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

FORM 10-K

(Mark One)

☒ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2019

or

☐ **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)**
5565 Glenridge Connector Ste. 450, Atlanta, Georgia	**30342**
(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	Trading Symbol	Name of exchange on which registered
Common Stock, $0.01 par value	**PDM**	**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 ☒ No ☐

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 ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).
Yes ☒ No ☐

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

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of June 28, 2019, the aggregate market value of the common stock of Piedmont Office Realty Trust, Inc., held by non-affiliates was $2,452,465,154 based on the closing price as reported on the New York Stock Exchange. As of February 18, 2020, 125,889,222 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 2020 Annual Meeting of Stockholders (Items 10, 11, 12, 13, and 14 of Part III) to be filed no later than April 29, 2020.

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

This Page Intentionally Left Blank

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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," "we," "our," or "us"), 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. Forward-looking statements include statements preceded by, followed by, or that include the words "may," "will," "expect," "intend," "anticipate," "estimate," "believe," "continue," or other similar words. Examples of such statements in this report include descriptions of our real estate, financings, and operating objectives; discussions regarding future dividends and share repurchases; and discussions regarding the potential impact of economic conditions on our real estate and lease portfolio.

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

- Economic, regulatory, socio-economic changes, and/or technology changes (including accounting standards) that impact the real estate market generally, or that could affect patterns of use of commercial office space;
- The impact of competition on our efforts to renew existing leases or re-let space on terms similar to existing leases;
- Changes in the economies and other conditions affecting the office sector in general and specifically the seven markets in which we primarily operate where we have high concentrations of our Annualized Lease Revenue (see definition in Item 1. Business of this Annual Report on Form 10-K);
- Lease terminations, lease defaults, or changes in the financial condition of our tenants, particularly by one of our large lead tenants;
- Adverse market and economic conditions, including any resulting impairment charges on both our long-lived assets or goodwill resulting therefrom;
- The success of our real estate strategies and investment objectives, including our ability to identify and consummate suitable acquisitions and divestitures;
- The illiquidity of real estate investments, including regulatory restrictions to which real estate investment trusts ("REITs") are subject and the resulting impediment on our ability to quickly respond to adverse changes in the performance of our properties;
- The risks and uncertainties associated with our acquisition and disposition of properties, many of which risks and uncertainties may not be known at the time of acquisition or disposition;
- Development and construction delays and resultant increased costs and risks;
- Our real estate development strategies may not be successful;
- Future acts of terrorism or armed hostilities in any of the major metropolitan areas in which we own properties, or future cybersecurity attacks against us or any of our tenants;
- Costs of complying with governmental laws and regulations;
- Additional risks and costs associated with directly managing properties occupied by government tenants, including an increased risk of default by government tenants during periods in which state or federal governments are shut down or on furlough;
- Significant price and volume fluctuations in the public markets, including on the exchange which we listed our common stock;
- Changes in the method pursuant to which the LIBOR rates are determined and the potential phasing out of LIBOR after 2021;
- The effect of future offerings of debt or equity securities or changes in market interest rates 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;
- Changes in the financial condition of our tenants directly or indirectly resulting from geopolitical developments that could negatively affect international trade, including the uncertainty surrounding the United Kingdom's withdrawal from the European Union, the termination or threatened termination of existing international trade agreements, or the implementation of tariffs or retaliatory tariffs on imported or exported goods;
- The effect of any litigation to which we are, or may become, subject;

- Additional risks and costs associated with owning properties occupied by co-working tenants, including risks of default during start-up and during economic downturns;
- Changes in tax laws impacting REITs and real estate in general, as well as our ability to continue to qualify as a REIT under the Internal Revenue Code of 1986 (the "Code") or otherwise adversely affect our stockholders;
- The future effectiveness of our internal controls and procedures; 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.

PART I

ITEM 1. BUSINESS

General

Piedmont Office Realty Trust, Inc. (“Piedmont," "we," "our," or "us") (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, redevelopment, management, and ownership of commercial real estate properties located primarily in select sub-markets within seven major Eastern U.S. office markets, including properties that are under construction, are newly constructed, or have operating histories. Piedmont was incorporated in 1997 and commenced operations in 1998. Piedmont conducts business primarily through Piedmont Operating Partnership, L.P. (“Piedmont OP”), a Delaware limited partnership, as well as performing the management of our 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 our wholly-owned, taxable REIT subsidiary, Piedmont Office Holdings, Inc. ("POH"), the sole limited partner of Piedmont OP. Piedmont OP owns properties directly, through wholly-owned subsidiaries, and through various joint ventures which we control. 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

As of December 31, 2019, we owned and operated 54 in-service office properties comprised of approximately 16.0 million square feet of primarily Class A office space which was 91.2% leased. Collectively, approximately 93% of our Annualized Lease Revenue (see definition below) is generated from select sub-markets located within seven major office markets located in the Eastern United States: Atlanta, Boston, Dallas, Minneapolis, New York, Orlando, and Washington, D.C. As we typically lease to larger, credit-worthy corporate tenants, our average lease size is approximately 20,000 square feet with an average lease term remaining of seven years. Our diversified tenant base is primarily comprised of investment grade or nationally recognized corporations or governmental agencies, with the majority of our Annualized Lease Revenue derived from such tenants. No tenant accounts for more than 5.3% of our Annualized Lease Revenue.

Headquartered in Atlanta, Georgia, with regional and/or local management offices in each of our seven major markets, Piedmont values operational excellence and is a leading participant among REITs based on the number of buildings owned and managed with Building Owners and Managers 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 over 60% of our office portfolio (based on square footage) has achieved and maintains "Energy Star" efficiency (a designation for the top 25% of commercial buildings in energy consumption efficiency). In addition to operational excellence, we focus on fostering long-term relationships with our high-credit quality, diverse tenant base as evidenced by our approximately 68% tenant retention rate over the past ten years.

Our primary objectives are to maximize the risk-adjusted return to our stockholders by increasing cash flow from operations, by achieving sustainable growth in Funds From Operations, and by growing net asset value by realizing long-term capital appreciation. We manage risk by owning almost exclusively Class A, geographically diverse office properties which are among the most desirable in their respective office sub-markets. In addition to the creditworthiness of our tenants, we strive to ensure our tenants represent a broad spectrum of industry types with lease expirations that are laddered over many years. Operationally, we maintain a low leverage structure, utilizing primarily unsecured financing facilities with laddered maturities. We utilize a national buying platform of property management support services to ensure optimal pricing for landlord and tenant services, as well as to implement best practices and achieve sustainability standards. The strategies we intend to execute to achieve these objectives include:

Capitalizing on Acquisition/Investment Opportunities

Our overall acquisition/investment strategy focuses on properties located in select sub-markets within seven major Eastern U.S. office markets that were identified based on their positive economic and demographic growth trends so as to position our investments for long-term appreciation. We believe these sub-markets are generally characterized by their strong amenity base, desired location for large corporate users, above-average job and rental rate growth, proximity to robust housing options, market-leading transportation infrastructure, and limited competitive REIT ownership. Both our acquisition and development activities are targeted towards attractively priced, high quality, Class A office properties that complement our existing portfolio in such a manner that efficiencies can be gained and our market expertise can be maximized.

Proactive Asset Management, Leasing Capabilities and Property Management

Our proactive approach to asset and property management encompasses a number of operating initiatives designed to maximize occupancy and rental rates, including the following: devoting significant resources to building and cultivating our relationships with commercial real estate executives; maintaining local management offices in markets in which we have a significant presence; demonstrating our commitment to our tenants and local communities by maintaining the high quality of our properties; and driving a significant volume of leasing transactions in a manner that provides optimal returns by using creative approaches, including early extensions, lease wrap-arounds and restructurings. We manage portfolio risk by structuring lease expirations to avoid, among other things, having multiple leases expire in the same market in a relatively short period of time; applying our leasing and operational expertise in meeting the specialized requirements of federal, state and local government agencies to attract and retain these types of tenants; evaluating potential tenants based on third party and internal assessments of creditworthiness; and using our purchasing power and market knowledge to reduce our operating costs and those of our tenants.

Recycling Capital Efficiently

We use our proven, disciplined capital recycling capabilities to maximize total return to our stockholders by selectively disposing of non-core assets and assets for which we believe full value potential during our ownership has been achieved, and redeploying the proceeds of those dispositions into new investment opportunities with higher overall return prospects.

Financing Strategy

We employ a conservative leverage strategy by typically maintaining a debt-to-gross assets ratio of between 30% to 40%. To effectively manage our long-term leverage strategy, we continue to analyze various sources of debt capital to prudently ladder debt maturities and to determine which sources will be the most beneficial to our investment strategy at any particular point in time.

Use of Joint Ventures to Improve Returns and Mitigate Risk

We may selectively enter into strategic joint ventures with third parties to acquire, develop, redevelop or dispose of properties, thereby potentially reducing the amount of capital required by us to make investments, diversifying our sources of capital, enabling us to creatively acquire and control targeted properties, and allowing us to reduce our investment concentration in certain properties and/or markets without disrupting our operating performance or local operating capabilities.

Redevelopment and Repositioning of Properties

As circumstances warrant, we may redevelop or reposition properties within our portfolio, including the creation of additional amenities for our tenants to increase both occupancy and rental rates and thereby improve returns on our invested capital, as well as to maintain and enhance the competitive positioning of our properties in their respective market places.

Sustainability

We are dedicated to environmentally sustainable practices that enhance our commitment to provide the highest quality office properties. We strive to own and manage workplaces that are environmentally conscious, productive, and healthy for our tenants and employees by:

- empowering our property teams with the data and tools they need to sustainably manage their buildings;
- leveraging industry partnerships with BOMA, Energy Star, and U.S. Green Building Council, to confirm and advance the energy and sustainability performance of our assets; and
- implementing processes that continually improve our environmental performance.

Further details concerning Piedmont's environmental, social, and governance policies and initiatives, as well as its 2018 sustainability report, can be found on Piedmont's website, http://www.piedmontreit.com.

Information Regarding Disclosures Presented

Annualized Lease Revenue ("ALR"), a non-GAAP measure, 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 revenues associated with development properties and properties taken out of service for redevelopment, if any.

Employees

As of December 31, 2019, we had 134 employees, with 46 of our employees working in our corporate office located in Atlanta, Georgia. Our remaining employees work in regional and/or local management offices located in our seven major markets. These employees are involved in acquiring, developing, redeveloping, leasing, and managing our portfolio of properties. We outsource various functions where cost efficiencies can be achieved, such as certain areas of information technology, construction, building engineering, and leasing.

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; leasing, 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 may impact our results of operations. We also compete with other buyers who may be interested in properties we wish to acquire, which may affect the amount that we are required to pay for such properties or may ultimately result in our decision not to acquire such properties. Further, we may compete with sellers of similar properties when we sell properties, which may affect the amount of proceeds we receive from the disposal, or which may result in our inability to dispose of such properties due to the lack of an acceptable amount of proceeds offered by interested buyers.

Financial Information About Industry Segments

Our current business primarily consists of owning, managing, operating, leasing, acquiring, developing, redeveloping, 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, 2019, no individual tenant represented more than 5.3% of our ALR.

Other Matters

We have 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.

Website 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 website, http://www.piedmontreit.com, or directly from the SEC’s website 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, socio-economic and/or technology 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 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 or parking garage use due to technological advances which may make telecommuting more prevalent or reduce the demand for office workers or parking spaces generally;
- increased demand for "co-working" or sharing of office space with other companies;
- increased supply of office space due to the conversion of other asset classes such as shopping malls and other retail establishments to office space;
- the attractiveness of our properties to potential tenants and competition from other available properties;
- 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;
- changes in market rental rates and related concessions granted to tenants including, but not limited to, free rent, and tenant improvement allowances;
- the financial stability of our tenants or groups of tenants in specific industry sectors (such as the oil and gas, insurance, and co-working sectors), including bankruptcies, financial difficulties, or lease defaults by our tenants;
- inability to finance property development or acquisitions on favorable terms;
- 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
- significant changes in accounting standards and tax laws.

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.

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. The competition for credit worthy tenants is intense, and we may have difficulty competing, especially with competitors who have purchased properties at discounted prices allowing them to offer space at reduced rental rates, or those that have the ability to offer superior amenities or more flexible leasing terms. 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, this intense competition may require us to utilize rent concessions and tenant improvements to a greater extent than we have historically.

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 to new tenants, the terms and other costs of renewal or re-letting, including the cost of required renovations or additional amenities, 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 conditions of the office market in general and of the specific markets in which we operate.

Because our portfolio consists exclusively 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. Further, our portfolio of properties is primarily located in seven major metropolitan areas: Atlanta, Boston, Dallas, Minneapolis, New York, Orlando, and Washington, D.C. Collectively, these seven metropolitan areas accounted for approximately 93% of our ALR from our portfolio of properties as of December 31, 2019. As a result, we are particularly susceptible to adverse market conditions in these cities, including any reduction in demand for office properties, industry slowdowns, governmental cut backs, relocation of businesses and changing demographics. Adverse economic or real estate developments in these markets, 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.

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. Many of our tenants may be adversely impacted by the specific consequences of, and the general market uncertainty associated with, geopolitical developments that could negatively affect international trade, including the uncertainty surrounding the United Kingdom's withdrawal from the European Union, the termination or threatened termination of existing international trade agreements, or the implementation of tariffs or retaliatory tariffs on imported or exported goods. If any of our tenants, or groups of tenants in specific industry sectors (such as the oil and gas, insurance, and co-working sectors), experience or anticipate an adverse change in their respective businesses for any reason, they 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 to 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 or may not decrease immediately 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, 2019, our largest lead tenants, based on ALR, were: US Bancorp (5.3% of ALR), State of New York (5.1% of ALR), Independence Blue Cross (3.9% of ALR), the City of New York (2.3% of ALR), and Transocean (1.9% of ALR). The revenues generated by the properties that any of our 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.

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. 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 five properties in which some 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. In addition, we face additional risks and costs associated with directly managing properties occupied by government tenants, including an increased risk of default by such tenants during periods in which state or federal governments are shut down or on furlough. 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 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 earnings 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.

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. Likewise, we may incur costs pursuing acquisitions that we are ultimately unsuccessful in completing.

Further, we face significant competition for attractive investment opportunities from a large 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, any of 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 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, our ability to arrange financing, and our ability 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.

We may not be able to dispose of properties that no longer meet our strategic plans or to timely and efficiently apply the proceeds from any disposition of properties.

We may seek to dispose of properties that no longer meet our strategic plans with the intent to use the proceeds generated from such potential disposition to acquire additional properties better aligned with our investment criteria and growth strategy or to fund other operational needs. We may not be able to dispose of these properties for the proceeds we expect, or at all, and we may incur costs and divert management attention from our ongoing operations as part of efforts to dispose of these properties, regardless of whether such efforts are ultimately successful. In addition, if we are able to dispose of those properties, we may not be able to re-deploy the proceeds in a timely or more efficient manner, if at all. As such, we may not be able to adequately time any decrease in revenues from the sale of properties with a corresponding increase in revenues associated with the acquisition of new properties. The failure to dispose of properties, or to timely and more efficiently apply the proceeds from any disposition of properties to attractive acquisition opportunities, could have an adverse effect on our results of operations and our ability to make distributions to our stockholders.

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

From time to time, we engage in various 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.

Our real estate development strategies may not be successful.

From time to time, we engage in various development and redevelopment 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 subcontractor 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 or armed hostilities could significantly impact the demand for, and value of, our properties.

Our portfolio of properties is primarily located in the following major metropolitan areas: Atlanta, Boston, Dallas, Minneapolis, New York, Orlando, and Washington, D.C., any of which could be, and some of which have been, the target of terrorist attacks. Future terrorist attacks and other acts of terrorism or war could 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. Attacks or armed conflicts could result in increased operating costs; including building security, property and casualty insurance, and property maintenance. As a result of terrorist activities or other armed hostilities, the cost of insurance coverage for our properties could also increase. In addition, our insurance policies may not recover all our property replacement costs and lost revenue resulting from an attack. A decrease in demand could also 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 or armed hostilities 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 cyber-security, 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, functionality, or availability of our information resources and systems. More specifically, a cyber incident is an intentional attack or an unintentional event that can include gaining unauthorized access to systems to disrupt building or corporate operations, corrupt data, or steal confidential information. While we have not experienced any material cyber incidents in the past, 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 physical harm to occupants of our buildings, physical damage to our buildings, actual cash loss, operational interruption, damage to our relationship and reputation 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.

Insider or employee cyber and security threats are increasingly a concern for all companies, including ours. In addition, social engineering and phishing are a particular concern for companies with employees. We are continuously working to install new, and to upgrade our existing networks, building operating and information technology systems, and to train employees against phishing, malware and other cyber risks to ensure that we are protected, to the greatest extent possible, against cyber risks and security breaches. However, such upgrades, new technology and training may not be sufficient to protect us from all risks.

We are continuously developing and enhancing our controls, processes, and practices designed to protect our systems, computers, software, data, and networks from attack, damage, or unauthorized access. This continued development and enhancement will require us to expend additional resources, including to investigate and remediate any information security vulnerabilities that may be detected. Although we make efforts to maintain the security and integrity of these types of information technology networks and related systems, and despite various measures we have implemented 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. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because the techniques used in such attempted security breaches evolve and generally are not recognized until launched against a target, and in some cases are designed to not be detected. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is impossible for us to entirely mitigate this risk.

Further, one or more of our tenants could experience a cyber incident which could impact their operations and ability to perform under the terms of their lease with us. We are not aware of any of our tenants experiencing a cyber incident, and if any such cyber incident has occurred among our tenants, it has not given rise to a default under such tenant's lease with us.

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, rental loss, environmental, cyber-security, 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 or cyber terrorism, armed hostilities, 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 terrorist acts could sharply increase the premiums we pay for coverage against property and casualty claims. Under the Terrorism Risk Insurance Act ("TRIA"), which is currently effective through December 31, 2027, 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.

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

From time to time we may enter into 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 but not limited to the following:

- in these investments, we may 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;
- 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 may 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 or may impose additional liabilities on us, including environmental liabilities. 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, liabilities, 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. As a result, 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. Even if more than one party 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 have building materials that contain asbestos. 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, either of which could materially and 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 face possible risks associated with the physical effects of climate change.

The physical effects of climate change could have a material adverse effect on our properties, operations, and business. The majority of our portfolio of properties is located along the Eastern coast of the United States. To the extent that climate change causes variations in weather patterns, our markets could experience increases in storm intensity, larger flood zones, and/or rising sea-levels. Over time, these conditions could result in physical damage to our buildings or a decline in demand for office space in our buildings. Climate change could also indirectly negatively impact our business by causing increased costs associated with property and casualty or flood insurance, energy, or storm cleanup. There can be no assurance that climate change will not have a material adverse effect on our properties, operations, or business.

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, 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 management team leave, is dependent on the competitive nature of the employment market. The loss of services of one or more key members of our management team could adversely affect our results of operations and slow our future growth. While we have planned for the succession of each of the key members of our management team, our succession plans may not effectively prevent any adverse effects from the loss of any member of our management team. 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 distract key personnel from management of the company and result in additional expenses which, if uninsured, could adversely impact our earnings and cash flows, thereby impacting our ability to service our 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 controls over financial reporting are not effective, investors could lose confidence in our reported financial information.

The design and effectiveness of our disclosure controls and procedures and our 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 our internal control over financial reporting, there can be no guarantee that these processes 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;
- 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.

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 certain of our 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, but are not limited to, the following:

- 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;
- actions by institutional stockholders;
- material, adverse litigation judgments;
- speculation in the press or investment community;
- general market and economic conditions; and
- the realization of any of the other risk factors described in this report.

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 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, prevent us from maintaining our qualification as a REIT, or otherwise adversely affect our stockholders.

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. In particular, the Tax Cuts and Jobs Act ("H.R. 1"), which was effective for us for tax year 2018, made many significant changes to the U.S. federal income tax laws. A number of the changes that affected noncorporate taxpayers will expire at the end of 2025 unless Congress acts to extend them. These changes impacted us, our stockholders, and our tenants in various ways and the IRS continues to issue clarifying guidance with respect to certain of the provisions of H.R. 1, any of which may be adverse or potentially adverse compared to prior law. Additional changes to tax laws are likely to continue to occur in the future. Accordingly, there is no assurance that we can continue to operate with the current benefits of our REIT status or that a change to the tax laws will not adversely affect the taxation of our stockholders. 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, and changes to the taxation of our stockholders could have an adverse effect on an investment in our common stock.

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 forgo 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. In addition, changes made by H.R. 1 will require us to accrue certain income for U.S. federal income tax purposes no later than when such income is taken into account as revenue on our financial statement (subject to an exception for certain income that is already subject to a special method of accounting under the Code). This could cause us to recognize taxable income prior to the receipt of the associated cash. H.R. 1 also includes limitations on the deductibility of certain compensation paid to our executives, certain interest payments, and certain net operating loss carryforwards, each of which could potentially increase our taxable income and our required distributions. 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.

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

The maximum income tax rate for dividends paid by corporations to individuals, trusts and estates is generally 20%. Dividends paid by REITs, however, (other than distributions we properly designate as capital gain dividends or as qualified dividend income) are taxed at the normal income tax rate applicable to the individual recipient (currently a maximum rate of 37%) rather than the 20% preferential rate, subject to a deduction equal to 20% of the amount of certain "qualified REIT dividends" that is available to noncorporate taxpayers through 2025, which has the effect of reducing the maximum effective income tax rate on qualified REIT dividends to 29.6%. The more favorable rates applicable to regular corporate dividends 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, particularly after the scheduled expiration of the 20% deduction applicable to qualified REIT dividends on December 31, 2025.

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.

We face possible adverse changes in state and local 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.

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, 2019, we had total outstanding indebtedness of approximately $1.5 billion and a total debt to gross assets ratio of 32.5%. 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 have 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 with respect to any of our indebtedness 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, 2019, 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, with respect to 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, any outstanding draws on our $500 Million Unsecured 2018 Line of Credit and our variable rate-debt instruments which are not subject to hedging under interest rate swap agreements represent our exposure to interest rate changes. In addition, any outstanding draws under the $500 Million Unsecured 2018 Line of Credit are subject to various length LIBOR locks; however, increases in interest rates could increase our interest costs associated with this variable rate debt to the extent our current locks expire and new balances are drawn under the facility. 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.

