Unsecured 2011 Term Loan, the $300 Million Unsecured 2013 Term Loan which funded in January 2014, and the $50 Million Unsecured Term Loan which funded in December 2014. As a result, the primary market risk to which we believe we are exposed is interest rate risk. Many factors, including governmental monetary and tax policies, domestic and international economic and political considerations, and other factors that are beyond our control contribute to interest rate risk. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flow primarily through a low-to-moderate level of overall borrowings, as well as managing the variability in rate fluctuations on our outstanding debt. As such, all of our debt other than the $500 Million Unsecured Line of Credit and

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$50 Million Unsecured Term Loan is based on fixed or effectively-fixed interest rates to hedge against instability in the credit markets. We do not enter into derivative or interest rate transactions for speculative purposes.

Our financial instruments consist of both fixed and variable-rate debt. As of December 31, 2014, our consolidated debt consisted of the following (in thousands):

	2015	2016	2017	2018	2019	Thereafter	Total
Maturing debt:							
Variable rate repayments	$50,000	$434,000	$—	$—	$—	$—	$484,000
Variable rate average interest rate	1.31 %	1.34 %	— %	— %	— %	— %	1.34 %
Fixed rate repayments	$105,747	$168,384	$140,908	$960	$301,014 (2)	$1,078,774 (3)	$1,795,787
Fixed rate average interest rate(1)	5.29 %	5.55 %	5.76 %	5.55 %	2.79 %	3.57 %	3.90 %

(1) See Note 5 of our accompanying consolidated financial statements for further details on our debt structure.

(2) The amount includes the $300 Million Unsecured 2013 Term Loan which 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%.

(3) The amount includes the $300 Million Unsecured 2011 Term Loan which has a stated variable rate; however, Piedmont 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 November 22, 2016 and to 3.35% for November 22, 2016 to January 15, 2020.

As of December 31, 2013, our consolidated debt consisted of the following (in thousands):

	2014	2015	2016	2017	2018	Thereafter	Total
Maturing debt:							
Variable rate repayments	$—	$—	$366,000	$—	$—	$—	$366,000
Variable rate average interest rate	— %	— %	1.35 %	— %	— %	— %	1.35 %
Fixed rate repayments	$575,000	$105,000	$467,525 (1)	$140,000	$—	$350,000	$1,637,525
Fixed rate average interest rate(1)	4.89 %	5.29 %	3.72 %	5.76 %	— %	3.40	4.34 %

(1)

The amount includes the $300 Million Unsecured 2011 Term Loan which has a stated variable rate; however, Piedmont 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 November 22, 2016 and to 3.35% for November 22, 2016 to January 15, 2020.

As of December 31, 2014 and 2013, the estimated fair value of our debt above was approximately $2.3 billion and $2.0 billion, respectively. Our interest rate swap agreements in place at December 31, 2014 carried a notional amount totaling $1.2 billion with a weighted-average fixed interest rates (not including the corporate credit spread) of 1.77%. Our interest swap agreements in place at December 31, 2013 carried a notional amount totaling $580.0 million with a weighted-average fixed interest rate (not including the corporate credit spread) of 1.70%.

The variable rate debt outstanding as of December 31, 2014 is based on LIBOR or the prime rate plus a specified margin as elected by us at certain intervals. An increase in the variable interest rate on the variable-rate facilities constitutes a market risk, as a change in rates would increase or decrease interest incurred and therefore cash flows available for distribution to stockholders. The current stated interest rate spread on the $500 Million Unsecured Line of Credit and the $50 Million Unsecured Term Loan is LIBOR plus 1.175% and 1.15%, respectively (based on our current corporate credit rating).

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A change in the interest rate on the fixed, or effectively fixed, portion of our debt portfolio impacts the estimated fair value of the instrument but has no impact on interest incurred or cash flows.

As of December 31, 2014, a 1% increase interest rates on our variable rate debt outstanding would increase interest expense approximately $4.8 million on a per annum basis.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data filed as part of this report are set forth on page F-1 of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There were no disagreements with our independent registered public accountants during the years ended December 31, 2014 or 2013.

ITEM 9A. CONTROLS AND PROCEDURES

Management’s Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of management, including our Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934 as of the end of the period covered by this report. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report in providing a reasonable level of assurance that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods in SEC rules and forms, including providing a reasonable level of assurance that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our Principal Executive Officer and our Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Report of Management on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as a process designed by, or under the supervision of, the Principal Executive Officer and Principal Financial Officer and effected by our management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and disposition of our assets;
- provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of management and/or members of the board of directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of human error and the circumvention or overriding of controls, material misstatements may not be prevented or detected on a timely basis. In addition, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes and conditions or that the degree of compliance with policies or procedures may deteriorate. Accordingly, even internal controls determined to be effective can provide only reasonable assurance that the information required to be disclosed in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized, and represented within the time periods required.

Our management has assessed the effectiveness of our internal control over financial reporting at December 31, 2014. To make this assessment, we used the criteria for effective internal control over financial reporting described in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (COSO). Based on this assessment, our management believes that, as of December 31, 2014, our system of internal control over financial reporting was effective.

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Piedmont's independent registered public accounting firm has issued its report on the effectiveness of Piedmont's internal control over financial reporting, which appears in this Annual Report.

Changes in Internal Control Over Financial Reporting

There have been no significant changes in our internal control over financial reporting during the quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Pursuant to Paragraph G(3) of the General Instructions to Form 10-K, the information required by Part III (Items 10, 11, 12, 13, and 14) is being incorporated by reference herein from our definitive proxy statement to be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2014 in connection with our 2015 Annual Meeting of Stockholders.

We have adopted a Code of Ethics, which is available on Piedmont's Web site at http://www.piedmontreit.com under the "Corporate Governance" section. Any amendments to, or waivers of, the Code of Ethics will be disclosed on our Web site promptly following the date of such amendment or waiver.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 will be set forth in our definitive proxy statement to be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2014, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 will be set forth in our definitive proxy statement to be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2014, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by Item 13 will be set forth in our definitive proxy statement to be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2014, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 14 will be set forth in our definitive proxy statement to be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2014, and is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1. The financial statements begin on page F-4 of this Annual Report on Form 10-K, and the list of the financial statements contained herein is set forth on page F-1, which is hereby incorporated by reference.
(a) 2. Schedule III—Real Estate Assets and Accumulated Depreciation.

Information with respect to this item begins on page S-1 of this Annual Report on Form 10-K. Other schedules are omitted because of the absence of conditions under which they are required or because the required information is given in the financial statements or notes thereto.

(b) The Exhibits filed in response to Item 601 of Regulation S-K are listed on the Exhibit Index attached hereto.
(c) See (a) 2. above.

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SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized this 18th day of February, 2015.

Piedmont Office Realty Trust, Inc.
(Registrant)

By: /s/ DONALD A. MILLER, CFA
Donald A. Miller, CFA
President, Principal Executive Officer, and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacity as and on the date indicated.

Signature	Title	Date
/s/ MICHAEL R. BUCHANAN Michael R. Buchanan	Director	February 18, 2015
/s/ DONALD S. MOSS Donald S. Moss	Director	February 18, 2015
/s/ WESLEY E. CANTRELL Wesley E. Cantrell	Director	February 18, 2015
/s/ WILLIAM H. KEOGLER, JR. William H. Keogler, Jr.	Director	February 18, 2015
/s/ JEFFREY L. SWOPE Jeffrey L. Swope	Director	February 18, 2015
/s/ RAYMOND G. MILNES		