Changes in interest rates could have adverse effects 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 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 effect 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.

Changes in the method pursuant to which the LIBOR rates are determined and potential phasing out of LIBOR after 2021 may adversely affect our results of operations.

LIBOR and certain other "benchmarks" are the subject of recent national, international and other regulatory guidance and proposals for reform. These reforms may cause such benchmarks to perform differently than in the past or have other consequences which cannot be predicted. In particular, on July 27, 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, publicly announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. It is unclear whether, at that time, LIBOR will cease to exist or if new methods of calculating LIBOR will be established.

As of December 31, 2019, approximately $550 million of our outstanding indebtedness had interest rate payments determined directly or indirectly based on LIBOR. In addition, we currently have interest rate swaps with a notional value of $150 million that also use LIBOR as a reference rate. Any uncertainty regarding the continued use and reliability of LIBOR as a benchmark interest rate could adversely affect the performance of LIBOR relative to its historic values. If the methods of calculating LIBOR change from current methods for any reason, or if LIBOR ceases to perform as it has historically, our interest expense associated with the unhedged portion of our outstanding indebtedness or any future indebtedness we incur may increase. Further, if LIBOR ceases to exist, we may be forced to substitute an alternative reference rate, such as a different benchmark interest rate or base rate borrowings, in lieu of LIBOR under our current and future indebtedness and interest rate swaps. At this point, it is not clear what, if any, alternative reference rate may be adopted to replace LIBOR, however, any such alternative reference rate may be calculated differently than LIBOR and may increase the interest expense associated with our existing or future indebtedness.

Finally, the replacement or disappearance of LIBOR may adversely affect the value of and costs associated with our LIBOR-based obligations and the availability, pricing and terms of LIBOR-based interest rate swaps we use to hedge our interest rate risk. Alternative reference rates or modifications to LIBOR may not align for our assets, liabilities, and hedging instruments, which could reduce the effectiveness of certain of our interest rate hedges, and could cause increased volatility in our earnings. We may also incur expenses to amend and adjust our indebtedness and swaps to eliminate any differences between any alternative reference rates used by our interest rate hedges and our outstanding indebtedness.

Any of these occurrences could materially and adversely affect our borrowing costs, business and results of operations.

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, 2019.

ITEM 2. PROPERTIES

Overview

As of December 31, 2019, we owned interests in 54 in-service office properties, and approximately 93% of our ALR was generated from select sub-markets located within the following major U.S. office markets: Atlanta, Boston, Dallas, Minneapolis, New York, Orlando, and Washington, D.C. As of December 31, 2019 and 2018, our in-service portfolio was 91.2% and 93.3% leased, respectively, with an average lease term remaining as of each period end of approximately seven years and an average lease size of approximately 20,000 square feet. No tenant accounts for more than 5.3% of our ALR, and our five largest tenants are U.S. Bancorp, State of New York, Independence Blue Cross, City of New York, and Transocean.

ALR (see Item 1. Business - "Information Regarding Disclosures Presented" above) related to our in-service portfolio was $496.2 million, or $33.91 per leased square foot, as of December 31, 2019 as compared with $520.0 million, or $34.37 per leased square foot, as of December 31, 2018. These rental rates are presented before consideration of the fact that several of our largest tenants self-perform various aspects of their building management; therefore, we do not count those expenses in our gross rent calculations. If the costs of these functions are added to these leases, our average gross rent for our in-service portfolio as of December 31, 2019, increases to $35.43 per leased square foot.

Property Statistics

The following table shows the geographic diversification of our in-service portfolio as of December 31, 2019:

Location	Annualized Lease Revenue (in thousands)	Rentable Square Feet (in thousands)	Percentage of Annualized Lease Revenue (%)	Percent Leased (%)
Atlanta	$ 88,985	3,387	17.9	88.7
Minneapolis	67,637	2,104	13.6	97.1
New York	66,631	1,770	13.4	95.5
Washington, D.C.	65,865	1,619	13.3	78.3
Boston	60,083	1,882	12.1	94.5
Dallas	55,360	2,115	11.2	86.0
Orlando	54,712	1,754	11.0	95.2
Other [(1)]	36,924	1,415	7.5	96.2
	$ 496,197	16,046	100.0	91.2

(1) Includes 1901 Market Street in Philadelphia, Pennsylvania; 1430 Enclave Parkway and Enclave Place in Houston, Texas; and Two Pierce Place in Chicago, Illinois.

The following table shows lease expirations of our in-service office portfolio as of December 31, 2019 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)	Percentage of Annualized Lease Revenue (%)
Available space	$ —	—
2020	43,811	8.8
2021	24,614	5.0
2022	40,523	8.2
2023	41,776	8.4
2024	67,209	13.5
2025	35,014	7.1
2026	27,585	5.6
2027	40,352	8.1
2028	34,419	6.9
2029	28,584	5.8
2030	15,204	3.1
2031	1,684	0.3
Thereafter	95,422	19.2
	$ 496,197	100.0

Certain Restrictions Related to our Properties

As of December 31, 2019, the 5 Wall Street building in Burlington, Massachusetts and the 1901 Market Street building in Philadelphia, Pennsylvania, were held as collateral for debt, and no properties were subject to ground leases. Refer to Schedule III listed in the index of Item 15(a) of this report, for further details regarding the two properties held as collateral for debt facilities as of December 31, 2019.

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, 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.

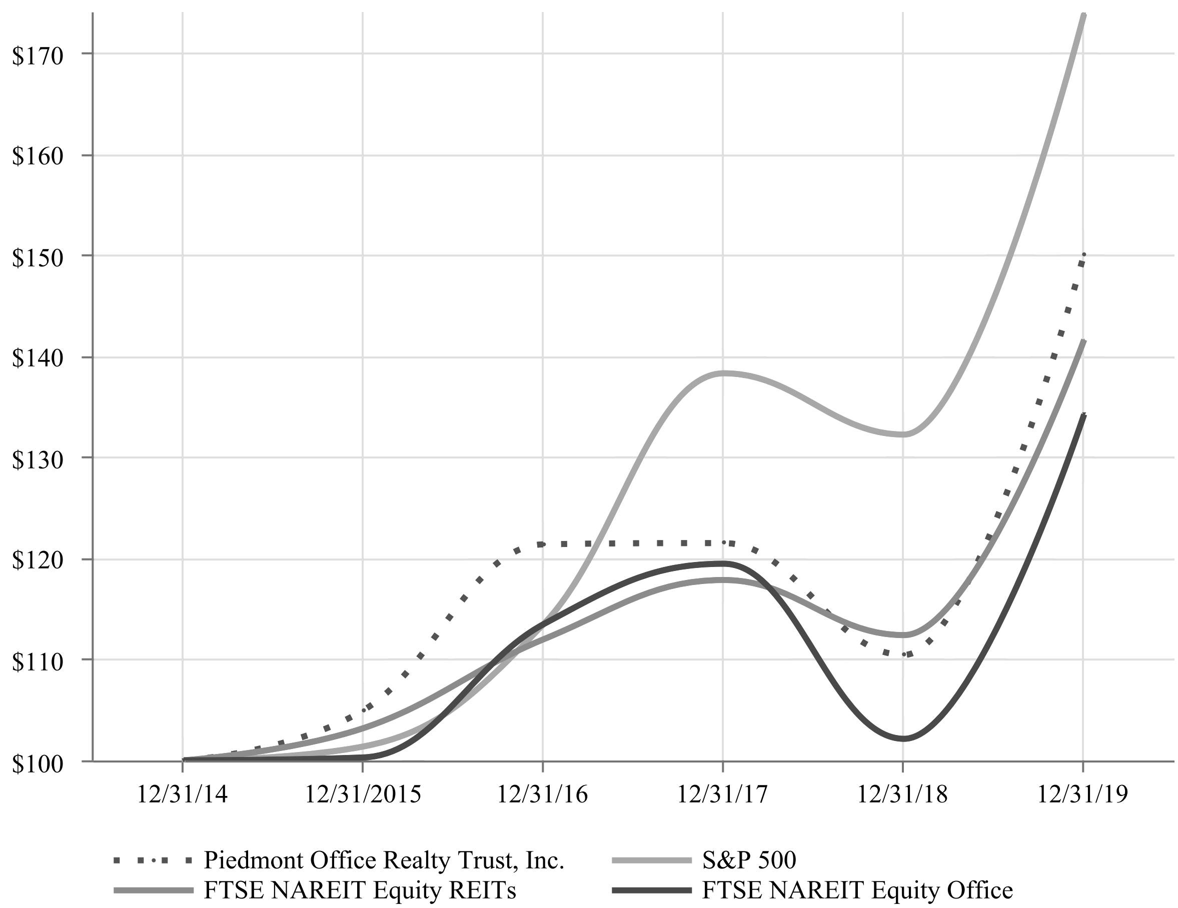
ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information and Holders

Our common stock is listed on the New York Stock Exchange under the symbol "PDM." As of February 18, 2020, there were 9,225 common stockholders of record of our common stock.

Performance Graph

The following graph compares the cumulative total return of Piedmont's common stock with the FTSE NAREIT Equity Office Index, the FTSE NAREIT Equity REITs Index, and the S&P 500 Index for the period beginning on December 31, 2014 through December 31, 2019. The graph assumes a $100 investment in each of Piedmont and the three indices, and the reinvestment of any dividends.



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

	As of the year ended December 31,					
	2014	2015	2016	2017	2018	2019
Piedmont Office Realty Trust, Inc.	$ 100.00	$ 104.98	$ 121.37	$ 121.49	$ 110.43	$ 150.10
FTSE NAREIT Equity Office	$ 100.00	$ 100.29	$ 113.49	$ 119.45	$ 102.13	$ 134.22
FTSE NAREIT Equity REITs	$ 100.00	$ 103.20	$ 111.99	$ 117.84	$ 112.39	$ 141.61
S&P 500	$ 100.00	$ 101.38	$ 113.51	$ 138.29	$ 132.23	$ 173.86

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, 2019, we did not repurchase any shares of our common stock in the open market.

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 (1) (in 000's)	Maximum Approximate Dollar Value of Shares Available That May Yet Be Purchased Under the Program (in 000's)
October 1, 2019 to October 31, 2019	—	$ —	—	$ 74,089
November 1, 2019 to November 30, 2019	—	$ —	—	$ 74,089
December 1, 2019 to December 31, 2019	—	$ —	—	$ 74,089 (1)
Total	—	$ —	—	

(1) Amounts available for purchase relate only to our Board-authorized stock repurchase plan under our authorization to repurchase shares of our common stock through February 21, 2020. On February 19, 2020, Piedmont's Board of Directors extended the authorization of our stock repurchase program for up to $200 million in share repurchases through February 2022, at the discretion of management. Further, on February 19, 2020, Piedmont's Board of Directors suspended the company-funded Dividend Reinvestment Plan offered through our transfer agent effective March 21, 2020.

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, 2019, 2018, 2017, 2016, and 2015 (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.

	2019	2018	2017	2016	2015
Statement of Income Data:					
Total revenues	**$ 533,178**	$ 525,967	$ 574,173	$ 555,715	$ 584,769
Property operating costs	**$ 211,380**	$ 209,338	$ 222,441	$ 220,796	$ 244,090
Depreciation and amortization	**$ 182,681**	$ 171,251	$ 194,655	$ 202,852	$ 195,389
Impairment loss on real estate assets	**$ 8,953**	$ —	$ 46,461	$ 33,901	$ 43,301
General and administrative expenses	**$ 37,895**	$ 29,713	$ 29,319	$ 27,382	$ 28,278
Interest and other expense	**$ (60,023)**	$ (61,065)	$ (63,622)	$ (64,477)	$ (72,158)
Gain on sale of real estate assets not classified as discontinued operations	**$ 197,010**	$ 75,691	$ 115,874	$ 93,410	$ 129,683
Income from continuing operations	**$ 229,256**	$ 130,291	$ 133,549	$ 99,717	$ 131,236
Per-Share Data:					
Per weighted-average common share data:					
Income from continuing operations per share—basic and diluted	**$ 1.82**	$ 1.00	$ 0.92	$ 0.69	$ 0.87
Cash dividends declared per common share	**$ 0.84**	$ 0.84	$ 1.34	$ 0.84	$ 0.84
Weighted-average shares outstanding—basic (in thousands)	**125,709**	130,161	145,044	145,230	150,538
Weighted-average shares outstanding—diluted (in thousands)	**126,182**	130,636	145,380	145,635	150,880
Balance Sheet Data (at period end):					
Total assets	**$ 3,516,757**	$ 3,592,429	$ 3,999,967	$ 4,368,168	$ 4,361,511
Total stockholders' equity	**$ 1,818,974**	$ 1,712,140	$ 1,986,489	$ 2,097,703	$ 2,123,420
Outstanding debt	**$ 1,481,404**	$ 1,685,472	$ 1,726,927	$ 2,020,475	$ 2,029,510
NAREIT Funds from Operations Data [(1)]:					
GAAP net income applicable to common stock	**$ 229,261**	$ 130,296	$ 133,564	$ 99,732	$ 131,304
Depreciation and amortization	**181,721**	170,348	193,904	202,268	194,943
Impairment loss	**8,953**	—	46,461	33,901	43,301
Gain on sale- wholly-owned properties and unconsolidated partnerships	**(197,010)**	(75,691)	(119,557)	(93,410)	(129,682)
NAREIT Funds From Operations applicable to common stock [(1)]	**$ 222,925**	$ 224,953	$ 254,372	$ 242,491	$ 239,866
Retirement and separation expenses associated with senior management transition in June 2019	**3,175**	—	—	—	—
Acquisition costs	—	—	6	976	919
Loss on extinguishment of debt	—	1,680	—	—	38
Net loss/(recoveries) of casualty loss and litigation settlements	—	—	—	(34)	278
Core Funds From Operations applicable to common stock [(1)]	**$ 226,100**	$ 226,633	$ 254,378	$ 243,433	$ 241,101
Amortization of debt issuance costs, fair market adjustments on notes payable, and discount on Senior Notes	**2,101**	2,083	2,496	2,610	2,547
Depreciation of non real estate assets	**872**	813	809	841	755
Straight-line effects of lease revenue and net effect of amortization of below-market in-place lease intangibles	**(18,734)**	(21,595)	(28,067)	(26,609)	(20,305)
Stock-based compensation adjustments	**5,030**	7,528	6,139	5,620	7,090
Acquisition costs	—	—	(6)	(976)	(919)
Non-incremental capital expenditures	**(49,653)**	(44,004)	(35,437)	(35,568)	(44,136)
Adjusted Funds From Operations applicable to common stock [(1)]	**$ 165,716**	$ 171,458	$ 200,312	$ 189,351	$ 186,133

(1) 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 Item 6, Selected Financial Data, above and our audited consolidated financial statements and notes thereto as of December 31, 2019 and 2018, and for the years ended December 31, 2019, 2018, and 2017, 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.

Liquidity and Capital Resources

On February 12, 2020, we acquired the "Dallas Galleria Office Towers", three Class A office towers totaling approximately 1.4 million square feet of office space, associated parking garages, and a 1.9 acre land parcel located within a 3.7 million square foot mixed-use development in Dallas, Texas that includes the the Galleria Dallas retail destination, encompassing over 30 dining options and 1.5 million square feet of shopping, along with the 448-room Westin Galleria Hotel, for a net purchase price of approximately $396 million, or approximately $275 per square foot. The acquisition was initially funded with cash on hand and borrowings under our $500 Million 2018 Line of Credit. As a result, we entered into an additional, short-term, $150 million bank availability loan. Over the next several months, we intend to use cash flows generated from the operation of our properties, proceeds from selective property dispositions, and proceeds from both our $500 Million Unsecured 2018 Line of Credit and $150 million term loan (if necessary) as our primary sources of immediate liquidity. We intend to pay down the line of credit using the net proceeds from the anticipated sale of 1901 Market Street in Philadelphia, Pennsylvania.

In addition, when necessary we may seek new secured or unsecured borrowings from third party lenders or issue securities as additional sources of capital. The nature and timing of these additional sources of capital will be 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, 2019 and 2018, we incurred the following types of capital expenditures (in thousands):

	December 31, 2019	December 31, 2018
Capital expenditures for new development	**$ 30**	$ 78
Capital expenditures for redevelopment/ renovations	**11,104**	9,913
Other capital expenditures, including building and tenant improvements	**92,419**	62,114
Total capital expenditures (1)	**$ 103,553**	$ 72,105

(1) Of the total amounts paid, approximately $2.7 million and $2.1 million related to soft costs such as capitalized interest, payroll, and other general and administrative expenses for the year ended December 31, 2019 and 2018, respectively.

"Capital expenditures for new development" relate to initial capital costs for potential new office development projects at certain of our existing land parcels.

"Capital expenditures for redevelopment/renovations" during the year ended December 31, 2019 primarily related to a redevelopment project to upgrade amenities at our US Bancorp building in Minneapolis, Minnesota, as well as a redevelopment project to upgrade common areas, amenities, and parking, at our Two Pierce Place building in Itasca, Illinois. Expenditures during the year ended December 31, 2018 primarily related to the redevelopment project at Two Pierce Place.

"Other capital expenditures, including building and tenant improvements" include all other capital expenditures during the period and are typically comprised of tenant and building improvements necessary to lease, maintain, or provide enhancements to our existing portfolio of office properties.

Given that our operating model frequently results in leases for large blocks of space to credit-worthy tenants, our leasing success can result in capital outlays which vary from one reporting period to another based upon the specific leases executed. For example, for leases executed during the year ended December 31, 2019, we committed to spend approximately $5.86 per square foot per year of lease term for tenant improvement allowances and lease commissions (net of expiring lease commitments), as compared to $5.64 per square foot per year of lease term (net of expired lease commitments) for the year ended December 31, 2018. As of the date of this filing, we had one individually significant tenant improvement commitment related to the approximately 20-year, approximately 520,000 square foot renewal and expansion of the State of New York's lease at our 60 Broad Street building in New York City that was executed during the fourth quarter of 2019. In conjunction with that lease, we anticipate spending approximately $5.50 per square foot per year of lease term over the next five years for market-based tenant improvement allowances.

In addition to the amounts that we have already committed to as a part of executed leases, we also anticipate continuing to incur similar market-based tenant improvement allowances and leasing commissions in conjunction with procuring future leases for our existing portfolio of properties. Both the timing and magnitude of expenditures related to future leasing activity are highly dependent on the competitive market conditions at the time of lease negotiations of the particular office market within which a given lease is signed. In particular, we are currently in the process of negotiating the renewal of a majority of the current 320,000 square foot lease with the City of New York, at our 60 Broad Street building in New York City, that expires during 2020, and we anticipate spending significant capital for market-based tenant improvement allowances and leasing commissions over the next several years associated with the renewal.

There are other uses of capital that may arise as part of our typical operations. 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. We may also use capital resources to repurchase additional shares of our common stock under our stock repurchase program when we believe the stock is trading at a significant discount to net asset value. On February 19, 2020, Piedmont's Board of Directors extended the authorization of the stock repurchase program for up to $200 million in share repurchases through February 2022, at the discretion of management. Finally, although we have no scheduled debt maturities until the third quarter of 2021, we expect to use capital to repay debt obligations when they become due or when we deem it prudent to refinance various obligations.

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 dividend payout ratios for comparable companies; (vi) our ability to continue to access additional sources of capital, including potential sales of our properties; and (vii) the amount required to be distributed to maintain our status as a REIT. With 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 (2019 vs. 2018)

Overview

Net income applicable to common stockholders for the year ended December 31, 2019 was $229.3 million, or $1.82 per diluted share, as compared with net income applicable to common stockholders of $130.3 million, or $1.00 per diluted share, for the year ended December 31, 2018. The year ended December 31, 2019 included approximately $188.1 million, or $1.49 per diluted share, of gains on sales of real estate assets net of impairment losses, whereas the prior year included approximately $75.7 million, or $0.58 per diluted share, of gains on sales of real estate assets.

Comparison of the accompanying consolidated statements of income for the year ended December 31, 2019 vs. the year ended December 31, 2018.

The following table sets forth selected data from our consolidated statements of income for the years ended December 31, 2019 and 2018, respectively, as well as each balance as a percentage of total revenues for the years presented (dollars in millions):

	December 31, 2019	% of Revenues	December 31, 2018	% of Revenues	Variance
Revenue:					
Rental and tenant reimbursement revenue	**$ 511.9**		$ 504.4		$ 7.5
Property management fee revenue	**3.4**		1.5		1.9
Other property related income	**17.9**		20.1		(2.2)
Total revenues	**533.2**	100 %	526.0	100 %	7.2
Expense:					
Property operating costs	**211.4**	40 %	209.3	40 %	2.1
Depreciation	**106.0**	20 %	108.0	20 %	(2.0)
Amortization	**76.7**	14 %	63.3	12 %	13.4
Impairment losses on real estate assets	**8.9**	2 %	—	— %	8.9
General and administrative	**37.9**	7 %	29.7	6 %	8.2
	440.9	83 %	410.3	78 %	30.6
Other income (expense):					
Interest expense	**(61.6)**	12 %	(61.0)	12 %	(0.6)
Other income	**1.6**	— %	1.6	— %	—
Loss on extinguishment of debt	**—**	— %	(1.7)	— %	1.7
Gain on sale of real estate assets	**197.0**	38 %	75.7	15 %	121.3
Net income	**$ 229.3**	43 %	**$ 130.3**	25 %	$ 99.0

Revenue

Rental and tenant reimbursement revenue increased approximately $7.5 million for the year ended December 31, 2019 as compared to the same period in the prior year. The variance was primarily due to new leases at higher overall rental rates commencing during 2018 and 2019 in our existing portfolio. Further, we recognized increased reimbursement revenue as a result of higher recoverable property operating costs, contributing approximately $1.0 million to the increase.

Property management fee revenue increased approximately $1.9 million for the year ended December 31, 2019 as compared to the same period in the prior year. The increase was primarily due to construction management fees received from one of our former Independence Square properties during the year ended December 31, 2019, with such fees varying from year-to-year due to the variability of construction activity.

Other property related income decreased approximately $2.2 million for the year ended December 31, 2019 as compared to the same period in the prior year. The decrease in parking revenue earned in 2019 when compared to the prior period is due to the sale of the 800 North Brand Boulevard building in November 2018, and the sale of the 500 West Monroe Street building in October 2019; with both buildings generating large parking garage incomes.

Expense

Property operating costs increased approximately $2.1 million for the year ended December 31, 2019 as compared to the same period in the prior year. Approximately $4.6 million of the increase was due to higher overall property operating costs in our existing portfolio, particularly parking, janitorial, and repairs and maintenance costs. This increase was offset by approximately $2.8 million of lower overall expenses resulting from net disposition activity subsequent to January 1, 2018.

Depreciation expense decreased approximately $2.0 million for the year ended December 31, 2019 compared to the same period in the prior year. Approximately $6.0 million of the decrease was attributable to net disposition activity subsequent to January 1, 2018; however, this decrease was offset by approximately $4.0 million of depreciation on additional building and tenant improvements placed in service subsequent to January 1, 2018.

Amortization expense increased approximately $13.4 million for the year ended December 31, 2019 compared to the same period in the prior year. Approximately $22.5 million of the increase was due to the amortization of lease intangible assets associated with properties acquired subsequent to January 1, 2018. A significant portion of this increase was offset by certain lease intangible assets or other deferred costs at our existing properties becoming fully amortized as a result of the expiration of leases subsequent to January 1, 2018.

During the year ended December 31, 2019, we recognized impairment losses on real estate assets totaling approximately $8.9 million related to our 600 Corporate Drive asset in Lebanon, New Jersey, as well as an impairment loss recognized in conjunction with the disposition of The Dupree building in September 2019 (see Note 7 and Note 13 to the accompanying consolidated financial statements for more details).

General and administrative expenses increased approximately $8.2 million for the year ended December 31, 2019 as compared to the same period in the prior year primarily due to increased accruals of expense associated with potential performance-based equity compensation as a result of our relative stock performance during the current year. The remainder of the increase is due to approximately $3.2 million of retirement and separation expenses recognized in June 2019 for the senior management transition.

Other Income (Expense)

Interest expense increased approximately $0.6 million for the year ended December 31, 2019 as compared to the same period in the prior year primarily as a result of higher average balances outstanding during the current year. The variance was partially offset by an increase in capitalized interest in the current year, as compared to the prior year, of approximately $0.8 million.

The loss on extinguishment of debt for the year ended December 31, 2018 was associated with the early repayment of our $170 Million Unsecured 2015 Term Loan and our $300 Million Unsecured 2013 Term Loan. The loss includes the write-off of unamortized debt issuance costs, discounts, and costs related to the termination of interest rate swap agreements associated with the debt.

Gain on sale of real estate assets during the year ended December 31, 2019 reflected an approximately $33.2 million gain recognized on the sale of the One Independence Square building in Washington, D.C. that closed in February 2019, an approximately $6.1 million adjustment of the gain on sale for the Two Independence Square building related to the reimbursement of certain previously disputed tenant improvement overages, and an approximately $157.7 million gain recognized on the sale of the 500 West Monroe Street building in Chicago, Illinois. During the year ended December 31, 2018, gain on sale of real estate assets represents the approximately $30.4 million gain recognized on the sale of the 800 North Brand Boulevard building in Glendale, California in November 2018, as well as certain assets included in the sale of the 2017 Disposition Portfolio comprised of 14 non-core assets in various markets that closed in January 2018, which contributed an additional $45.3 million gain.

Results of Operations (2018 vs. 2017)

Please refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations (2018 vs. 2017)" in our Annual Report on Form 10-K for the year ended December 31, 2018, as filed with the SEC on February 20, 2019, for a discussion of the results of operations for the year ended December 31, 2018 as compared to the year ended December 31, 2017.

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. These metrics 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 alone. As a result, we believe that the additive 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. NAREIT currently defines FFO as follows: Net income (computed in accordance with GAAP), excluding gains or losses from sales of depreciable real estate and impairment charges (including our proportionate share of gains from sales of property related to investments in unconsolidated joint ventures), plus the add back of 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 by starting with FFO, as defined by NAREIT, and adjusting for gains or losses on the extinguishment of swaps and/or debt, acquisition-related expenses, and any significant non-recurring or infrequent items. Core FFO is a non-GAAP financial measure and should not be viewed as an alternative to net income calculated in accordance with GAAP as a measurement of our operating performance. We believe that Core FFO is helpful to investors as a supplemental performance measure because it excludes the effects of certain infrequent or non-recurring items which can create significant earnings volatility, but which do not directly relate to our core recurring business operations. As a result, we believe that Core FFO can help facilitate comparisons of operating performance between periods and provides a more meaningful predictor of future earnings potential. Other REITs may not define Core FFO in the same manner as us; therefore, our computation of Core FFO may not be comparable to that of other REITs.

We calculate AFFO by starting with Core FFO and adjusting for non-incremental capital expenditures and acquisition-related costs and then adding back non-cash items including: non-real estate depreciation, straight-line rent adjustments and fair value lease adjustments, non-cash components of interest expense and compensation expense, and by making similar adjustments for unconsolidated joint ventures. AFFO is a non-GAAP financial measure and should not be viewed as an alternative to net income calculated in accordance with GAAP as a measurement of our operating performance. We believe that AFFO is helpful to investors as a meaningful supplemental comparative performance measure of our ability to make incremental capital investments in new properties or enhancements to existing properties that improve revenue growth potential. Other REITs may not define AFFO in the same manner as us; therefore, our computation of AFFO may not be comparable to that of other REITs.

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

	2019	Per Share (1)	2018	Per Share(1)	2017	Per Share(1)
GAAP net income applicable to common stock	**$ 229,261**	**$ 1.82**	$ 130,296	$ 1.00	$ 133,564	$ 0.92
Depreciation of real assets (2)	**105,111**	**0.83**	107,113	0.82	118,577	0.82
Amortization of lease-related costs (2)	**76,610**	**0.61**	63,235	0.48	75,327	0.52
Impairment loss on real estate assets	**8,953**	**0.07**	—	—	46,461	0.32
Gain on sale- wholly-owned properties	**(197,010)**	**(1.56)**	(75,691)	(0.58)	(115,874)	(0.80)
Gain on sale- unconsolidated partnerships	**—**	**—**	—	—	(3,683)	(0.03)
NAREIT Funds From Operations applicable to common stock	**$ 222,925**	**$ 1.77**	$ 224,953	$ 1.72	$ 254,372	$ 1.75
Adjustments:						
Retirement and separation expenses associated with senior management transition in June 2019	**3,175**	**0.02**	—	—	—	—
Acquisition costs	**—**	**—**	—	—	6	—
Loss on extinguishment of debt	**—**	**—**	1,680	0.01	—	—
Core Funds From Operations applicable to common stock	**$ 226,100**	**$ 1.79**	$ 226,633	$ 1.73	$ 254,378	$ 1.75
Adjustments:						
Amortization of debt issuance costs, fair market adjustments on notes payable, and discounts on debt	**2,101**		2,083		2,496	
Depreciation of non real estate assets	**872**		813		809	
Straight-line effects of lease revenue (2)	**(10,411)**		(13,980)		(21,492)	
Stock-based compensation adjustments	**5,030**		7,528		6,139	
Net effect of amortization of above and below-market in-place lease intangibles	**(8,323)**		(7,615)		(6,575)	
Acquisition costs	**—**		—		(6)	
Non-incremental capital expenditures (3)	**(49,653)**		(44,004)		(35,437)	
Adjusted Funds From Operations applicable to common stock	**$ 165,716**		$ 171,458		$ 200,312	
Weighted-average shares outstanding – diluted	**126,182**		130,636		145,380	

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

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

(3) We define 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 enhance the rental rates of a building or change the property's underlying classification, such as from a Class B to a Class A property, are excluded from this measure.

Property and Same Store Net Operating Income

Property Net Operating Income ("Property NOI") is a non-GAAP measure which we use to assess our operating results. We calculate Property NOI beginning with Net income (computed in accordance with GAAP) before interest, income-related federal, state, and local taxes, depreciation and amortization and removing any impairment losses, gains or losses from sales of any property and other significant infrequent items that create volatility within our earnings and make it difficult to determine the earnings generated by our core ongoing business. Furthermore, we remove general and administrative expenses, income associated with property management performed by us for other organizations, and other income or expense items such as interest income from loan investments or costs from the pursuit of non-consummated transactions. For Property NOI (cash basis), the effects of straight-lined rents and fair value lease revenue are also eliminated; while such effects are not adjusted in calculating Property NOI (accrual basis). Property NOI is a non-GAAP financial measure and should not be viewed as an alternative to net income calculated in accordance with GAAP as a measurement of our operating performance. We believe that Property NOI, on either a cash or accrual basis, is helpful to investors as a supplemental comparative performance measure of income generated by our properties alone without our administrative overhead. Other REITs may not define Property NOI in the same manner as we do; therefore, our computation of Property NOI may not be comparable to that of other REITs.

We calculate Same Store Net Operating Income ("Same Store NOI") as Property NOI applicable to the properties owned or placed in service during the entire span of the current and prior year reporting periods. Same Store NOI is a non-GAAP financial measure and should not be viewed as an alternative to net income calculated in accordance with GAAP as a measurement of our operating performance. We believe that Same Store NOI, on either a cash or accrual basis is helpful to investors as a supplemental comparative performance measure of the income generated from the same group of properties from one period to the next. Other REITs may not define Same Store NOI in the same manner as we do; therefore, our computation of Same Store NOI may not be comparable to that of other REITs.

The following table sets forth a reconciliation from net income calculated in accordance with GAAP to EBITDAre, Core EBITDA, Property NOI, and Same Store NOI on both a cash and accrual basis, for the years ended December 31, 2019 and 2018, respectively (in thousands):

	Cash Basis		Accrual Basis	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Net income applicable to Piedmont (GAAP basis)	**$ 229,261**	$ 130,296	**$ 229,261**	$ 130,296
Net loss applicable to noncontrolling interest	**(5)**	(5)	**(5)**	(5)
Interest expense	**61,594**	61,023	**61,594**	61,023
Depreciation	**105,985**	107,927	**105,985**	107,927
Amortization	**76,610**	63,235	**76,610**	63,235
Impairment loss on real estate assets	**8,953**	—	**8,953**	—
Gain on sale of real estate assets	**(197,010)**	(75,691)	**(197,010)**	(75,691)
EBITDAre[1]	**285,388**	286,785	**285,388**	286,785
Loss on extinguishment of debt	**—**	1,680	**—**	1,680
Retirement and separation expenses associated with senior management transition in June 2019	**3,175**	—	**3,175**	—
Core EBITDA[2]	**288,563**	288,465	**288,563**	288,465
General & administrative expenses	**34,720**	29,713	**34,720**	29,713
Management fee revenue[3]	**(2,518)**	(712)	**(2,518)**	(712)
Other income	**(228)**	(418)	**(228)**	(418)
Straight-line rent effects of lease revenue	**(10,411)**	(13,980)		
Amortization of lease-related intangibles	**(8,323)**	(7,615)		
Property NOI	**301,803**	295,453	**320,537**	317,048
Net operating income from:				
Acquisitions[4]	**(19,968)**	(2,713)	**(24,124)**	(3,663)
Dispositions[5]	**(26,507)**	(50,794)	**(25,325)**	(48,678)
Other investments[6]	**(1,204)**	(1,465)	**(1,142)**	(1,317)
Same Store NOI	**$ 254,124**	$ 240,481	**$ 269,946**	$ 263,390
Change period over period in Same Store NOI	***5.7 %***	*N/A*	***2.5 %***	*N/A*

(1) We calculate Earnings Before Interest, Taxes, Depreciation, and Amortization- Real Estate ("EBITDAre") in accordance with the current National Association of Real Estate Investment Trusts ("NAREIT") definition. NAREIT currently defines EBITDAre as net income (computed in accordance with GAAP) adjusted for gains or losses from sales of property, impairment losses, depreciation on real estate assets, amortization on real estate assets, interest expense and taxes, along with the same adjustments for unconsolidated partnerships and joint ventures. Some of the adjustments mentioned can vary among owners of identical assets in similar conditions based on historical cost accounting and useful-life estimates. EBITDAre is a non-GAAP financial measure and should not be viewed as an alternative to net income calculated in accordance with GAAP as a measurement of our operating performance. We believe that EBITDAre is helpful to investors as a supplemental performance measure because it provides a metric for understanding our results from ongoing operations without taking into account the effects of non-cash expenses (such as depreciation and amortization) and capitalization and capital structure expenses (such as interest expense and taxes). We also believe that EBITDAre can help facilitate comparisons of operating performance between periods and with other REITs. However, other REITs may not define EBITDAre in accordance with the NAREIT definition, or may interpret the current NAREIT definition differently than us; therefore, our computation of EBITDAre may not be comparable to that of such other REITs.

(2) We calculate Core Earnings Before Interest, Taxes, Depreciation, and Amortization ("Core EBITDA") as net income (computed in accordance with GAAP) before interest, taxes, depreciation and amortization and incrementally removing any impairment losses, gains or losses from sales of property and other significant infrequent items that create volatility within our earnings and make it

difficult to determine the earnings generated by our core ongoing business. Core EBITDA is a non-GAAP financial measure and should not be viewed as an alternative to net income calculated in accordance with GAAP as a measurement of our operating performance. We believe that Core EBITDA is helpful to investors as a supplemental performance measure because it provides a metric for understanding the performance of our results from ongoing operations without taking into account the effects of non-cash expenses (such as depreciation and amortization), as well as items that are not part of normal day-to-day operations of our business. Other REITs may not define Core EBITDA in the same manner as us; therefore, our computation of Core EBITDA may not be comparable to that of other REITs.

(3) Presented net of related operating expenses incurred to earn such management fee revenue.

(4) Acquisitions consist of 501 West Church Street in Orlando, Florida, purchased on February 23, 2018; 9320 Excelsior Boulevard in Hopkins, Minnesota, purchased on October 25, 2018; 25 Burlington Mall Road in Burlington, Massachusetts, purchased on December 12, 2018; Galleria 100 and land in Atlanta, Georgia, purchased on May 6, 2019; and Galleria 400, Galleria 600 and land in Atlanta, Georgia, purchased on August 23, 2019.

(5) Dispositions consist of a 14-property portfolio sold on January 4, 2018 (comprised of 2300 Cabot Drive in Lisle, Illinois; Windy Point I and II in Schaumburg, Illinois; Suwanee Gateway One and land in Suwanee, Georgia; 1200 Crown Colony Drive in Quincy, Massachusetts; Piedmont Pointe I and II in Bethesda, Maryland; 1075 West Entrance Drive and Auburn Hills Corporate Center in Auburn Hills, Michigan; 5601 Hiatus Road in Tamarac, Florida; 2001 NW 64th Street in Ft. Lauderdale, Florida; Desert Canyon 300 in Phoenix, Arizona; 5301 Maryland Way in Brentwood, Tennessee; and 2120 West End Avenue in Nashville, Tennessee); 800 North Brand Boulevard in Glendale, California, sold on November 29, 2018; One Independence Square in Washington, D.C., sold on February 28, 2019; The Dupree in Atlanta, Georgia, sold on September 4, 2019, and 500 West Monroe Street in Chicago, Illinois, sold on October 28, 2019.

(6) Other investments consist of active or recently completed redevelopment and development projects for which some portion of operating expenses were capitalized during the current and/or prior year reporting periods and land. The operating results from Two Pierce Place in Itasca, Illinois, are included in this line item.

Overview

Our portfolio is a geographically diverse group of properties located primarily in select sub-markets within seven major Eastern U.S. office markets. We typically lease space to large, credit-worthy corporate or governmental tenants on a long-term basis. As of December 31, 2019, our average lease is approximately 20,000 square feet with seven years of lease term remaining. Consequently, leased percentage, as well as rent roll ups and roll downs, which we experience as a result of re-leasing, can fluctuate widely between buildings and between tenants, depending on when a particular lease is scheduled to commence or expire.

Leased Percentage

As of December 31, 2019, our in-service portfolio of 54 office properties was 91.2% leased, down from 93.3% leased as of December 31, 2018, and scheduled lease expirations for the portfolio as a whole for the year ended December 31, 2020 are 8.8% of our ALR. To the extent new leases for currently vacant space outweigh or fall short of scheduled expirations, such leases would increase or decrease our leased percentage, respectively. Our leased percentage may also fluctuate with the impact of various occupancy levels in our net acquisition and disposition activity and we anticipate our leased percentage will decrease during early 2020 as a result of placing our recently re-developed, 42% leased asset, Two Pierce Place in Chicago, Illinois (approximately 487,000 square feet) in service on January 1, 2020.

Impact of Downtime, Abatement Periods, and Rental Rate Changes

Commencement of new leases typically occurs 6-18 months after 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 Property NOI and Same Store NOI comparisons (both accrual and cash basis). In addition, office leases, both new and lease renewals, often 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 and will continue to negatively impact Property NOI and Same Store NOI on a cash basis until such abatements expire. As of December 31, 2019, we had approximately 348,000 square feet of executed leases related to currently vacant space that had not yet commenced and approximately 660,000 square feet of commenced leases that were in some form of rental and/or operating expense abatement.

If we are unable to replace expiring leases with new or renewal leases at rental rates equal to or greater than the expiring rates, rental rate roll downs could occur and negatively impact Property NOI and Same Store NOI comparisons. As mentioned above, our geographically diverse portfolio and the magnitude of some of our tenant's leased space can result in rent roll ups and roll downs that can fluctuate widely on a building-by-building and a quarter-to-quarter basis. For the portfolio in general during the year ended December 31, 2019, we experienced a 9.8% and 21.6% roll up on executed leases in stated cash and accrual rents, respectively, from new leases and renewals for space that was vacant one year or less, as compared to a 2.4% and 9.1% roll up on executed leases in stated cash and accrual rents, respectively, for similar space during the year ended December 31, 2018. The significant roll up in accrual rents during the year ended December 31, 2019 was significantly impacted by the approximately 520,000 square foot, 20-year renewal of the State of New York's lease at 60 Broad Street in New York City.

Same Store NOI increased 5.7% and 2.5% on a cash and accrual basis, respectively, for the year ended December 31, 2019 as compared to the year ended December 31, 2018. The increase in cash basis Same Store NOI was attributable to the expiration of lease abatements. The slight increase in accrual basis Same Store NOI was related to the commencement of leases with higher straight-line rents and higher average occupancy levels during the year ended December 31, 2019, offset by down times between leases at certain assets. Property NOI and Same Store NOI comparisons for any given period may still fluctuate as a result of the mix of net leasing activity in individual properties during the respective period.

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 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 solar power generation and real estate and non-real estate related-services. 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 20% of the value of our total assets.

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 on a per square-foot basis, or in some cases, annual reimbursement of operating expenses above certain per square-foot allowances. 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, and do not currently have any off-balance sheet arrangements. For further information regarding our commitments under operating lease obligations, see the notes of our accompanying consolidated financial statements, as well as the table found in *Contractual Obligations* 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.

Valuation of 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, we assess whether the respective carrying values will be recovered from the undiscounted future operating cash flows expected from the use of the asset and its eventual disposition for assets held for use, or from the estimated fair value, less costs to sell, for assets held for sale. In the event that the expected undiscounted future cash flows for assets held for use or the estimated fair value, less costs to sell, for assets held for sale do not exceed the respective asset carrying value, we adjust such assets to the respective estimated fair values and recognize an impairment loss.

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.

Rental Revenue Recognition

Rental income for office properties is our principal source of revenue. The timing of rental revenue recognition is largely dependent on our conclusion as to whether we, or our tenant, are the owner of tenant improvements at the leased property. The determination of whether we, or our tenant, are the owner of tenant improvements for accounting purposes is subject to significant judgment. In making that determination, we consider numerous factors and perform an evaluation of each individual lease. No one factor is determinative in reaching a conclusion. The factors we evaluate include but are not limited to the following:

- whether the tenant is obligated by the terms of the lease agreement to construct or install the leasehold improvements as a condition of the lease;
- whether the landlord can require the lessee to make specified improvements or otherwise enforce its economic rights to those assets;
- whether the tenant is required to provide the landlord with documentation supporting the cost of tenant improvements prior to reimbursement by the landlord;
- whether the landlord is obligated to fund cost overruns for the construction of leasehold improvements;
- whether the leasehold improvements are unique to the tenant or could reasonably be used by other parties; and
- whether the estimated economic life of the leasehold improvements is long enough to allow for a significant residual value that could benefit the landlord at the end of the lease term.

When we conclude that we are the owner of tenant improvements, we record the cost to construct the tenant improvements as an asset and commence rental revenue recognition when the tenant takes possession of or controls the finished space, which is typically when the improvements being recorded as our asset are substantially complete, and our landlord obligation has been materially satisfied. When we conclude that our tenant is the owner of certain tenant improvements, we record our contribution towards those improvements as a lease incentive, which is amortized as a reduction to rental and tenant reimbursement revenue on a straight-line basis over the term of the related lease, and the recognition of rental revenue begins when the tenant takes possession of or controls the space.

In addition, we also record the cost of certain tenant improvements paid for or reimbursed by tenants when we conclude that we are the owner of such tenant improvements using the factors discussed above. For these tenant-funded tenant improvements, we record the amount funded or reimbursed by tenants as deferred revenue, which is amortized and recognized as rental revenue over the term of the related lease beginning upon substantial completion of the leased premises. Consequently, our determination as to whether we, or our tenant, are the owner of tenant improvements for accounting purposes has a significant impact on both the amount and timing of rental revenue that we record related to tenant-funded tenant improvements.

Accounting Pronouncements Adopted during the Year Ended December 31, 2019

Leases

During the year ended December 31, 2019, we adopted Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, as well as various associated updates and amendments, which together comprise the requirements for lease accounting under Accounting Standards Codification 842 ("ASC 842"). ASC 842 fundamentally changed the definition of a lease, as well as the accounting for operating leases, by requiring lessees to recognize a liability to make lease payments and a right-of-use asset representing the right to use the leased asset over the term of the lease. ASC 842 also prohibits the capitalization of internal direct payroll costs associated with negotiating and executing leases. Accounting for leases by lessors is substantially unchanged from prior practice as lessors continue to recognize lease revenue on a straight-line basis. Substantially all of our leases are with tenants (as lessees) in buildings owned and operated by us (as lessor). Operating leases where we are the lessee consist primarily of office space in buildings owned by a third party. The accounting for these leases resulted in recording immaterial right-of-use assets and lease liabilities.

In conjunction with adopting ASC 842, we adopted certain optional practical expedients, transition amendments, or made accounting policy elections as further detailed in Note 2 to our accompanying consolidated financial statements.

Stock Compensation to Nonemployees

During the year ended December 31, 2019, we adopted ASU No. 2018-07, *Stock Compensation (Topic 718),* Improvements to Nonemployee Share-Based Payment Accounting ("ASU 2018-07"). The provisions of ASU 2018-07 align accounting for stock based compensation for non-employees for goods and services with existing accounting for similar compensation for employees. ASU 2018-07 requires an entity to remeasure liability-classified awards that have not been settled by the date of adoption and equity-classified awards for which a measurement date has not been established through a cumulative-effect adjustment to retained earnings as of January 1, 2019. Our only awards affected by ASU 2018-07 are equity-classified award grants to our independent board of directors, which have been historically recognized in the same manner prescribed by the newly adopted standard. As such, there was no cumulative effect adjustment recognized upon adoption.

Other Recent Accounting Pronouncements

The FASB has issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, as well as ASU No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments,* and ASU No. 2019-05, *Financial Instruments- Credit Losses: Targeted Transition Relief* (collectively the "Credit Loss Amendments"). The provisions of the Credit Loss Amendments replace the "incurred loss" approach with an "expected loss" model for impairing trade and other receivables, held-to-maturity debt securities, net investment in leases, and off-balance-sheet credit exposures, which will generally result in earlier recognition of allowances for credit losses. Additionally, the provisions change the classification of credit losses related to available-for-sale securities to an allowance, rather than a direct reduction of the amortized cost of the securities. Further, the FASB has issued ASU No. 2018-19 *Codification Improvements to Topic 326, Financial Instruments - Credit Losses,* which is effective concurrent with the Credit Loss Amendments, and excludes receivables arising from operating leases from the scope of the Credit Loss Amendments. Both ASU 2018-19 and the Credit Loss Amendments are effective in the first quarter of 2020, with early adoption permitted as of January 1, 2019. We are currently evaluating the potential impact of adoption; however, substantially all of our receivables are operating lease receivables and as such, we do not anticipate any material impact to our consolidated financial statements as a result of adoption of the Credit Loss Amendments and ASU 2018-19.

Related-Party Transactions and Agreements

There were no related-party transactions during the three years ended December 31, 2019, other than a consulting agreement with our former Chief Investment Officer ("CIO"), Raymond L. Owens. Mr. Owens retired effective June 30, 2017, but will remain a consultant for us until June 30, 2020 and will earn $18,500 per month. During the year ended December 31, 2019, we incurred approximately $222,000 related to this consulting agreement. Additionally, during the year ended December 31, 2019, we entered into employment or retirement agreements with certain of our current and former executive officers as more fully described in our Definitive Proxy Statement and Current Report on Form 8-K filed on March 19, 2019.

Contractual Obligations

Our contractual obligations as of December 31, 2019 were as follows (in thousands):

	Payments Due by Period				
Contractual Obligations (1)	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long-term debt (2) (3)	$ 1,488,687	$ 985	$487,702 (4)	$ 750,000	$ 250,000

(1) Contractual obligations do not include amounts committed for tenant or capital improvements under leases where Piedmont is the lessor. However, see Note 8 to our accompanying consolidated financial statements for details concerning our material lease commitments.

(2) Amounts include principal payments only and balances outstanding as of December 31, 2019, not including unamortized issuance discounts, debt issuance costs paid to lenders, or estimated fair value adjustments. We made interest payments, including payments under our interest rate swaps, of approximately $64.0 million during the year ended December 31, 2019, and expect to pay interest in future periods on outstanding debt obligations based on the rates and terms disclosed herein and in Note 4 to our accompanying consolidated financial statements.

(3) Piedmont does not have any ground leases, nor does Piedmont have any material obligations as lessee under operating lease agreements as of December 31, 2019. See Note 8 to our accompanying consolidated financial statements for material amounts committed for tenants improvements, the timing of which may fluctuate.

(4) Includes the Amended and Restated $300 Million Unsecured 2011 Term Loan which has a stated variable rate; however, we have entered into interest rate swap agreements which effectively fix, exclusive of changes to our credit rating, the rate on this facility to 3.20% through January 15, 2020. As of the date of this filing, this facility is a variable rate facility.

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. As of December 31, 2019, our potential for exposure to market risk includes interest rate fluctuations in connection with borrowings under our $500 Million Unsecured 2018 Line of Credit, our Amended and Restated $300 Million Unsecured 2011 Term Loan, and the $250 Million Unsecured 2018 Term Loan. 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, including changes in the method pursuant to which the LIBOR rates are determined and the potential phasing out of LIBOR after 2021 (see Item 1A. Risk Factors for further discussion of the risks associated with LIBOR). Piedmont has begun an initial evaluation of its contracts and agreements which reference LIBOR and determined that each of these agreements already contain "fallback" language allowing for the substitution of a comparable or successor rate as approved by the respective agent, as defined in the respective agreement. At this point it is not clear what alternative rate may be selected to replace LIBOR and what impact it may have on Piedmont's results of operations. As such, Piedmont will continue to evaluate its contracts as it approaches the December 31, 2021 potential end date for LIBOR.

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 as of December 31, 2019, other than the $500 Million Unsecured 2018 Line of Credit and $100 million of our $250 Million Unsecured 2018 Term Loan, is currently based on fixed or effectively-fixed interest rates to hedge against volatility in the credit markets. We do not enter into derivative or interest rate transactions for speculative purposes, as such all of our debt and derivative instruments were entered into for other than trading purposes.

Our financial instruments consist of both fixed and variable-rate debt. As of December 31, 2019, our consolidated principal outstanding for aggregate debt maturities consisted of the following (in thousands):

	2020	2021	2022	2023	2024	Thereafter	Total
Maturing debt:							
Variable rate repayments	$ —	$ —	$ — [3]	$ —	$ —	$ 100,000 [4]	$ 100,000
Variable rate average interest rate [1]	— %	— %	— %	— %	— %	3.40 %	3.40 %
Fixed rate repayments	$ 985	$ 327,702 [2]	$ 160,000	$ 350,000	$ 400,000	$ 150,000 [4]	$ 1,388,687
Fixed rate average interest rate [1]	5.55 %	3.40 %	3.48 %	3.40 %	4.45 %	4.11 %	3.79 %

(1) See Note 4 to our accompanying consolidated financial statements for further details on our debt structure.

(2) Includes the Amended and Restated $300 Million Unsecured 2011 Term Loan which has a stated variable rate; however, we have entered into interest rate swap agreements which effectively fix, exclusive of changes to our credit rating, the rate on this facility to 3.20% through January 15, 2020. As of the date of this filing, this facility is a variable rate facility.

(3) Piedmont had no balance outstanding on its variable-rate, $500 Million Unsecured 2018 Line of Credit as of December 31, 2019.

(4) Includes the $250 Million Unsecured 2018 Term Loan. The facility has a stated variable rate; however, Piedmont has entered into interest rate swap agreements which effectively fix, exclusive of changes to Piedmont's credit rating, $150 million of the principal balance to 4.11% through March 2020 leaving the remaining $100 million principal at the variable rate.

As of December 31, 2018, our consolidated principal outstanding for aggregate debt maturities consisted of the following (in thousands):

	2019	2020	2021	2022	2023	Thereafter	Total
Maturing debt:							
Variable rate repayments	$ —	$ —	$ —	$ 205,000 (3)	$ —	$ 100,000 (4)	$ 305,000
Variable rate average interest rate (1)	— %	— %	— %	3.35 %	— %	4.12 %	3.60 %
Fixed rate repayments	$ 932	$ 1,072	$ 327,702 (2)	$ 160,000	$ 350,000	$ 550,000 (4)	$ 1,389,706
Fixed rate average interest rate (1)	5.55 %	5.55 %	3.40 %	3.48 %	3.40 %	4.36 %	3.79 %

(1) See Note 4 to our accompanying consolidated financial statements for further details on our debt structure.

(2) Includes the Amended and Restated $300 Million Unsecured 2011 Term Loan which has a stated variable rate; however, we have entered into interest rate swap agreements which effectively fix, exclusive of changes to our credit rating, the rate on this facility to 3.20% through January 15, 2020.

(3) Includes the balance of our $500 Million Unsecured 2018 Line of Credit. However, we may extend the term for up to one additional year (through two available six month extensions to a final extended maturity date of September 29, 2023) provided we are not then in default and upon payment of extension fees.

(4) Includes the balance of our $250 Million Unsecured 2018 Term Loan. The facility has a stated variable rate; however, Piedmont has entered into interest rate swap agreements which effectively fix, exclusive of changes to Piedmont's credit rating, $150 million of the principal balance to 4.11% through March 2020 leaving the remaining $100 million principal at the variable rate. Fixed rate payments also includes $400 million of Unsecured Senior Notes.

The estimated fair value of our debt above as of December 31, 2019 and 2018 was approximately $1.5 billion and $1.7 billion, respectively. Our interest rate swap agreements in place at December 31, 2019 and December 31, 2018 carried a notional amount totaling $450 million, with a weighted-average fixed interest rate (not including the corporate credit spread) of 2.30%.

As of December 31, 2019, our total outstanding debt subject to fixed, or effectively fixed, interest rates has an average effective interest rate of approximately 3.79% per annum with expirations ranging from 2021 to 2025. A change in the market interest rate impacts the net financial instrument position of our fixed-rate debt portfolio but has no impact on interest incurred or cash flows.

As of December 31, 2019, we had no amounts outstanding on our $500 Million Unsecured 2018 Line of Credit. Our $500 Million Unsecured 2018 Line of Credit currently has a stated rate of LIBOR plus 0.90% per annum (based on our current corporate credit rating) or the prime rate, at our discretion. The current stated interest rate spread on $100 million of the $250 Million Unsecured 2018 Term Loan that is not effectively fixed through interest rate swaps is LIBOR plus 1.60% (based on our current corporate credit rating), which, as of December 31, 2019, results in a total interest rate of 3.83%. To the extent that we borrow funds in the future under the $500 Million Unsecured 2018 Line of Credit or potential future variable-rate lines of credit, and as certain of our interest rate swap agreements expire, we would have exposure to increases in interest rates, which would potentially increase our cost of debt. Additionally, a 1.0% increase in variable interest rates on our existing outstanding borrowings as of December 31, 2019 would increase interest expense approximately $1.0 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 beginning 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, 2019 or 2018.

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 (the "Exchange Act") 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 Exchange Act 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 effective internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, as a process designed by, or under the supervision of, the principal executive and principal financial officers, or persons performing similar functions, and effected by the board of directors, 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 in 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 Exchange Act 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, 2019. To make this assessment, we used the criteria for effective internal control over financial reporting described in the 2013 *Internal Control —Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, our management believes that, as of December 31, 2019, our system of internal control over financial reporting was effective.

Piedmont's independent registered public accounting firm has issued an attestation 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, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Piedmont Office Realty Trust, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Piedmont Office Realty Trust, Inc. and subsidiaries (the "Company") as of December 31, 2019, based on criteria established in Internal Control —Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2019, of the Company and our report dated February 19, 2020, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Atlanta, Georgia
February 19, 2020

ITEM 9B. OTHER INFORMATION

None.

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, 2019 in connection with our 2020 Annual Meeting of Stockholders.

We have adopted a Code of Ethics, which is available on Piedmont's website at http://www.piedmontreit.com under the "Investor Relations" section. Any amendments to, or waivers of, the Code of Ethics will be disclosed on our website 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, 2019, 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, 2019, 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, 2019, 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, 2019, and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1. The financial statements begin on page F-5 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.

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 19th day of February, 2020.

Piedmont Office Realty Trust, Inc.
(Registrant)

By: /s/ C. BRENT SMITH
C. Brent Smith
Chief Executive Officer, 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/ FRANK C. MCDOWELL **Frank C. McDowell**	Chairman, and Director	February 19, 2020
/s/ DALE H. TAYSOM **Dale H. Taysom**	Vice-Chairman, and Director	February 19, 2020
/s/ KELLY H. BARRETT **Kelly H. Barrett**	Director	February 19, 2020
/s/ WESLEY E. CANTRELL **Wesley E. Cantrell**	Director	February 19, 2020
/s/ BARBARA B. LANG **Barbara B. Lang**	Director	February 19, 2020
/s/ JEFFREY L. SWOPE **Jeffrey L. Swope**	Director	February 19, 2020
/s/ C. BRENT SMITH **C. Brent Smith**	Chief Executive Officer and Director (Principal Executive Officer)	February 19, 2020
/s/ ROBERT E. BOWERS **Robert E. Bowers**	Chief Financial Officer and Executive Vice-President (Principal Financial Officer)	February 19, 2020
/s/ LAURA P. MOON **Laura P. Moon**	Chief Accounting Officer (Principal Accounting Officer)	February 19, 2020

EXHIBIT INDEX
TO
2019 FORM 10-K
OF
PIEDMONT OFFICE REALTY TRUST, INC.

Exhibit Number	Description of Document
3.1	Third Articles of Amendment and Restatement of Piedmont Office Realty Trust, Inc. (f/k/a Wells Real Estate Investment Trust, Inc.) (the "Company") (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2009, filed on March 16, 2010)
3.2	Articles of Amendment of the Company effective June 30, 2011 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on July 6, 2011)
3.3	Articles Supplementary of the Company effective June 30, 2011 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on July 6, 2011)
3.4	Articles Supplementary to the Third Articles of Amendment and Restatement of Piedmont Office Realty Trust, Inc., as supplemented and amended (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on November 14, 2016)
3.5	Articles of Amendment to the Third Articles of Amendment and Restatement of Piedmont Office Realty Trust, Inc., as supplemented and amended (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on May 23, 2018)
3.6	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on March 19, 2019)
4.1	Indenture, dated May 9, 2013, by and among Piedmont Operating Partnership, LP (the "Operating Partnership"), the Company and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on May 13, 2013)
4.2	Form of 3.40% Senior Notes due 2023 (included in Exhibit 4.1 hereto)
4.3	Indenture, dated March 6, 2014, by and among the Operating Partnership, Piedmont Office Realty Trust, Inc. and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on March 6, 2014)
4.4	Supplemental Indenture, dated March 6, 2014, by and among the Operating Partnership, Piedmont Office Realty Trust, Inc. and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, filed on March 6, 2014)
4.5	Form of 4.450% Senior Notes due 2024 (included in Exhibit 4.2 hereto)
4.15	Description of Securities registered pursuant to Section 12 of the Exchange Act
10.1	Amended and Restated Agreement of Limited Partnership of the Operating Partnership, dated January 1, 2000 (incorporated by reference to Exhibit 10.64 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, filed on March 28, 2001)
10.2	Amendment to Agreement of Limited Partnership of the Operating Partnership, as Amended and Restated as of January 1, 2000, dated April 16, 2007 (incorporated by reference to Exhibit 99.8 to the Company's Current Report on Form 8-K, filed on April 20, 2007)
10.3	Amendment to Second Amended and Restated Agreement of Limited Partnership of the Operating Partnership, as Amended and Restated as of January 1, 2000, dated August 8, 2007 (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K, filed on August 10, 2007)
10.4	Amended and Restated Dividend Reinvestment Plan of the Company adopted February 24, 2011 (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K, filed on February 24, 2011)
10.5*	Long-Term Incentive Program (as amended and restated effective April 27, 2016) (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2016, filed on August 3, 2016)

10.6*	Long-Term Incentive Program Award Agreement (incorporated by reference to Exhibit 10.3 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011, filed on November 3, 2011)
10.7*	The Piedmont Office Realty Trust, Inc. Executive Nonqualified Deferred Compensation Plan dated December 5, 2013 (incorporated by reference to Exhibit 10.39 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, filed on February 18, 2014)
10.8*	The Piedmont Office Realty Trust, Inc. Executive Nonqualified Deferred Compensation Plan Adoption Agreement dated December 5, 2013 (incorporated by reference to Exhibit 10.40 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, filed on February 18, 2014)
10.9*	Form of Employee Deferred Stock Award Agreement for 2007 Omnibus Incentive Plan of the Company effective April 28, 2015 (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015, filed on July 29, 2015)
10.10*	Employment Agreement dated February 2, 2007, by and between the Company and Donald A. Miller, CFA (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K, filed on February 5, 2007)
10.11*	Amendment Number One to Employment Agreement dated February 2, 2007, by and between the Company and Donald A. Miller, CFA (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on September 14, 2011)
10.12*	Employment Agreement dated April 16, 2007, by and between the Company and Robert E. Bowers (incorporated by reference to Exhibit 99.9 to the Company’s Current Report on Form 8-K, filed on April 20, 2007)
10.13*	Employment Agreement dated May 14, 2007, by and between the Company and Carroll A. “Bo” Reddic, IV (incorporated by reference to Exhibit 99.1 to the Company’s Current Report on Form 8-K, filed on May 14, 2007)
10.14*	Employment Agreement dated May 14, 2007, by and between the Company and Laura P. Moon (incorporated by reference to Exhibit 99.3 to the Company’s Current Report on Form 8-K, filed on May 14, 2007)
10.15*	Offer Letter Dated October 17, 2012 among the Company and Robert K. Wiberg (incorporated by reference to Exhibit 10.41 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012, filed on February 27, 2013)
10.16*	Consulting Agreement, dated as of November 28, 2016, by and between the Company and Raymond L. Owens (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed on February 21, 2017)
10.17*	Confidential Retirement Agreement and General Release, dated as of November 28, 2016, by and between the Company and Raymond L. Owens (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed on February 21, 2017)
10.18	Amended and Restated Term Loan Agreement Dated as Of September 28, 2018 by and among Piedmont Operating Partnership, LP, as Borrower, Piedmont Office Realty Trust, Inc., as Parent, JPMorgan Chase Bank, N.A., and SunTrust Robinson Humphrey, Inc., as Co-Lead Arrangers and Book Managers, JPMorgan Chase Bank, N.A., as Administrative Agent, SunTrust Bank as Syndication Agent, and the other financial institutions initially signatory thereto and their assignees (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 2, 2018)
10.19	Term Loan Agreement, dated as of December 18, 2013, among Piedmont Operating Partnership, LP, as Borrower, Piedmont Office Realty Trust, Inc., as Parent, U.S. Bank, N.A., and SunTrust Robinson Humphrey, Inc., as Joint Book Runners and Joint Lead Arrangers, U.S. Bank, N.A., as Agent, SunTrust Bank as Syndication Agent, the other banks signatory thereto as Lenders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on December 19, 2013)
10.20	Term Loan Agreement, dated as of March 27, 2015, among Piedmont Operating Partnership, LP, as Borrower, Piedmont Office Realty Trust, Inc., as Parent, JP Morgan Securities, LLC, U.S. Bank National Association and SunTrust Robinson Humphrey, Inc., as Co-Lead Arrangers and Book Managers; JPMorgan Chase Bank, as Agent; U.S. Bank National Association, as Syndication Agent; SunTrust Bank, as Documentation Agent; and the financial institutions initially signatory thereto and their assignees, as Lenders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 2, 2015)

10.21	Loan Agreement dated as of June 23, 2015 between Piedmont 1901 Market LLC, as Borrower and The Prudential Insurance Company of America, as Lender (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 24, 2015)
10.22	First Amendment to the Loan Agreement between Piedmont 1901 Market LLC, as Borrower and The Prudential Insurance Company of America, as Lender (incorporated by reference to Exhibit 10.42 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed on February 21, 2018)
10.23	Open-End Mortgage and Security Agreement (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on June 24, 2015)
10.24*	Piedmont Office Realty Trust, Inc. Amended and Restated 2007 Omnibus Incentive Plan (incorporated by reference to Appendix A to the Company's Proxy Statement for its 2017 Annual Meeting of Stockholders filed with the Commission on March 22, 2017)
10.25*	Amendment Number Three to the Piedmont Office Realty Trust, Inc. Long-Term Incentive Program effective May 2, 2017 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2017, filed on August 2, 2017)
10.26*	Form of Employee Deferred Stock Award Agreement for Amended and Restated 2007 Omnibus Incentive Plan of the Company effective May 2, 2017 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2017, filed on August 2, 2017)
10.27	Term Loan Agreement, dated as of March 29, 2018, by and among Piedmont Operating Partnership, LP, as Borrower, Piedmont Office Realty Trust, Inc., as Parent, U.S. Bank National Association, PNC Capital Markets LLC, and SunTrust Robinson Humphrey, Inc., as Joint Lead Arrangers and Joint Book Runners, U.S. Bank National Association, as Administrative Agent, PNC Bank, National Association and SunTrust Bank as Syndication Agents, and the other banks signatory thereto as Lenders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed April 3, 2018)
10.28	Amendment No. 1, dated as of September 28, 2018, to the Term Loan Agreement between Piedmont Operating Partnership, LP, as Borrower and U.S. Bank National Association as Administrative Agent dated as of March 29, 2018 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2018, filed on October 30, 2018)
10.29	Revolving Credit Agreement Dated as of September 28, 2018 by and among Piedmont Operating Partnership, LP, as Borrower, Piedmont Office Realty Trust, Inc., as Parent, JPMorgan Chase Bank, N.A., SunTrust Robinson Humphrey, Inc., U.S. Bank National Association and PNC Capital Markets LLC, as Joint Lead Arrangers and Joint Bookrunners, JPMorgan Chase Bank, N.A., as Administrative Agent, SunTrust Bank, U.S. Bank National Association and PNC Bank, National Association, as Syndication Agents, Bank Of America, N.A., BMO Harris Bank, N.A., Branch Banking and Trust Company, Morgan Stanley Senior Funding, Inc., TD Bank, N.A., The Bank Of Nova Scotia and Wells Fargo Bank, N.A. as Documentation Agents, and the other financial institutions initially signatory thereto and their assignees (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed October 2, 2018)
10.30*	Employment Agreement dated January 1, 2019, by and between the Company and Christopher Kollme (incorporated by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K for the year ended December 31, 2018, filed on February 20, 2019)
10.31*	Retirement Agreement and General Release by and between the Company and Donald A. Miller (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on March 19, 2019)
10.32*	Employment Agreement, dated as of March 19, 2019, between the Company and C. Brent Smith (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed on March 19, 2019)
10.33*	Form of Employee Deferred Stock Award Agreement for Amended and Restated 2007 Omnibus Incentive Plan of the Company effective February 19, 2020
10.34*	Form of Director Deferred Stock Award Agreement for Amended and Restated 2007 Omnibus Incentive Plan of the Company effective February 19, 2020
21.1	List of Subsidiaries of the Company
23.1	Consent of Deloitte & Touche LLP
23.2	Consent of Ernst & Young LLP

31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
104.1	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Identifies each management contract or compensatory plan required to be filed.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Piedmont Office Realty Trust, Inc.:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Piedmont Office Realty Trust, Inc. and subsidiaries (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows, for each of the two years in the period ended December 31, 2019, and the related notes and the schedule listed in the Index at Item 15(a) (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 19, 2020, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Revenues – Refer to Note 2 (Revenue Recognition) to the financial statements

Critical Audit Matter Description

Rental and tenant reimbursement income consists of revenue from leases with the Company’s tenants, as well as reimbursements for services prescribed by such leases. The Company recognizes fixed base rental payments, as well as any fixed portions of reimbursement income, on a straight-line basis over the term of the related lease. The timing of rental revenue recognition is largely dependent on whether the Company is the owner of tenant improvements at the leased property. In determining whether the Company or the tenant owns such tenant improvements, the Company considers a number of factors, including, among other things: whether the tenant is obligated by the terms of the lease agreement to construct or install the leasehold improvements as a condition of the lease; whether the landlord can require the lessee to make specified improvements or otherwise enforce its economic rights to those assets; whether the tenant is required to provide the landlord with documentation supporting the cost of tenant improvements prior to reimbursement by the landlord; and whether the leasehold improvements are unique to the tenant or could reasonably be used by other parties.

The determination of whether the Company or its tenant owns the tenant improvements and the timing and amount of revenue recognition requires the exercise of significant judgment by management based on the facts and circumstances of the specific lease arrangement and is not based on any one factor. Auditing management's conclusions with respect to these matters often is complex and requires subjective judgment.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to management's determination of the owner of the tenant improvements and the related impact on the timing and amount of revenue recognition, included the following, among others:

- We tested the effectiveness of controls over revenue recognition, including the determination of the owner of tenant improvements and the timing and amounts of rental revenues to be recognized over the term of the related lease.

- We selected a sample of lease agreements and performed the following to evaluate the appropriateness of management's conclusions regarding the owner of the tenant improvements and the timing and amount of revenue recognition:

    - Evaluated the reasonableness and consistency of the factors considered by management to determine the owner of the tenant improvements and compared such factors to the terms in the lease agreement or other supporting documents.

    - Tested tenant improvement costs (including the amounts funded by the Company or the tenant) by reconciling the amounts recorded by the Company to invoices or other supporting documents and evaluated whether the costs were consistent with the terms of the lease agreement and the Company's ownership determination.

    - Tested the timing and amounts recognized as rental income, including any amortization of deferred revenue or lease incentives, by independently calculating such rental income amounts to be recognized and comparing it to the amounts recorded by the Company.

/s/ Deloitte & Touche LLP

Atlanta, Georgia
February 19, 2020

We have served as the Company's auditor since 2018.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Piedmont Office Realty Trust, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year ended December 31, 2017, and the related notes and financial statement schedule listed in the Index at Item 15(a) for the year ended December 31, 2017 (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the results of Piedmont Office Realty Trust, Inc.'s operations and its cash flows for year ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We served as the Company's auditor from 2002 to 2018.
Atlanta, Georgia

February 21, 2018, except for the reclassifications discussed in Note 2 under Reclassifications during the Year Ended December 31, 2018, specifically Revenue Recognition and Gain/(Loss) on Sale of Real Estate Assets during the Year Ended December 31, 2017, as to which the date is February 20, 2019, and for the reclassifications discussed in Note 2 under Reclassifications during the Year Ended December 31, 2019, specifically for the adoption of ASC 842, as to which the date is February 19, 2020.

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

	December 31, 2019	December 31, 2018
Assets:		
Real estate assets, at cost:		
Land	**$ 506,389**	$ 470,432
Buildings and improvements, less accumulated depreciation of $797,573 and $718,070 as of December 31, 2019 and December 31, 2018, respectively	**2,325,222**	2,121,570
Intangible lease assets, less accumulated amortization of $78,204 and $87,391 as of December 31, 2019 and December 31, 2018, respectively	**80,979**	77,676
Construction in progress	**29,920**	15,848
Real estate assets held for sale, net	**—**	331,068
Total real estate assets	**2,942,510**	3,016,594
Cash and cash equivalents	**13,545**	4,571
Tenant receivables	**8,226**	10,800
Straight-line rent receivables	**151,118**	136,762
Restricted cash and escrows	**1,841**	1,463
Prepaid expenses and other assets	**25,427**	24,691
Goodwill	**98,918**	98,918
Interest rate swaps	**—**	1,199
Deferred lease costs, less accumulated amortization of $182,281 and $176,919 as of December 31, 2019 and December 31, 2018, respectively	**275,172**	236,198
Other assets held for sale, net	**—**	61,233
Total assets	**$ 3,516,757**	$ 3,592,429
Liabilities:		
Unsecured debt, net of discount and unamortized debt issuance costs of $7,626 and $9,879 as of December 31, 2019 and December 31, 2018, respectively	**$ 1,292,374**	$ 1,495,121
Secured debt, inclusive of premiums and unamortized debt issuance costs of $343 and $645 as of December 31, 2019 and December 31, 2018, respectively	**189,030**	190,351
Accounts payable, accrued expenses, and accrued capital expenditures	**117,496**	93,739
Dividends payable	**26,427**	26,972
Deferred income	**34,609**	28,779
Intangible lease liabilities, less accumulated amortization of $51,566 and $59,144 as of December 31, 2019 and December 31, 2018, respectively	**32,726**	35,708
Interest rate swaps	**5,121**	839
Other liabilities held for sale	**—**	8,780
Total liabilities	**1,697,783**	1,880,289
Commitments and Contingencies (Note 8)	**—**	—
Stockholders' Equity:		
Shares-in-trust, 150,000,000 shares authorized, none outstanding as of December 31, 2019 or December 31, 2018	**—**	—
Preferred stock, no par value, 100,000,000 shares authorized, none outstanding as of December 31, 2019 or December 31, 2018	**—**	—
Common stock, $0.01 par value; 750,000,000 shares authorized, 125,783,408 shares issued and outstanding as of December 31, 2019; and 126,218,554 shares issued and outstanding at December 31, 2018	**1,258**	1,262
Additional paid-in capital	**3,686,398**	3,683,186
Cumulative distributions in excess of earnings	**(1,871,375)**	(1,982,542)
Other comprehensive income	**967**	8,462
Piedmont stockholders' equity	**1,817,248**	1,710,368
Noncontrolling interest	**1,726**	1,772
Total stockholders' equity	**1,818,974**	1,712,140
Total liabilities and stockholders' equity	**$ 3,516,757**	$ 3,592,429

See accompanying notes.

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

	Years Ended December 31,		
	2019	**2018**	**2017**
Revenues:			
Rental and tenant reimbursement revenue	**$ 511,905**	$ 504,410	$ 553,264
Property management fee revenue	**3,398**	1,450	1,735
Other property related income	**17,875**	20,107	19,174
	533,178	525,967	574,173
Expenses:			
Property operating costs	**211,380**	209,338	222,441
Depreciation	**106,015**	107,956	119,288
Amortization	**76,666**	63,295	75,367
Impairment loss on real estate assets	**8,953**	—	46,461
General and administrative	**37,895**	29,713	29,319
	440,909	410,302	492,876
Other income (expense):			
Interest expense	**(61,594)**	(61,023)	(68,124)
Other income	**1,571**	1,638	657
Equity in income of unconsolidated joint ventures	**—**	—	3,845
Loss on extinguishment of debt	**—**	(1,680)	—
Gain on sale of real estate assets	**197,010**	75,691	115,874
	136,987	14,626	52,252
Net income	**229,256**	130,291	133,549
Net loss applicable to noncontrolling interest	**5**	5	15
Net income applicable to Piedmont	**$ 229,261**	$ 130,296	$ 133,564
Per share information— basic and diluted:			
Net income applicable to common stockholders	**$ 1.82**	$ 1.00	$ 0.92
Weighted-average shares outstanding—basic	**125,709,207**	130,161,202	145,043,503
Weighted-average shares outstanding—diluted	**126,182,137**	130,635,650	145,379,994

See accompanying notes.

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

	Years Ended December 31,		
	2019	**2018**	**2017**
Net income applicable to Piedmont	**$ 229,261**	$ 130,296	$ 133,564
Other comprehensive income/(loss):			
Effective portion of gain/(loss) on derivative instruments that are designated and qualify as cash flow hedges (See Note 5)	**(5,659)**	692	2,479
Plus/(less): Reclassification of net loss/(gain) included in net income (See Note 5)	**(1,836)**	(300)	3,502
Gain on investment in available for sale securities	**—**	—	79
Other comprehensive income/(loss)	**(7,495)**	392	6,060
Comprehensive income applicable to Piedmont	**$ 221,766**	$ 130,688	$ 139,624

See accompanying notes.

PIEDMONT OFFICE REALTY TRUST, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except per-share amounts)

	Common Stock		Additional Paid-In Capital	Cumulative Distributions in Excess of Earnings	Other Comprehensive Income/(Loss)	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount					
Balance, December 31, 2016	145,235	$ 1,452	$ 3,673,128	$ (1,580,863)	$ 2,104	$ 1,882	$ 2,097,703
Share repurchases as part of announced plan	(3,133)	(31)	—	(61,719)	—	—	(61,750)
Offering costs	—	—	(182)	—	—	—	(182)
Dividends to common stockholders ($1.34 per share), stockholders of subsidiaries, and dividends reinvested	—	—	(233)	(193,263)	—	(45)	(193,541)
Shares issued and amortized under the 2007 Omnibus Incentive Plan, net of tax	257	3	4,647	—	—	—	4,650
Net loss applicable to noncontrolling interest	—	—	—	—	—	(15)	(15)
Net income applicable to Piedmont	—	—	—	133,564	—	—	133,564
Other comprehensive income	—	—	—	—	6,060	—	6,060
Balance, December 31, 2017	142,359	1,424	3,677,360	(1,702,281)	8,164	1,822	1,986,489
Cumulative effect of accounting change (adoption of ASU 2016-01)	—	—	—	94	(94)	—	—
Share repurchases as part of announced plan	(16,495)	(165)	—	(301,513)	—	—	(301,678)
Offering costs	—	—	(85)	—	—	—	(85)
Dividends to common stockholders ($0.84 per share), stockholders of subsidiaries, and dividends reinvested	—	—	(82)	(109,138)	—	(45)	(109,265)
Shares issued and amortized under the 2007 Omnibus Incentive Plan, net of tax	355	3	5,993	—	—	—	5,996
Net loss applicable to noncontrolling interest	—	—	—	—	—	(5)	(5)
Net income applicable to Piedmont	—	—	—	130,296	—	—	130,296
Other comprehensive income	—	—	—	—	392	—	392
Balance, December 31, 2018	126,219	1,262	3,683,186	(1,982,542)	8,462	1,772	1,712,140
Share repurchases as part of announced plan	**(728)**	**(7)**	**—**	**(12,475)**	**—**	**—**	**(12,482)**
Offering costs	**—**	**—**	**(710)**	**—**	**—**	**—**	**(710)**
Dividends to common stockholders ($0.84 per share), stockholders of subsidiaries, and dividends reinvested	**—**	**—**	**(228)**	**(105,619)**	**—**	**(41)**	**(105,888)**
Shares issued and amortized under the 2007 Omnibus Incentive Plan, net of tax	**292**	**3**	**4,150**	**—**	**—**	**—**	**4,153**
Net loss applicable to noncontrolling interest	**—**	**—**	**—**	**—**	**—**	**(5)**	**(5)**
Net income applicable to Piedmont	**—**	**—**	**—**	**229,261**	**—**	**—**	**229,261**
Other comprehensive loss	**—**	**—**	**—**	**—**	**(7,495)**	**—**	**(7,495)**
Balance, December 31, 2019	**125,783**	**$ 1,258**	**$ 3,686,398**	**$ (1,871,375)**	**$ 967**	**$ 1,726**	**$ 1,818,974**

See accompanying notes.

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

	Years Ended December 31,		
	2019	**2018**	**2017**
Cash Flows from Operating Activities:			
Net income	**$ 229,256**	$ 130,291	$ 133,549
Operating distributions received from unconsolidated joint ventures	**—**	10	11
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**106,015**	107,956	119,288
Amortization of debt issuance costs net of favorable settlement of interest rate swaps	**87**	(250)	1,588
Other amortization	**71,609**	58,330	73,944
Impairment loss on real estate assets	**8,953**	—	46,461
Loss on extinguishment of debt	**—**	1,665	—
Stock compensation expense	**15,446**	9,737	9,196
Equity in income of unconsolidated joint ventures	**—**	—	(3,845)
Gain on sale of real estate assets	**(197,010)**	(75,691)	(115,874)
Changes in assets and liabilities:			
Increase in tenant and straight-line rent receivables	**(15,706)**	(16,094)	(21,392)
Decrease/(increase) in prepaid expenses and other assets	**309**	(3,095)	384
Decrease in accounts payable and accrued expenses	**(11,251)**	(9,092)	(1,521)
Increase/(decrease) in deferred income	**776**	(898)	1,016
Net cash provided by operating activities	**208,484**	202,869	242,805
Cash Flows from Investing Activities:			
Acquisition of real estate assets and intangibles	**(326,200)**	(151,914)	(35,262)
Capitalized expenditures	**(103,553)**	(72,105)	(79,831)
Net sale proceeds from wholly-owned properties	**589,767**	575,227	375,518
Net sale proceeds received from unconsolidated joint ventures	**—**	—	12,334
Investments in unconsolidated joint ventures	**—**	—	(1,162)
Note receivable issuance	**—**	(3,200)	—
Note receivable repayment	**—**	3,200	—
Deferred lease costs paid	**(25,639)**	(27,430)	(30,985)
Net cash provided by investing activities	**134,375**	323,778	240,612
Cash Flows from Financing Activities:			
Debt issuance and other costs paid	**(151)**	(1,040)	(132)
Proceeds from debt	**592,000**	977,062	180,000
Repayments of debt	**(798,019)**	(1,020,455)	(476,401)
Costs of issuance of common stock	**(710)**	(85)	(182)
Value of shares withheld for payment of taxes related to employee stock compensation	**(3,295)**	(2,219)	(3,403)
Repurchases of common stock as part of announced plan	**(16,899)**	(298,538)	(60,474)
Dividends paid and discount on dividend reinvestments	**(106,433)**	(184,093)	(122,274)
Net cash used in financing activities	**(333,507)**	(529,368)	(482,866)
Net increase/(decrease) in cash, cash equivalents, and restricted cash and escrows	**9,352**	(2,721)	551
Cash, cash equivalents, and restricted cash and escrows, beginning of year	**6,034**	8,755	8,204
Cash, cash equivalents, and restricted cash and escrows, end of year	**$ 15,386**	$ 6,034	$ 8,755

See accompanying notes.

1. Organization

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

As of December 31, 2019, Piedmont owned 54 in-service office properties and one redevelopment asset, comprising approximately 487,000 square feet (unaudited), in select sub-markets located within seven major U.S. office markets: Atlanta, Boston, Dallas, Minneapolis, New York, Orlando, and Washington, D.C. As of December 31, 2019, Piedmont's 54 in-service office properties comprised approximately 16.0 million square feet (unaudited) of primarily Class A commercial office space and were 91.2% leased.

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

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

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

Piedmont owns a majority interest in four properties through three joint ventures. Two of these joint ventures, 1201 and 1225 Eye Street, NW Associates, which own the 1201 and 1225 Eye Street buildings, respectively, in Washington, D.C. are consolidated using the method prescribed in accounting for VIEs. The other joint venture, Piedmont-CNL Towers Orlando, LLC, which owns CNL Center I and II, in Orlando, Florida is an investment consolidated under the voting model. Accordingly, Piedmont’s consolidated financial statements include the accounts of 1201 Eye Street, NW Associates, LLC, 1225 Eye Street, NW Associates, LLC, and Piedmont-CNL Towers Orlando, LLC.

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

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

Use of Estimates

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

Real Estate Assets

Piedmont classifies its real estate assets as long-lived assets held for use or as long-lived assets held for sale. Held for use assets are stated at cost, as adjusted for any impairment loss, less accumulated depreciation. Held for sale assets are carried at lower of depreciated cost or estimated fair value, less estimated costs to sell. Piedmont generally reclassifies assets as held for sale once a sales contract has been executed and earnest money has become non-refundable.

Amounts capitalized to real estate assets consist of the cost of acquisition or construction, any tenant improvements or major improvements, betterments that extend the useful life of the related asset, and transaction costs associated with the acquisition of an individual asset that does not qualify as a business combination. All repairs and maintenance are expensed as incurred. Additionally, Piedmont capitalizes interest while the development, or redevelopment, of a real estate asset is in progress.

Piedmont's real estate assets are depreciated or amortized using the straight-line method over the following useful lives:

Buildings	40 years
Building improvements	5-25 years
Land improvements	20-25 years
Tenant allowances	Lease term
Furniture, fixtures, and equipment	3-10 years
Intangible lease assets	Lease term

Piedmont continually monitors events and changes in circumstances that could indicate that the carrying amounts of the real estate and related intangible assets of either operating properties or properties under construction in which Piedmont has an ownership interest, either directly or through investments in joint ventures, may not be recoverable. When indicators of potential impairment are present, management assesses whether the respective carrying values will be recovered from the undiscounted future operating cash flows expected from the use of the asset and its eventual disposition for assets held for use, or from the estimated fair values, less costs to sell, for assets held for sale. In the event that the expected undiscounted future cash flows for assets held for use or the estimated fair value, less costs to sell, for assets held for sale do not exceed the respective asset carrying value, management adjusts such assets to the respective estimated fair values and recognizes an impairment loss. Estimated fair values are calculated based on the following information, depending upon availability, in order of preference: (i) recently quoted market prices, (ii) market prices for comparable properties, or (iii) the present value of undiscounted cash flows, including estimated sales value (which is based on key assumptions such as estimated market rents, lease-up periods, estimated lease terms, and capitalization and discount rates) less estimated selling costs.

Fair Value of Assets and Liabilities of Acquired Properties

Upon the acquisition of real properties, Piedmont records the fair value of properties (plus any related acquisition costs) allocated based on relative fair value as 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 on their estimated fair values. Substantially all of Piedmont's property acquisitions qualify as asset acquisitions under Accounting Standards Codification ("ASC") 805, *Business Combinations*.

The estimated fair values of the tangible assets of an acquired property 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. Management relies on a sales comparison approach using closed land sales and listings in determining the land value, and determines the as-if-vacant estimated fair value of a property using methods similar to those used by independent appraisers. Factors considered by management 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, management includes 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. Management also estimates the cost to execute similar leases including leasing commissions, legal, and other related costs.

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) management's estimate of market 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 revenues over the remaining terms of the respective leases.

The estimated fair values of in-place leases include an estimate of the direct costs associated with obtaining the acquired or "in place" tenant, estimates of opportunity costs associated with lost rentals that are avoided by acquiring an in-place lease. The amount capitalized as direct costs associated with obtaining a tenant include commissions, tenant improvements, and other direct costs and are estimated based on management's consideration of current market costs to execute a similar lease. These direct lease origination 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. 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.

Gross intangible assets and liabilities, inclusive of amounts classified as real estate assets held for sale, recorded at acquisition as of December 31, 2019 and 2018, respectively, are as follows (in thousands):

	December 31, 2019	December 31, 2018
Intangible Lease Assets:		
Above-Market In-Place Lease Assets	**$ 2,082**	$ 7,620
In-Place Lease Valuation	**$ 157,101**	$ 157,447
Intangible Lease Origination Costs (included as component of Deferred Lease Costs)	**$ 256,627**	$ 241,516
Intangible Lease Liabilities (Below-Market In-Place Leases)	**$ 84,292**	$ 94,852

For the years ended December 31, 2019, 2018, and 2017, respectively, Piedmont recognized amortization of intangible lease costs as follows (in thousands):

	2019	2018	2017
Amortization of Intangible Lease Origination Costs and In-Place Lease Valuation included in amortization expense	**$ 62,413**	$ 48,940	$ 58,467
Amortization of Above-Market and Below-Market In-Place Lease intangibles as a net increase to rental revenues	**$ 8,322**	$ 7,615	$ 6,575

Net intangible assets and liabilities as of December 31, 2019 will be amortized as follows (in thousands):

	Intangible Lease Assets			
	Above-Market In-place Lease Assets	In-Place Lease Valuation	Intangible Lease Origination Costs [(1)]	Below-Market In-place Lease Liabilities
For the year ending December 31:				
2020	$ 423	$ 22,397	$ 34,267	$ 8,304
2021	367	18,650	30,112	7,901
2022	272	13,950	23,341	6,421
2023	97	9,383	16,055	4,616
2024	64	4,861	9,576	1,706
Thereafter	—	10,515	22,957	3,778
	$ 1,223	$ 79,756	$ 136,308	$ 32,726
Weighted-Average Amortization Period (in years)	3	5	6	5

(1) Included as a component of Deferred Lease Costs in the accompanying consolidated balance sheets.

Investments in and Amounts Due from Unconsolidated Joint Ventures

During the year ended December 31, 2017, Piedmont sold its investment in its last remaining unconsolidated joint venture. Prior to this disposition, Piedmont had accounted for its unconsolidated joint ventures using the equity method of accounting, whereby original investments were recorded at cost and subsequently adjusted for contributions, distributions, net income/(loss), and "other than temporary" impairment losses, if any, attributable to such joint ventures. All income and distributions were allocated to the joint venture partners in accordance with their respective ownership interests. Any distributions were classified on the accompanying consolidated statements of cash flow using the nature of distribution approach. Any distributions of net cash from operations were classified as cash inflows from operating activities, as they were presumed to be returns on Piedmont's investment in the joint venture. Any proceeds received as the result of a sale of an asset from an unconsolidated joint venture were considered a return of Piedmont's investment in the joint venture and classified as cash inflows from investing activities.

Cash and Cash Equivalents

Piedmont considers all highly-liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents include cash and short-term investments. The majority of Piedmont's cash and cash equivalents are held at major commercial banks and at times may exceed the Federal Deposit Insurance Corporation limit of $250,000. Short-term investments consist of investments in money market accounts stated at cost, which approximates estimated fair value, and available-for-sale securities resulting from Piedmont's non-qualified deferred compensation program carried at estimated fair value.

Tenant Receivables and Straight-line Rent Receivables

Tenant receivables are comprised of rental and reimbursement billings due from tenants, and straight-line rent receivables representing the cumulative amount of future adjustments necessary to present rental income on a straight-line basis. Effective January 1, 2019, Piedmont adopted ASC 842 *Leases* ("ASC 842") (see *Accounting Pronouncements Adopted During the Year Ended December 31, 2019* below for more detail) as well as Accounting Standards Update ("ASU"), ASU No. 2018-19 ("ASU 2018-19") which clarifies that operating lease receivables are within the scope of ASC 842; therefore, Piedmont has elected to evaluate the collectibility of its operating lease receivables on a tenant/lease-specific basis and, as of January 1, 2019, began recognizing changes in the collectibility assessment of its operating lease receivables as a reduction of rental and tenant reimbursement revenue, rather than as bad debt expense, a component of property operating costs. Prior to the adoption of ASC 842, during the years ended December 31, 2018 and 2017, Piedmont recognized approximately $91,000 and $350,000, respectively, of expense related to uncollectible operating lease receivables as additional property operating costs.

Restricted Cash and Escrows

Restricted cash and escrows principally relate to the following types of items:

- escrow accounts held by lenders to pay future real estate taxes, insurance, debt service, and tenant improvements;
- net sales proceeds from property sales held by qualified intermediary for potential Section 1031 exchange;
- earnest money paid in connection with future acquisitions; and
- security and utility deposits paid by tenants per the terms of their respective leases.

Restricted cash and escrows are generally reclassified to other asset or liability accounts upon being used to purchase assets, satisfy obligations, or settle tenant obligations.

Prepaid Expenses and Other Assets

Prepaid expenses and other assets are primarily comprised of the following items:

- prepaid property taxes, insurance and operating costs;
- receivables which are unrelated to tenants, for example, insurance proceeds receivable from insurers related to casualty losses; and
- equipment, furniture and fixtures, and tenant improvements for Piedmont's corporate office and property management office space, net of accumulated depreciation.

Prepaid expenses and other assets will be expensed as utilized or depreciated in the case of Piedmont's corporate assets. Balances without a future economic benefit are expensed as they are identified.

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. Piedmont tests the carrying value of its 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. Piedmont first assesses 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. Piedmont internally evaluates its consolidated financial position and all of its operations as one reporting unit. If Piedmont concludes, after assessing the totality of events and circumstances during the qualitative analysis, that it is more likely than not that the goodwill balance is impaired, then Piedmont will recognize a goodwill impairment loss by the excess of the reporting unit's carrying amount over its estimated fair value (not to exceed the total goodwill allocated to that reporting unit). There were no changes in the carrying amount of Piedmont's goodwill during the year ended December 31, 2019.

Interest Rate Derivatives

Piedmont periodically enters into interest rate derivative agreements to hedge its exposure to changing interest rates. As of December 31, 2019 and 2018, all of Piedmont's interest rate derivatives were designated as effective cash flow hedges and carried on the balance sheet at estimated fair value. Piedmont reassesses the effectiveness of its derivatives designated as cash flow hedges on a regular basis to determine if they continue to be highly effective and if the forecasted transactions remain highly probable. Piedmont does 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. 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 reductions or additions to interest expense in the consolidated statements of income as incurred. Additionally, when Piedmont settles forward starting swap agreements, any gain or loss is recorded as accumulated other comprehensive income and is amortized to interest expense over the term of the respective notes on a straight line basis (which approximates the effective interest method). Further, Piedmont classifies cash flows from the settlement of hedging derivative instruments in the same category as the underlying exposure which is being hedged. Settlements resulting from the hedge of Piedmont's exposure to interest rate changes are classified as operating cash flows in the accompanying consolidated statements of cash flows.

Deferred Lease Costs

Deferred lease costs are comprised of costs and incentives incurred to acquire operating leases. In addition to direct costs, deferred lease costs also include intangible lease origination costs related to in-place leases acquired as part of a property acquisition. Prior to the adoption of ASC 842 on January 1, 2019, Piedmont capitalized direct payroll costs incurred related to negotiating and executing specific leases of approximately $0.3 million for both the years ended December 31, 2018, and 2017. ASC 842 prohibited the capitalization of such costs beginning January 1, 2019.

Deferred lease costs are amortized on a straight-line basis over the terms of the related underlying leases in the accompanying consolidated statements of income as follows:

- Approximately $50.3 million, $43.6 million, and $50.8 million of deferred lease costs for the years ended December 31, 2019, 2018, and 2017, respectively, are included in amortization expense; and
- Approximately $3.2 million, $2.6 million, and $4.8 million, of deferred lease costs related to lease incentives granted to tenants for the years ended December 31, 2019, 2018, and 2017, respectively, was included as an offset to rental and tenant reimbursement revenue.

Upon receipt of a lease termination notice, Piedmont adjusts the amortization of any unamortized deferred lease costs to be recognized ratably over the revised remaining term of the lease after giving effect to the termination notice. If there is no remaining lease term and no other obligation to provide the tenant space in the property, then any unamortized tenant-specific costs are recognized immediately upon termination.

Debt

When mortgage debt is assumed upon the acquisition of real property, Piedmont adjusts the loan to relative fair value with a corresponding adjustment to building and other intangible assets assumed as part of the purchase. The fair value adjustment is amortized to interest expense over the term of the loan using the effective interest method. Amortization of such fair value adjustments was approximately $0.5 million for each of the years ended December 31, 2019, 2018, and 2017, respectively.

Piedmont records premiums and discounts on debt issuances as an increase/decrease to the principal amount of the loan in the accompanying consolidated balance sheets, and amortizes such premiums or discounts as a component of interest expense over the life of the underlying loan facility using the effective interest method. Piedmont recorded discount amortization of approximately $0.2 million for each of the years ended December 31, 2019, 2018, and 2017, respectively.

Piedmont presents all debt issuance costs as an offset to the principal amount of debt in the accompanying consolidated balance sheets. Piedmont amortizes these costs to interest expense on a straight-line basis (which approximates the effective interest rate method) over the terms of the related financing arrangements. Piedmont recognized amortization of such costs for the years ended December 31, 2019, 2018, and 2017 of approximately $2.4 million, $2.4 million, and $2.8 million, respectively.

Deferred income

Deferred income is primarily comprised of the following items:

- prepaid rent from tenants; and
- tenant reimbursements related to operating expense or property tax expenses which may be due to tenants as part of an annual operating expense reconciliation.
- tenant improvement allowance overages where Piedmont owns the underlying improvements

Deferred income related to prepaid rents from tenants will be recognized as income in the period it is earned. Amounts related to operating expense reconciliations or property tax expense are relieved when the tenant's reconciliation is completed in accordance with the underlying lease, and payment is issued to the tenant. Tenant improvement allowance overages paid by the tenant, where Piedmont owns all of the underlying improvements, are recorded as deferred income and amortized on a straight-line basis into rental and tenant reimbursement revenue over the term of the respective leases.

Shares-in-trust

To date, Piedmont has not issued any shares-in-trust; however, under Piedmont’s charter, it has authority to issue a total of 150,000,000 shares-in-trust, which would be issued only in the event that there is a purported transfer of, or other change in or affecting the ownership of, Piedmont’s capital stock that would result in a violation of the ownership limits that are included in Piedmont’s charter to protect its REIT status.

Preferred Stock

To date, Piedmont has not issued any shares of preferred stock; however, Piedmont is authorized to issue up to 100,000,000 shares of one or more classes or series of preferred stock. Piedmont’s board of directors may determine the relative rights, preferences, and privileges of any class or series of preferred stock that may be issued, and can be more beneficial than the rights, preferences, and privileges attributable to Piedmont’s common stock.

Common Stock

Under Piedmont’s charter, it has authority to issue a total of 750,000,000 shares of common stock with a par value of $0.01 per share. Each share of common stock is entitled to one vote and participates in distributions equally. During the year ended December 31, 2018, the board of directors of Piedmont re-authorized the stock repurchase program under which Piedmont may repurchase its own shares from time to time, in accordance with applicable securities laws, in the open market or in privately negotiated transactions. The timing of repurchases is dependent upon market conditions and other factors, and repurchases may be commenced or suspended from time to time in Piedmont's discretion, without prior notice. As of December 31, 2019, Piedmont had approximately $74.1 million in remaining capacity under the program which may be used for share repurchases through February 2020. On February 19, 2020, Piedmont's Board of Directors extended the authorization for up to $200 million in share repurchases through February 2022, at the discretion of management.

Equity Securities Issued At-The-Market

Under Piedmont's at-the-market stock offering program ("ATM program"), Piedmont may offer and sell shares of its common stock from time to time in “at-the-market” offerings with an aggregate gross sales price of up to $250 million. In connection with the ATM Program, Piedmont may, at its discretion, enter into forward equity sale agreements. The use of a forward equity sale agreement would allow Piedmont to lock in a share price on the sale of shares of its common stock at the time the agreement is executed, but defer receiving the proceeds from the sale of shares until a later date, allowing Piedmont to better align such funding with its capital needs. Sales of shares of Piedmont’s common stock through its banking relationships, if any, will be made in amounts and at times to be determined by Piedmont from time to time, but Piedmont has no obligation to sell any of the shares in the offering and may suspend sales in connection with the offering at any time. Sales of Piedmont's common stock under forward equity sale agreements, if undertaken, meet the derivatives and hedging guidance scope exception to be accounted for as equity instruments based on the following assessments: (i) none of the agreements’ exercise contingencies were based on observable markets or indices besides those related to the market for Piedmont's own stock price and operations; and (ii) none of the settlement provisions precluded the agreements from being indexed to Piedmont's own stock.

Underwriting commissions and offering costs incurred in connection with all common equity offerings, including any potential issuances under Piedmont's ATM Program, are reflected as a reduction of additional paid-in capital.

Dividends

As a REIT, Piedmont is required by the Internal Revenue Code of 1986, as amended (the “Code”), to make distributions to stockholders each taxable year equal to at least 90% of its annual taxable income, computed without regard to the dividends-paid deduction and by excluding net capital gains attributable to stockholders (“REIT taxable income”). Historically, Piedmont sponsored a dividend reinvestment plan ("DRP") pursuant to which common stockholders could elect (if their brokerage agreements allowed) to reinvest an amount equal to the dividends declared on their common shares into additional shares of Piedmont’s common stock in lieu of receiving cash dividends. Under the DRP, Piedmont has the option to either issue shares purchased in the open market or issue shares directly from Piedmont's authorized but unissued shares, in both cases at a 2% discount for the stockholder. Such election took place at the settlement of each quarterly and/or special dividend in which there were participants in the DRP. On February 19, 2020, the Board of Directors suspended the company-funded DRP offered through our transfer agent effective March 21, 2020.

Noncontrolling Interest

Noncontrolling interest is the equity interest of consolidated entities that is not owned by Piedmont. Noncontrolling interest is adjusted for the noncontrolling partners' share of contributions, distributions, and earnings (losses) in accordance with the respective partnership agreement. Earnings allocated to such noncontrolling partners are recorded as income applicable to noncontrolling interest in the accompanying consolidated statements of income.

Revenue Recognition

Piedmont's revenues consist of the following:

<u>Rental and tenant reimbursement income</u> - consists of revenue from leases with Piedmont's tenants, as well as reimbursements for services prescribed by such leases. Piedmont evaluates contracts at commencement to determine if the contract contains a lease. If a contract is determined to contain a lease, the lease is evaluated to determine whether it is an operating, sales-type, or a direct financing lease. All of Piedmont's leases where Piedmont is the lessor are for the lessee's use of space in Piedmont's commercial office properties and are classified as operating leases.

In most lease arrangements, Piedmont finances improvements to leased space and is deemed the owner of the tenant improvements. The determination of who owns the improvements, whether payments to tenants constitute lease incentives or tenant improvements, and the timing of revenue recognition requires the exercise of significant judgment based on the facts and circumstances of the specific lease arrangement and is not based on any one factor. When evaluating whether Piedmont or its tenant owns the improvements, management considers a number of factors, including, among other things:

- whether the tenant is obligated by the terms of the lease agreement to construct or install the leasehold improvements as a condition of the lease;
- whether the landlord can require the lessee to make specified improvements or otherwise enforce its economic rights to those assets;
- whether the tenant is required to provide the landlord with documentation supporting the cost of tenant improvements prior to reimbursement by the landlord;
- whether the landlord is obligated to fund cost overruns for the construction of leasehold improvements;
- whether the leasehold improvements are unique to the tenant or could reasonably be used by other parties; and
- whether the estimated economic life of the leasehold improvements is long enough to allow for a significant residual value that could benefit the landlord at the end of the lease term.

These tenant improvements are recorded as capital assets by Piedmont and depreciated, typically over the lease term. Payments made by the tenants for tenant improvements owned by Piedmont are treated as deferred revenues and amortized into rental and tenant reimbursement revenue over the lease term.

The timing of rental revenue recognition is largely dependent on our conclusion as to whether Piedmont, or its tenant, is the owner of tenant improvements at the leased property. When Piedmont owns the tenant improvements, rental revenue recognition begins when the tenant takes possession of or controls the finished space, which is typically when the improvements being recorded as Piedmont's asset are substantially complete. In some instances, Piedmont may cede control of the leased space to the tenant to be responsible for tenant-owned improvements for the space. In such arrangements, payments made by Piedmont to its tenant are treated as lease incentives, amortized as a reduction to rental and tenant reimbursement revenue over the lease term, which typically begins once the tenant takes possession of the unimproved space.

Lease payments are typically comprised of both fixed base rental payments and separately billed variable lease payments for reimbursement of services performed by Piedmont for the tenant as prescribed by the lease. Fixed base rental payments, as well as any fixed portion of reimbursement income, are recognized on a straight-line basis over the lease term. Tenant reimbursements are recognized as revenue in the period that the related operating cost is incurred. Rents and tenant reimbursements collected in advance are recorded as deferred income in the accompanying consolidated balance sheets.

Property management fee revenue - consists of revenue earned by Piedmont related to operating and managing office properties owned by other third-parties. Such income is within the scope of ASC 606, *Revenue from Contracts with Customers* ("ASC 606"). Because property management services represent a performance obligation that are satisfied over the length of the contract, not at any specific point in time, and have the same measure of transfer (time elapsed), property management fee revenue is recognized over time. Any variable consideration transferred as part of these management agreements is recognized in the quarter that the underlying cash receipts are collected, consistent with the allocation objective of allocating the transaction price in an amount that depicts the amount of consideration to which Piedmont expects to be entitled in exchange for transferring the promised service to the customer.

Other property related income - consists of all other property related income from Piedmont's customers (tenants) that is not derived from a contract meeting the definition of a lease and is therefore also within the scope of ASC 606. Examples of such income include parking revenue and income from licenses with unrelated third-parties to place antennae and/or fiber optic cables in or on Piedmont's buildings. These services also represent a performance obligation that is satisfied over the length of the contract, not at any specific point in time, and has the same measure of transfer (time elapsed); therefore, revenue related to these licenses is also recognized over time.

Gains on the sale of real estate assets, like all non-lease related revenue, are subject to a five-step model requiring that Piedmont identify the contract with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue upon satisfaction of the performance obligations. In circumstances where Piedmont contracts to sell a property with material post-sale involvement, such involvement must be accounted for as a separate performance obligation in the contract and a portion of the sales price allocated to each performance obligation. When the post-sale involvement performance obligation is satisfied, the portion of the sales price allocated to it will be recognized as gain on sale of real estate assets. Property dispositions with no continuing involvement will continue to be recognized upon closing of the sale.

Stock-based Compensation

Piedmont has issued stock-based compensation in the form of restricted stock to its employees and directors. For employees, such compensation has been issued pursuant to Piedmont's Long-term Incentive Compensation ("LTIC") program. The LTIC program is comprised of an annual restricted stock grant component (the "Restricted Stock Award" program) and a multi-year performance share component (the "Performance Share" program). Awards granted pursuant to the Restricted Stock Award and Performance Share programs, as well as director's awards, are classified as equity awards or liability awards based on the underlying terms of the program agreement. Awards classified as equity awards are expensed straight-line over the vesting period, with issuances recorded as a reduction to additional paid in capital. Forfeitures are recorded when they occur. Awards classified as liability awards are remeasured at each reporting period 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 operations and as general and administrative expense for all other employees and directors in the accompanying consolidated statements of income.

Non-qualified Deferred Compensation Plan

Piedmont previously offered a non-qualified deferred compensation plan ("NQDC Plan") to certain employees which allowed the employee to elect to defer receipt of compensation, including both cash and stock-based compensation, until future taxable years. As of December 31, 2019, Piedmont suspended the NQDC Plan so that no additional amounts may be deferred. Amounts deferred prior to the suspension of the NQDC Plan are invested in trading securities held in a "rabbi trust" and are measured using quoted market prices as of the reporting date, with changes in fair value recognized in net income. As of December 31, 2019 and 2018, Piedmont held approximately $0.6 million and $0.4 million, respectively, of these trading securities. Such investments are included in cash equivalents due to their short-term, liquid nature, with the corresponding liability included in accounts payable, accrued expenses, and accrued capital expenditures in the accompanying consolidated balance sheets.

Net Income Available to Common Stockholders Per Share

Net income per share-basic is calculated as net income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Net income per share-diluted is calculated as net income available to common stockholders divided by the diluted weighted average number of common shares outstanding during the period, including the dilutive effect of nonvested restricted stock. The dilutive effect of nonvested restricted stock is calculated using the treasury stock method to determine the number of additional common shares that would become outstanding if the remaining unvested restricted stock awards vested. Further, Piedmont has elected to use the "end of the reporting period" convention when using the treasury stock method to calculate the dilutive effect of any shares issued pursuant to forward equity sale agreements in connection with Piedmont's ATM Program described above. Under this methodology, the assumed sale proceeds are calculated using the closing price of Piedmont's stock as of the end of the respective reporting period.

Income Taxes

Piedmont has elected to be taxed as a REIT under the Code, and has operated as such, beginning with its taxable year ended December 31, 1998. To qualify as a REIT, Piedmont must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of its annual REIT taxable income. As a REIT, Piedmont is generally not subject to federal income taxes, subject to fulfilling, among other things, its taxable income distribution requirement. However, Piedmont is subject to federal income taxes related to the operations conducted by its taxable REIT subsidiary, POH, which have been provided for in the financial statements. Accordingly, the only provision for federal income taxes in the accompanying consolidated financial statements relates to POH. POH does not have significant tax provisions or deferred income tax items. These operations resulted in approximately $160,000, $(97,000), and $13,000 in income tax expense/(recoveries) for the years ended December 31, 2019, 2018, and 2017, respectively, as a component of other income/(expense) in the accompanying consolidated statements of income. Further, Piedmont is subject to certain state and local taxes related to the operations of properties in certain locations, which have been provided for in general and administrative expenses in the accompanying consolidated financial statements.

Accounting Pronouncements Adopted during the Year Ended December 31, 2019

Leases

During the year ended December 31, 2019, Piedmont adopted ASU No. 2016-02, *Leases (Topic 842)*, as well as various associated updates and amendments, which together comprise the requirements for lease accounting under ASC 842. ASC 842 fundamentally changed the definition of a lease, as well as the accounting for operating leases, by requiring lessees to recognize a liability to make lease payments and a right-of-use asset representing the right to use the leased asset over the term of the lease. ASC 842 also prohibits the capitalization of internal direct salary costs associated with negotiating and executing leases. Accounting for leases by lessors is substantially unchanged from prior practice as lessors continue to recognize lease revenue on a straight-line basis.

In conjunction with the adoption of ASC 842, Piedmont adopted the following optional practical expedients, transition amendments, or made accounting policy elections as follows:

- a package of optional practical expedients which precluded: (1) the reassessment of any expired or existing contracts to determine if they contain a lease or to determine lease classification; and (2) the write-off of any unamortized, previously capitalized, initial direct costs for any existing leases;
- an optional practical transition expedient provided by ASU No. 2018-01 which allowed Piedmont to exclude certain land easements in place as of January 1, 2019 from the new guidance;
- an optional practical expedient provided by ASU No. 2018-11 which allowed certain non-lease operating expense reimbursements which are included in the underlying stated lease rate to be accounted for as part of an operating lease where Piedmont is the lessor;
- a transitional amendment which allowed for the presentation of comparative periods in the year of adoption under ASC 840 (the former leasing guidance), effectively allowing for an initial adoption of ASC 842 (the new leasing guidance) on January 1, 2019 (the "Comparatives Under ASC 840 Option");
- an accounting policy election allowed by ASC 842 related to a recognition and measurement exception for short-term leases (defined as leases which are 12 months or less in duration) where Piedmont is the lessee. Piedmont's short-term lease expense reasonably reflects its lease commitments under such leases; and
- an accounting policy election allowed by ASU No. 2018-20 which permits Piedmont to exclude sales and other similar taxes from analysis to ascertain whether they are Piedmont's primary obligation (as lessor), and instead exclude such costs from revenue and account for them as costs of the lessee.

The nature of Piedmont's change in accounting principle relates primarily to its accounting for operating leases where Piedmont is a lessee for office space, as prescribed by ASC 842. Due to the adoption of the practical expedients outlined above, Piedmont has not adjusted prior-period information retrospectively, and there is a negligible decrease in net income attributable to Piedmont as a result of accounting for leases where Piedmont is the lessee under ASC 842 as compared to prior operating lease accounting.

As required under the Comparatives Under ASC 840 Option described above, Piedmont's future minimum rental income from lessees under non-cancelable operating leases where Piedmont was the lessor as of December 31, 2018 is presented below (in thousands):

Years ending December 31:		
2019	$	370,495
2020		352,541
2021		337,951
2022		324,960
2023		291,603
Thereafter		1,247,649
Total	$	2,925,199

Stock Compensation to Non-employees

During the year ended December 31, 2019, Piedmont adopted ASU No. 2018-07, *Stock Compensation (Topic 718),* Improvements to Non-employee Share-Based Payment Accounting ("ASU 2018-07"). The provisions of ASU 2018-07 align accounting for stock based compensation for non-employees for goods and services with existing accounting for similar compensation for employees. ASU 2018-07 requires an entity to remeasure liability-classified awards that have not been settled by the date of adoption and equity-classified awards for which a measurement date has not been established through a cumulative-effect adjustment to retained earnings as of January 1, 2019. Piedmont's only awards affected by ASU 2018-07 are equity-classified award grants to its independent board of directors, which have been historically recognized in the same manner prescribed by the newly adopted standard. As such, there was no cumulative effect adjustment recognized upon adoption.

Reclassifications

Although Piedmont has adopted the transitional amendment under ASC 842 described above, Piedmont has combined the presentation of rental income and tenant reimbursements in the accompanying consolidated statements of income for the prior periods to conform to the current period financial presentation under presentation guidance detailed in ASC 205 *Presentation of Financial Statements.* These amounts included the presentation of approximately $411.7 million of rental income and $92.7 million of tenant reimbursements for the year ended December 31, 2018 as rental and tenant reimbursement revenue of $504.4 million. Additionally, Piedmont presents approximately $455.1 million of rental income and $98.2 million of tenant reimbursements for the year ended December 31, 2017 as rental and tenant reimbursement revenue of $553.3 million. Further, the subtotal of Revenues less Expenses was removed within the accompanying consolidated statements of income for the years ended December 31, 2018 and 2017, respectively, to correct the prior period presentation. Finally, certain prior period amounts presented in the accompanying consolidated statements of income for the year ended December 31, 2017 were reclassified during the year ended December 31, 2018 to conform to the current period financial statement presentation. These amounts included: (i) the reclassification of approximately $19.2 million of parking, antennae license and fiber income that was previously included in rental and tenant reimbursement revenue into other property related income, as well as certain other miscellaneous revenue into rental and tenant reimbursement revenue and/or property management fee revenue in conjunction with the adoption of ASC 606 *Revenue from Contracts with Customers*; and (ii) the reclassification of $1.8 million of expense related to certain regional employees who are primarily engaged in the operation and management of properties that was previously included in general and administrative expense to property operating costs.

Other Recent Accounting Pronouncements

The FASB has issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, as well as ASU No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments,* and ASU No. 2019-05, *Financial Instruments- Credit Losses: Targeted Transition Relief* (collectively the "Credit Loss Amendments"). The provisions of the Credit Loss Amendments replace the "incurred loss" approach with an "expected loss" model for impairing trade and other receivables, held-to-maturity debt securities, net investment in leases, and off-balance-sheet credit exposures, which will generally result in earlier recognition of allowances for credit losses. Additionally, the provisions change the classification of credit losses related to available-for-sale securities to an allowance, rather than a direct reduction of the amortized cost of the securities. Further, the FASB has issued ASU No. 2018-19 *Codification Improvements to Topic 326, Financial Instruments - Credit Losses,* which is effective concurrent with the Credit Loss Amendments, and excludes receivables arising from operating leases from the scope of the Credit Loss Amendments. Both ASU 2018-19 and the Credit Loss Amendments are effective in the first quarter of 2020, with early adoption permitted as of January 1, 2019. Piedmont is currently evaluating the potential impact of adoption; however, substantially all of Piedmont's receivables are operating lease receivables and as such, Piedmont does not anticipate any material impact to its consolidated financial statements as a result of adoption of the Credit Loss Amendments and ASU 2018-19.

3. Acquisitions

During the year ended December 31, 2019, Piedmont acquired the following separately identifiable assets using proceeds available as a result of dispositions (see Note 13), proceeds from the $500 Million Unsecured 2018 Line of Credit, and cash on hand, as noted below:

Property	Metropolitan Statistical Area	Date of Acquisition	Ownership Percentage Acquired	Rentable Square Feet (Unaudited)	Percentage Leased as of Acquisition (Unaudited)	Net Contractual Purchase Price (in millions) [1]
Galleria 100	Atlanta, Georgia	May 6, 2019	100 %	414,293	91 %	$ 95.1
Galleria 400 and 600	Atlanta, Georgia	August 23, 2019	100 %	863,623	84 % [2]	$ 231.2

(1) Price for both acquisitions includes the purchase of adjacent parcels of developable land, totaling approximately 11.7 acres.
(2) Represents weighted-average leased percentage at acquisition of the Galleria 400 and 600 buildings.

4. Debt

The following table summarizes the terms of Piedmont's indebtedness outstanding as of December 31, 2019 and 2018, including net discounts/premiums and unamortized debt issuance costs (in thousands):

Facility [1]	Stated Rate	Effective Rate [2]	Maturity	Amount Outstanding as of 2019	Amount Outstanding as of 2018
Secured (Fixed)					
$35 Million Fixed-Rate Loan [3]	5.55 %	3.75 %	9/1/2021	**$ 28,687**	$ 29,706
$160 Million Fixed-Rate Loan [4]	3.48 %	3.58 %	7/5/2022	**160,000**	160,000
Net premium and unamortized debt issuance costs				**343**	645
Subtotal/Weighted Average [5]	3.79 %			**189,030**	190,351
Unsecured (Variable and Fixed)					
Amended and Restated $300 Million Unsecured 2011 Term Loan	LIBOR + 1.00%	3.20 % [7]	11/30/2021	**300,000**	300,000.0
$500 Million Unsecured 2018 Line of Credit [6]	LIBOR + 0.90%	2.70 %	9/30/2022 [8]	**—**	205,000
$350 Million Unsecured Senior Notes	3.40 %	3.43 %	6/01/2023	**350,000**	350,000
$400 Million Unsecured Senior Notes	4.45 %	4.10 %	3/15/2024	**400,000**	400,000
$250 Million Unsecured 2018 Term Loan	LIBOR + 1.60%	3.83 % [9]	3/31/2025	**250,000**	250,000
Discounts and unamortized debt issuance costs				**(7,626)**	(9,879)
Subtotal/Weighted Average [5]	3.76 %			**1,292,374**	1,495,121
Total/Weighted Average [5]	3.76 %			**$ 1,481,404**	$ 1,685,472

(1) Other than the $35 Million Fixed-Rate Loan, all of Piedmont's outstanding debt as of December 31, 2019 and 2018 is interest-only until maturity.

(2) Effective rate after consideration of settled or in-place interest rate swap agreements, issuance premiums/discounts, and/or fair market value adjustments upon assumption of debt.

(3) Collateralized by the 5 Wall Street building in Burlington, Massachusetts.

(4) Collateralized by the 1901 Market Street building in Philadelphia, Pennsylvania.

(5) Weighted average is based on contractual balance of outstanding debt and the stated or effectively fixed interest rates as of December 31, 2019.

(6) On a periodic basis, Piedmont may select from multiple interest rate options, including the prime rate and various-length LIBOR locks on all or a portion of the principal. All LIBOR selections are subject to an additional spread over the selected rate based on Piedmont's current credit rating.

(7) The facility has a stated variable rate; however, Piedmont has entered into interest rate swap agreements which effectively fix, exclusive of changes in Piedmont's credit rating, the rate to that shown as the effective rate through the maturity date of the interest rate swap agreements (see Note 5 for more detail).

(8) Piedmont may extend the term for up to one additional year (through two available six month extensions to a final extended maturity date of September 29, 2023) provided Piedmont is not then in default and upon payment of extension fees.

(9) The facility has a stated variable rate; however, Piedmont has entered into interest rate swap agreements which effectively fix, exclusive of changes to Piedmont's credit rating, $150 million of the principal balance to 4.11% through March 29, 2020, and $100 million of the principal balance to 4.21% from March 30, 2020 through the maturity date of the loan. For the remaining variable portion of the loan, Piedmont may periodically select from multiple interest rate options, including the prime rate and various-length LIBOR locks on all or a portion of the principal. All LIBOR selections are subject to an additional spread over the selected rate based on Piedmont's current credit rating. The rate presented is the weighted-average rate for the effectively fixed and variable portions of the debt outstanding as of December 31, 2019 (see Note 5 for more detail).

A summary of Piedmont's consolidated principal outstanding for aggregate debt maturities of its indebtedness as of December 31, 2019, is provided below (in thousands):

2020	$ 985
2021	327,702
2022	160,000
2023	350,000
2024	400,000
Thereafter	250,000
Total	$ 1,488,687

Piedmont's weighted-average interest rate as of December 31, 2019 and 2018, for the aforementioned borrowings was approximately 3.76% in both periods. Piedmont made interest payments on all indebtedness, including interest rate swap cash settlements, of approximately $64.0 million, $63.1 million, and $67.6 million during the years ended December 31, 2019, 2018, and 2017, respectively. Also, Piedmont capitalized interest of approximately $2.1 million, $1.4 million, and $0.2 million for the years ended December 31, 2019, 2018, and 2017, respectively. As of December 31, 2019, Piedmont believes it was in compliance with all financial covenants associated with its debt instruments. See Note 6 for a description of Piedmont's estimated fair value of debt as of December 31, 2019.

5. Derivative Instruments

Risk Management Objective of Using Derivatives

In addition to operational risks which arise in the normal course of business, Piedmont is exposed to economic risks such as interest rate, liquidity, and credit risk. In certain situations, Piedmont has entered into derivative financial instruments such as interest rate swap agreements and other similar agreements to manage interest rate risk exposure arising from current or future variable rate debt transactions. Interest rate swap agreements involve the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. Piedmont's objective in using interest rate derivatives is to add stability to interest expense and to manage its exposure to interest rate movements.

Cash Flow Hedges of Interest Rate Risk

Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for Piedmont making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

In January 2018, Piedmont repaid the $300 Million Unsecured 2013 Term Loan in advance of its maturity without penalty. In connection with this early debt prepayment, six interest rate swap agreements which were identified as cash flow hedges were also terminated, resulting in a receipt of approximately $0.8 million from Piedmont's counterparties for the settlement of the swaps. These proceeds were recorded in accumulated other comprehensive income/(loss) ("OCI") and were amortized as an offset to interest expense in the consolidated statement of income over the original term of the terminated interest rate swaps through January 2019. In connection with this termination Piedmont also recognized a non-cash loss of approximately $1.3 million due to it becoming probable that the hedged forecasted transactions would not occur, offset by a mark-to-market gain on these cash flow hedges of approximately $0.1 million for the year ended December 31, 2018.

As of December 31, 2019, Piedmont was party to interest rate swap agreements, all of which are designated as effective cash flow hedges and fully hedge the variable cash flows covering the entire outstanding balance of the Amended and Restated $300 Million Unsecured 2011 Term Loan, and $150 million of the $250 Million Unsecured 2018 Term Loan. The maximum length of time over which Piedmont is hedging its exposure to the variability in future cash flows for forecasted transactions is 63 months.

A detail of Piedmont's interest rate derivatives outstanding as of December 31, 2019 is as follows:

Interest Rate Derivatives:	Number of Swap Agreements	Associated Debt Instrument	Notional Amount (in millions)	Effective Date	Maturity Date
Interest rate swaps	3	Amended and Restated $300 Million Unsecured 2011 Term Loan	$ 300	11/22/2016	1/15/2020
Interest rate swaps	2	$250 Million Unsecured 2018 Term Loan	100	3/29/2018	3/31/2025
Interest rate swaps	1	$250 Million Unsecured 2018 Term Loan	50	3/29/2018	3/29/2020
Total			$ 450		

Piedmont presents its interest rate derivatives on its consolidated balance sheets on a gross basis as interest rate swap assets and interest rate swap liabilities. A detail of Piedmont's interest rate derivatives on a gross and net basis as of December 31, 2019 and 2018, respectively, is as follows (in thousands):

Interest rate swaps classified as:	December 31, 2019	December 31, 2018
Gross derivative assets	**$ —**	$ 1,199
Gross derivative liabilities	**(5,121)**	(839)
Net derivative asset/(liability)	**$ (5,121)**	$ 360

The gain/(loss) on Piedmont's interest rate derivatives, including previously settled forward swaps, that was recorded in OCI and the accompanying consolidated statements of income as a component of interest expense for the years ended December 31, 2019, 2018, and 2017, respectively, was as follows (in thousands):

Interest Rate Swaps in Cash Flow Hedging Relationships:	2019	2018	2017
Amount of gain/(loss) recognized in OCI	**$ (5,659)**	$ 692	$ 2,479
Amount of previously recorded gain/(loss) reclassified from OCI into Interest Expense	**$ 1,836**	$ 1,558	$ (3,502)
Amount of loss recognized on derivatives reclassified from OCI into Loss on Extinguishment of Debt	**$ —**	$ (1,258)	$ —
Total amount of Interest Expense presented in the consolidated statements of income	**$ (61,594)**	$ (61,023)	$ (68,124)
Total amount of Loss on Extinguishment of Debt presented in the consolidated statements of income [1]	**$ —**	$ (1,680)	$ —

(1) Includes the write-off of approximately $0.4 million of discounts and unamortized debt issuance costs associated with the repayment of the $300 Million Unsecured 2013 Term Loan in January 2018.

Piedmont estimates that approximately $0.3 million will be reclassified from OCI as a reduction to interest expense over the next twelve months. Piedmont did not recognize any hedge ineffectiveness on its cash flow hedges during the three years ended December 31, 2019.

See Note 6 for fair value disclosures of Piedmont's derivative instruments.

Credit-risk-related Contingent Features

Piedmont has agreements with its derivative counterparties that contain a provision whereby if Piedmont defaults on any of its indebtedness, including a default where repayment of the indebtedness has not been accelerated by the lender, then Piedmont could also be declared in default on its derivative obligations. If Piedmont were to breach any of the contractual provisions of the derivative contracts, it could be required to settle its liability obligations under the agreements at their termination value of the estimated fair values plus accrued interest, or approximately $5.3 million as of December 31, 2019. Additionally, Piedmont has rights of set-off under certain of its derivative agreements related to potential termination fees and amounts payable under the agreements, if a termination were to occur.

6. Fair Value Measurements of Financial Instruments

Piedmont considers its cash and cash equivalents, tenant receivables, restricted cash and escrows, accounts payable and accrued expenses, interest rate swap agreements, and debt to meet the definition of financial instruments. The following table sets forth the carrying and estimated fair value for each of Piedmont's financial instruments, as well as its level within the GAAP fair value hierarchy, as of December 31, 2019 and 2018, respectively (in thousands):

	December 31, 2019			December 31, 2018		
Financial Instrument	Carrying Value	Estimated Fair Value	Level Within Fair Value Hierarchy	Carrying Value	Estimated Fair Value	Level Within Fair Value Hierarchy
Assets:						
Cash and cash equivalents [(1)]	**$ 13,545**	**$ 13,545**	**Level 1**	$ 4,571	$ 4,571	Level 1
Tenant receivables, net [(1)]	**$ 8,226**	**$ 8,226**	**Level 1**	$ 10,800	$ 10,800	Level 1
Restricted cash and escrows [(1)]	**$ 1,841**	**$ 1,841**	**Level 1**	$ 1,463	$ 1,463	Level 1
Interest rate swaps	**$ —**	**$ —**	**Level 2**	$ 1,199	$ 1,199	Level 2
Liabilities:						
Accounts payable and accrued expenses [(1)]	**$ 50,049**	**$ 50,049**	**Level 1**	$ 47,328	$ 47,328	Level 1
Interest rate swaps	**$ 5,121**	**$ 5,121**	**Level 2**	$ 839	$ 839	Level 2
Debt, net	**$ 1,481,404**	**$ 1,536,687**	**Level 2**	$ 1,685,472	$ 1,698,213	Level 2

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

Piedmont's debt was carried at book value as of December 31, 2019 and 2018; however, Piedmont's estimate of its fair value is disclosed in the table above. Piedmont uses widely accepted valuation techniques including discounted cash flow analysis based on the contractual terms of the debt facilities, including the period to maturity of each instrument, and uses observable market-based inputs for similar debt facilities which have transacted recently in the market. Therefore, the estimated fair values determined are considered to be based on significant other observable inputs (Level 2). Scaling adjustments are made to these inputs to make them applicable to the remaining life of Piedmont's outstanding debt. Piedmont has not changed its valuation technique for estimating the fair value of its debt.

Piedmont's interest rate swap agreements presented above, and as further discussed in Note 5, are classified as "Interest rate swap" assets and liabilities in the accompanying consolidated balance sheets and were carried at estimated fair value as of December 31, 2019 and 2018. The valuation of these derivative instruments was determined using widely accepted valuation techniques including discounted cash flow analysis based on the contractual terms of the derivatives, including the period to maturity of each instrument, and uses observable market-based inputs, including interest rate curves and implied volatilities. Therefore, the estimated fair values determined are considered to be based on significant other observable inputs (Level 2). In addition, Piedmont considered both its own and the respective counterparties' risk of nonperformance in determining the estimated fair value of its derivative financial instruments by estimating the current and potential future exposure under the derivative financial instruments that both Piedmont and the counterparties were at risk for as of the valuation date. The credit risk of Piedmont and its counterparties was factored into the calculation of the estimated fair value of the interest rate swaps; however, as of December 31, 2019 and 2018, this credit valuation adjustment did not comprise a material portion of the estimated fair value. Therefore, Piedmont believes that any unobservable inputs used to determine the estimated fair values of its derivative financial instruments are not significant to the fair value measurements in their entirety, and does not consider any of its derivative financial instruments to be Level 3 assets or liabilities.

7. Impairment Loss on Real Estate Assets

Piedmont recorded the following impairment losses on real estate assets for the years ended December 31, 2019, 2018, and 2017 (in thousands):

	2019	2018	2017
The Dupree[1]	**$ 1,953**	$ —	$ —
600 Corporate Drive[2]	**7,000**	—	—
Disposal Group of 13 Assets[1]	—	—	46,461
Total impairment loss on real estate assets	**$ 8,953**	$ —	$ 46,461

(1) The impairment loss recognized was the result of reducing the asset's carrying value to reflect its fair value, estimated based on the net contract price negotiated with a unrelated, third-party purchaser.

(2) Management shortened the intended hold period for the property, and in doing so determined that the carrying value would not be recovered from the undiscounted future operating cash flows expected from the use of the asset and its eventual disposition. As a result, Piedmont recognized a loss on impairment calculated as the difference between the carrying value of the asset and the estimated fair value. The estimated fair value was determined using widely available market quotations for similar properties, as well as discounted cash flow analysis. Key assumptions used in the analysis were a capitalization and discount rate of 14% and estimated selling costs of 0.75%.

8. Commitments and Contingencies

Commitments Under Existing Lease Agreements

As a recurring part of its business, Piedmont is typically required under its executed lease agreements to fund tenant improvements, leasing commissions, and building improvements. In addition, certain agreements contain provisions that require Piedmont to issue corporate or property guarantees to provide funding for capital improvements or other financial obligations. As of December 31, 2019, Piedmont had one individually significant unrecorded tenant allowance commitment of approximately $57.4 million for the approximately 20-year, approximately 520,000 square foot renewal and expansion on behalf of Piedmont's largest tenant, the State of New York at the 60 Broad Street building in New York City. These commitments will be accrued and capitalized as the related expenditures are incurred.

Contingencies Related to Tenant Audits/Disputes

Certain lease agreements include provisions that grant tenants the right to engage independent auditors to audit their annual operating expense reconciliations. Such audits may result in different interpretations of language in the lease agreements from that made by Piedmont, which could result in requests for refunds of previously recognized tenant reimbursement revenues, resulting in financial loss to Piedmont. Piedmont recorded net recoveries of previously recognized reductions in rental and reimbursement revenues of $0.6 million related to tenant audits/disputes during the year ended December 31, 2019 and approximately $0.5 million and $0.3 million of reductions in rental and reimbursement revenues related to such tenant audits/disputes during the years ended December 31, 2018, and 2017, respectively.

Litigation

Piedmont is from time to time a party to legal proceedings, which arise in the ordinary course of its business. None of these ordinary course legal proceedings are reasonably likely to have a material adverse effect on results of operations or financial condition. Piedmont is not aware of any such legal proceedings contemplated by governmental authorities.

9. Related-Party Transactions

During the year ended December 31, 2019, Piedmont entered into employment or retirement agreements with certain of its current and former executive officers as more fully described in its Definitive Proxy Statement and Current Report on Form 8-K filed on March 19, 2019. Further, during the years ended December 31, 2019, 2018, and 2017, Piedmont recognized approximately $0.2 million, $0.3 million, and $0.1 million, respectively, of expense related to a consulting agreement with its former Chief Investment Officer. There were no other related-party transactions during the three years ended December 31, 2019.

10. Stock Based Compensation

Deferred Stock Awards

The Compensation Committee of Piedmont's Board of Directors has periodically granted deferred stock award units to all of Piedmont's employees and independent directors. Employee awards typically vest ratably over a multi-year period and independent director awards vest over one year. Certain management employees' long-term equity incentive program is split equally between the time-vested award units and a multi-year performance share program whereby the actual awards are contingent upon Piedmont's total stockholder return ("TSR") relative to a peer group of office REITs' TSR. The long-term equity incentives for these certain employees, as well as the peer group, is predetermined by the Board of Directors, advised by an outside compensation consultant. Any shares earned are awarded at the end of the multi-year performance period and vest upon award. The fair values of the multi-year performance share awards are estimated using a Monte Carlo valuation method.

A rollforward of Piedmont's equity based award activity for the year ended December 31, 2019 is as follows:

	Shares	Weighted-Average Grant Date Fair Value
Unvested and Potential Stock Awards as of December 31, 2018	1,227,483	$ 23.14
Deferred Stock Awards Granted	354,057	$ 21.02
Increase in Estimated Potential Share Awards based on Performance	271,450	$ 28.34
Performance Stock Awards Vested	(352,404) (1)	$ 25.83
Deferred Stock Awards Vested	(440,450) (1)	$ 19.66
Deferred Stock Awards Forfeited	(15,116)	$ 19.19
Unvested and Potential Stock Awards as of December 31, 2019	1,045,020	$ 25.15

(1) Includes performance share and deferred stock awards that were settled in cash in July 2019 in conjunction with the senior management transition that occurred on June 30, 2019.

The following table provides additional information regarding stock award activity during the years ended 2019, 2018, and 2017 (in thousands except for per share amounts):

	2019	2018	2017
Weighted-Average Grant Date Fair Value of Deferred Stock Granted During the Period	**$ 21.02**	$ 17.84	$ 21.38
Total Grant Date Fair Value of Deferred Stock Vested During the Period	**$ 8,658**	$ 6,378	$ 5,899
Share-based Liability Awards Paid During the Period (1)	**$ 6,683**	$ 2,947	$ 2,877

(1) Amounts reflect the issuance of performance share awards related to the 2016-18, 2015-17, and 2014-16 Performance Share Plans during the years ended December 31, 2019, 2018, and 2017 respectively, as well as performance share award liabilities settled in cash in July 2019 for retirement and separation associated with the senior management transition on June 30, 2019.

A detail of Piedmont's outstanding employee deferred stock awards as of December 31, 2019 is as follows:

Date of grant	Type of Award	Net Shares Granted [(1)]	Grant Date Fair Value	Vesting Schedule	Unvested and Potential Shares as of December 31, 2019
May 18, 2017	Deferred Stock Award	196,036	$ 21.38	Of the shares granted, 25% vested on the date of grant, and 25% vested or will vest on May 18, 2018, 2019, and 2020, respectively.	40,871
May 18, 2017	Fiscal Year 2017-2019 Performance Share Program	—	$ 30.45	Shares awarded, if any, will vest immediately upon determination of award in 2020.	153,368 (2)
May 17, 2018	Deferred Stock Award	271,169	$ 17.84	Of the shares granted, 25% vested on the date of grant, and 25% vested or will vest on May 17, 2019, 2020, and 2021, respectively.	108,031
May 17, 2018	Fiscal Year 2018-2020 Performance Share Program	—	$ 23.52	Shares awarded, if any, will vest immediately upon determination of award in 2021.	200,674 (2)
May 15, 2019	Deferred Stock Award-Board of Directors	25,974	$ 20.79	Of the shares granted, 100% will vest by May 15, 2020.	25,974
May 3, 2019	Deferred Stock Award	300,825	$ 21.04	Of the shares granted, 25% vested on the date of grant, and 25% vested or will vest on May 3, 2020, 2021, and 2022, respectively.	194,816
May 3, 2019	Fiscal Year 2019-2021 Performance Share Program	—	$ 29.43	Shares awarded, if any, will vest immediately upon determination of award in 2022.	321,286 (2)
Total					1,045,020

(1) Amounts reflect the total grant to employees and independent directors, net of shares surrendered upon vesting to satisfy required minimum tax withholding obligations through December 31, 2019.

(2) Estimated based on Piedmont's cumulative TSR for the respective performance period through December 31, 2019. Share estimates are subject to change in future periods based upon Piedmont's relative performance compared to its peer group of office REITs' TSR.

During the years ended December 31, 2019, 2018, and 2017, Piedmont recognized approximately $15.1 million, $9.7 million and $9.5 million of compensation expense related to stock awards, of which approximately $13.6 million, $8.6 million and $7.7 million, related to the amortization of unvested shares, respectively. During the year ended December 31, 2019, a total of 292,675 shares were issued to employees. As of December 31, 2019, approximately $3.5 million of unrecognized compensation cost related to unvested, annual deferred stock awards remained, which Piedmont will record in its consolidated statements of income over a weighted-average vesting period of approximately one year.

11. Earnings Per Share

There are no adjustments to "Net income applicable to Piedmont" for the diluted earnings per share computations.

Net income per share-basic is calculated as net income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Net income per share-diluted is calculated as net income available to common stockholders divided by the diluted weighted average number of common shares outstanding during the period, including unvested deferred stock awards. Diluted weighted average number of common shares reflects the potential dilution under the treasury stock method that would occur if the remaining unvested deferred stock awards vested and resulted in additional common shares outstanding. Unvested deferred stock awards which are determined to be anti-dilutive are not included in the calculation of diluted weighted average common shares. For each of the years ended December 31, 2019, 2018, and 2017, Piedmont excluded approximately 0.1 million of such anti-dilutive shares.

The following table reconciles the denominator for the basic and diluted earnings per share computations shown on the consolidated statements of income for the years ended December 31, 2019, 2018, and 2017, respectively (in thousands):

	2019	2018	2017
Weighted-average common shares—basic	**125,709**	130,161	145,044
Plus: Incremental weighted-average shares from time-vested deferred and performance stock awards	**473**	475	336
Weighted-average common shares—diluted	**126,182**	130,636	145,380

12. Operating Leases

Piedmont's real estate assets are leased to tenants under operating leases for which the terms vary, including certain provisions to extend the lease term, options for early terminations subject to specified penalties, and other terms and conditions as negotiated. Piedmont retains substantially all of the risks and benefits of ownership of the real estate assets leased to tenants. Amounts required as security deposits vary depending upon the terms of the respective leases and the creditworthiness of the tenant; however, generally they are not significant. Exposure to credit risk is limited to the extent that tenant receivables exceed this amount. Security deposits liabilities related to tenant leases are included in accounts payable, accrued expenses, and accrued capital expenditures in the accompanying consolidated balance sheets.

The future minimum rental income from Piedmont's investment in real estate assets under non-cancelable operating leases as of December 31, 2019 is presented below (in thousands):

Years ending December 31:		
2020	$	384,891
2021		378,312
2022		362,977
2023		329,490
2024		287,755
Thereafter		1,520,051
Total	$	3,263,476

Piedmont recognized the following fixed and variable lease payments, which together comprised rental and tenant reimbursement revenue in the accompanying consolidated statements of income for the years ended December 31, 2019, 2018, and 2017, respectively, as follows (in thousands):

		2019		2018		2017
Fixed payments	**$**	**418,246**	$	411,667	$	455,125
Variable payments		**93,659**		92,743		98,139
Total Rental and Tenant Reimbursement Revenue	**$**	**511,905**	$	504,410	$	553,264

Operating leases where Piedmont is the lessee relate primarily to office space in buildings owned by third parties. Upon adoption of ASC 842 on January 1, 2019, Piedmont recorded a right to use asset and corresponding lease liability of approximately $0.2 million using Piedmont's incremental borrowing rate as the lease discount rate. For the year ended December 31, 2019, Piedmont recognized approximately $0.1 million of operating lease costs. As of December 31, 2019, the weighted-average lease term of Piedmont's right of use assets is two years, and the weighted-average discount rate is 3.35%.

13. Property Dispositions and Assets Held for Sale

Property Dispositions

None of Piedmont's property dispositions during the three years ended December 31, 2019 met the criteria to be reported as discontinued operations. The operational results and gain on sale of real estate assets are presented as continuing operations in the accompanying consolidated statements of income, unless otherwise indicated below. Details of such properties sold are presented below (in thousands):

Buildings Sold	Location	Date of Sale	Gain on Sale of Real Estate Assets	Net Sales Proceeds
Sarasota Commerce Center II	Sarasota, Florida	June 16, 2017	$ 6,493	$ 23,090
Two Independence Square	Washington, D.C.	July 5, 2017	$ 109,381 [1]	$ 352,428
8560 Upland Drive	Denver, Colorado	July 27, 2017	$ 3,683	$ 12,334 [2]
2017 Disposition Portfolio	Various[3]	January 4, 2018	$ 45,275	$ 419,644 [4]
800 North Brand Boulevard	Glendale, California	November 29, 2018	$ 30,416	$ 155,583
One Independence Square	Washington, D.C.	February 28, 2019	$ 33,176	$ 163,623
The Dupree	Atlanta, Georgia	September 4, 2019	$ — [5]	$ 12,631
500 West Monroe Street	Chicago, Illinois	October 28, 2019	$ 157,739	$ 408,851

(1) Gain on sale of real estate assets during the year ended December 31, 2019 reflects an approximately $6.1 million adjustment of the gain on sale for the Two Independence Square building related to the reimbursement of certain previously disputed tenant improvement overages.

(2) Property was owned as part of an unconsolidated joint venture. As such, the gain on sale is presented as equity in income of unconsolidated joint ventures in the accompanying consolidated statement of income. Amounts shown above reflect Piedmont's approximately 72% ownership.

(3) The 2017 Disposition Portfolio is comprised of the following properties: Desert Canyon 300 in Phoenix, Arizona; Windy Point I & II in Schaumburg, Illinois; 2300 Cabot Drive in Lisle, Illinois; 1075 West Entrance Drive in Auburn Hills, Michigan; Auburn Hills Corporate Center in Auburn Hills, Michigan; 5301 Maryland Way in Brentwood, Tennessee; Suwanee Gateway One in Suwanee, Georgia; 5601 Hiatus Road in Tamarac, Florida; Piedmont Pointe I & II in Bethesda, Maryland; 1200 Crown Colony Drive in Quincy, Massachusetts; 2001 N.W. 64th Street in Fort Lauderdale, Florida, and 2120 West End Avenue in Nashville, Tennessee.

(4) Piedmont accepted a secured $3.2 million promissory note from the buyer for a portion of the sales price, which was subsequently paid in full by the borrower.

(5) As discussed in Note 7 above, Piedmont recognized an impairment loss prior to the sale of the property.

Assets Held for Sale

No properties met the criteria to be classified as held for sale as of December 31, 2019. However, during the fourth quarter of 2018, Piedmont entered into a binding, non-refundable contract with an unrelated third party buyer to sell the One Independence Square building, resulting in its reclassification as held for sale as of December 31, 2018. The sale closed on February 28, 2019. Additionally, during the year ended December 31, 2019, Piedmont reclassified the 500 West Monroe Street building as held for sale before its ultimate disposition on October 28, 2019. Therefore, the appropriate real estate related assets and liabilities related to One Independence Square and 500 West Monroe Street are classified as held for sale in the accompanying consolidated balance sheet as of December 31, 2018.

Details of amounts held for sale as of December 31, 2019 and 2018 are presented below (in thousands):

	December 31, 2019	December 31, 2018
Real estate assets held for sale, net:		
Land	$ —	$ 67,552
Building and improvements, less accumulated depreciation of $0 and $102,476 as of December 31, 2019, and 2018, respectively	—	261,463
Construction in progress	—	2,053
Total real estate assets held for sale, net	$ —	$ 331,068
Other assets held for sale, net:		
Straight-line rent receivables	$ —	$ 36,584
Prepaid expenses and other assets	—	1,095
Deferred lease costs, less accumulated amortization of $0 and $9,138 as of December 31, 2019 and 2018, respectively	—	23,554
Total other assets held for sale, net	$ —	$ 61,233
Other liabilities held for sale, net:		
Accrued expenses	$ —	$ 8,780

14. Supplemental Disclosures for the Statement of Consolidated Cash Flows

Certain noncash investing and financing activities for the years ended December 31, 2019, 2018, and 2017 (in thousands) are outlined below:

	2019	2018	2017
Accrued capital expenditures and deferred lease costs	**$ 38,366**	$ 10,854	$ 11,276
Change in accrued dividends and discount on dividend reinvestments	**$ (545)**	$ (74,828)	$ 71,267
Change in accrued share repurchases as part of an announced plan	**$ (4,417)**	$ 3,140	$ 1,276
Investment in consolidated joint venture	**$ —**	$ —	$ 63,026

The following table provides a reconciliation of cash, cash equivalents, and restricted cash and escrows as presented in the accompanying consolidated statement of cash flows for the years ended December 31, 2019, 2018, and 2017 to the consolidated balance sheets for the respective period (in thousands):

	2019	2018	2017
Cash and cash equivalents, beginning of period	**$ 4,571**	$ 7,382	$ 6,992
Restricted cash and escrows, beginning of period	**1,463**	1,373	1,212
Total cash, cash equivalents, and restricted cash and escrows shown in the consolidated statement of cash flows, beginning of period	**$ 6,034**	$ 8,755	$ 8,204
Cash and cash equivalents, end of period	**$ 13,545**	$ 4,571	$ 7,382
Restricted cash and escrows, end of period	**1,841**	1,463	1,373
Total cash, cash equivalents, and restricted cash and escrows shown in the consolidated statement of cash flows, end of period	**$ 15,386**	$ 6,034	$ 8,755

Amounts in restricted cash and escrows typically represent escrow accounts for the payment of real estate taxes which are required under certain of Piedmont's debt agreements; earnest money deposited by a buyer to secure the purchase of one of our properties; or security or utility deposits held for tenants as a condition of their lease agreement.

15. Income Taxes

Piedmont's income tax basis net income for the years ended December 31, 2019, 2018, and 2017, is calculated as follows (in thousands):

	2019	2018	2017
GAAP basis financial statement net income	**$ 229,261**	$ 130,296	$ 133,564
Increase/(decrease) in net income resulting from:			
Depreciation and amortization expense recognized for financial reporting purposes in excess of amounts recognized for income tax purposes	**10,381**	54,420	62,916
Rental income accrued for income tax purposes less than amounts for financial reporting purposes	**(34,804)**	(9,681)	(25,432)
Net amortization of above/below-market lease intangibles for income tax purposes in excess of amounts for financial reporting purposes	**(7,698)**	(7,453)	(6,041)
Gain on disposal of property for financial reporting purposes less than/(in excess of) amounts for income tax purposes	**(85,463)**	(36,241)	10,068
Taxable income or loss of Piedmont Washington Properties, Inc., in excess of/ (less than) amount for financial reporting purposes	**411**	(2,089)	176
Other expenses, including impairment loss on real estate assets, for financial reporting purposes in excess of/ (less than) amounts for income tax purposes	**23,127**	(37,394)	49,859
Taxable income for POH in excess of/(less than) amount for financial reporting purposes	**175**	(64)	(28)
Income tax basis net income, prior to dividends paid deduction	**$ 135,390**	$ 91,794	$ 225,082

For income tax purposes, dividends to common stockholders are characterized as ordinary income, capital gains, or as a return of a stockholder's invested capital. The composition of Piedmont's distributions per common share is presented below:

	2019	2018	2017
Ordinary income	**29.82 %**	100.00 %	53.61 %
Return of capital	**— %**	— %	— %
Capital gains	**70.18 %**	— %	46.39 %
	100 %	100 %	100 %

As of December 31, 2019 and 2018, the tax basis carrying value of Piedmont's total assets was approximately $3.3 billion and $3.6 billion, respectively.

Approximately $1.0 million and $2.4 million of accrued interest and penalties related to uncertain tax positions was included in accounts payable, accrued expenses, and accrued capital expenditures in the accompanying consolidated balance sheets as of December 31, 2019 and 2018, respectively. Piedmont recognized approximately $1.4 million of recoveries of previously recorded estimated accrued interest and penalties for both of the years ended December 31, 2019 and 2018, and $0.1 million of recoveries for the year ended December 31, 2017, related to such positions. The tax years 2016 to 2018 remain open to examination by various federal and state taxing authorities.

16. Quarterly Results (unaudited)

A summary of the unaudited quarterly financial information for the years ended December 31, 2019 and 2018, is presented below (in thousands, except per-share data):

	2019			
	First	**Second**	**Third**	**Fourth**
Revenues	**$ 132,936**	**$ 130,668**	**$ 135,421**	**$ 134,153**
Gain on sale of real estate assets	**$ 37,887**	**$ 1,451**	**$ 32**	**$ 157,640**
Net income	**$ 50,209**	**$ 8,152**	**$ 8,419**	**$ 162,476**
Net income applicable to Piedmont	**$ 50,208**	**$ 8,153**	**$ 8,422**	**$ 162,478**
Basic and diluted earnings per share	**$ 0.40**	**$ 0.06**	**$ 0.07**	**$ 1.29**
Dividends declared per share	**$ 0.21**	**$ 0.21**	**$ 0.21**	**$ 0.21**

	2018			
	First	**Second**	**Third**	**Fourth**
Revenues	$ 129,900	$ 129,174	$ 129,708	$ 137,185
Gain/(loss) on sale of real estate assets	$ 45,209	$ (23)	$ —	$ 30,505
Net income	$ 57,828	$ 10,940	$ 16,114	$ 45,409
Net income applicable to Piedmont	$ 57,830	$ 10,942	$ 16,114	$ 45,410
Basic earnings per share	$ 0.43	$ 0.09	$ 0.13	$ 0.35
Diluted earnings per share	$ 0.42	$ 0.09	$ 0.13	$ 0.35
Dividends declared per share	$ 0.21	$ 0.21	$ 0.21	$ 0.21

17. Guarantor and Non-Guarantor Financial Information

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

Condensed Consolidated Balance Sheets
As of December 31, 2019

(in thousands)	Piedmont (Parent) (Guarantor)	Piedmont OP (the Issuer)	Non-Guarantors	Eliminations	Consolidated
Assets:					
Real estate assets, at cost:					
Land	$ —	$ 36,094	$ 470,295	$ —	$ 506,389
Buildings and improvements, less accumulated depreciation	—	177,798	2,147,724	(300)	2,325,222
Intangible lease assets, less accumulated amortization	—	—	80,979	—	80,979
Construction in progress	—	2,412	27,508	—	29,920
Total real estate assets	—	216,304	2,726,506	(300)	2,942,510
Cash and cash equivalents	150	9,674	3,721	—	13,545
Tenant and straight-line receivables, net	—	16,450	142,894	—	159,344
Investment in subsidiaries	1,845,797	2,810,875	161	(4,656,833)	—
Notes receivable	—	810	144,500	(145,310)	—
Prepaid expenses, restricted cash, escrows, interest rate swaps, and other assets	—	6,180	21,112	(24)	27,268
Goodwill	—	98,918	—	—	98,918
Deferred lease costs, net	—	16,249	258,923	—	275,172
Total assets	$ 1,845,947	$ 3,175,460	$ 3,297,817	$ (4,802,467)	$ 3,516,757
Liabilities:					
Debt, net	$ —	$ 1,292,334	$ 334,380	$ (145,310)	$ 1,481,404
Accounts payable, accrued expenses, dividends payable, interest rate swaps and accrued capital expenditures	26,973	21,069	101,026	(24)	149,044
Deferred income	—	3,505	31,104	—	34,609
Intangible lease liabilities, net	—	—	32,726	—	32,726
Total liabilities	26,973	1,316,908	499,236	(145,334)	1,697,783
Equity:					
Total stockholders' equity	1,818,974	1,858,552	2,798,581	(4,657,133)	1,818,974
Total liabilities and stockholders' equity	$ 1,845,947	$ 3,175,460	$ 3,297,817	$ (4,802,467)	$ 3,516,757

Condensed Consolidated Balance Sheets
As of December 31, 2018

(in thousands)	Piedmont (Parent) (Guarantor)	Piedmont OP (the Issuer)	Non-Guarantors	Eliminations	Consolidated
Assets:					
Real estate assets, at cost:					
Land	$ —	$ 36,094	$ 434,338	$ —	$ 470,432
Buildings and improvements, less accumulated depreciation	—	176,927	1,944,943	(300)	2,121,570
Intangible lease assets, less accumulated amortization	—	—	77,676	—	77,676
Construction in progress	—	5,708	10,140	—	15,848
Real estate assets held for sale, net	—	—	331,068	—	331,068
Total real estate assets	—	218,729	2,798,165	(300)	3,016,594
Cash and cash equivalents	150	—	4,939	(518)	4,571
Tenant and straight-line rent receivables	—	16,143	131,419	—	147,562
Investment in subsidiaries	1,744,122	2,704,337	166	(4,448,625)	—
Notes receivable	—	810	144,500	(145,310)	—
Prepaid expenses, restricted cash, escrows, interest swaps, and other assets	42	5,682	21,653	(24)	27,353
Goodwill	—	98,918	—	—	98,918
Deferred lease costs, net	—	15,158	221,040	—	236,198
Other assets held for sale, net	—	—	61,233	—	61,233
Total assets	$ 1,744,314	$ 3,059,777	$ 3,383,115	$ (4,594,777)	$ 3,592,429
Liabilities:					
Debt, net	$ —	$ 1,495,065	$ 335,717	$ (145,310)	$ 1,685,472
Accounts payable, accrued expenses, dividends payable, interest rate swaps, and accrued capital expenditures	32,174	15,382	74,536	(542)	121,550
Deferred income	—	2,274	26,505	—	28,779
Intangible lease liabilities, net	—	—	35,708	—	35,708
Other liabilities held for sale	—	—	8,780	—	8,780
Total liabilities	32,174	1,512,721	481,246	(145,852)	1,880,289
Equity:					
Total stockholders' equity	1,712,140	1,547,056	2,901,869	(4,448,925)	1,712,140
Total liabilities and stockholders' equity	$ 1,744,314	$ 3,059,777	$ 3,383,115	$ (4,594,777)	$ 3,592,429

Condensed Consolidated Statements of Income
For the year ended December 31, 2019

(in thousands)	Piedmont (Parent) (Guarantor)	Piedmont OP (the Issuer)	Non-Guarantors	Eliminations	Consolidated
Revenues:					
Rental and tenant reimbursement revenue	$ —	$ 46,669	$ 468,070	$ (2,834)	$ 511,905
Property management fee revenue	—	—	19,362	(15,964)	3,398
Other property related income	—	158	17,717	—	17,875
	—	46,827	505,149	(18,798)	533,178
Expenses:					
Property operating costs	—	21,314	208,864	(18,798)	211,380
Depreciation	—	12,171	93,844	—	106,015
Amortization	—	1,940	74,726	—	76,666
Impairment loss on real estate assets	—	7,000	1,953	—	8,953
General and administrative	218	6,716	30,961	—	37,895
	218	49,141	410,348	(18,798)	440,909
Other income (expense):					
Interest expense	—	(54,721)	(14,408)	7,535	(61,594)
Other income/(expense)	—	188	8,918	(7,535)	1,571
Gain on sale of real estate assets	—	113	196,897	—	197,010
	—	(54,420)	191,407	—	136,987
Income/(loss) before consolidated subsidiaries	(218)	(56,734)	286,208	—	229,256
Income from subsidiaries	229,479	255,325	—	(484,804)	—
Net income	229,261	198,591	286,208	(484,804)	229,256
Net loss applicable to noncontrolling interest	—	—	5	—	5
Net income applicable to Piedmont	$ 229,261	$ 198,591	$ 286,213	$ (484,804)	$ 229,261

Condensed Consolidated Statements of Income
For the year ended December 31, 2018

(in thousands)	Piedmont (Parent) (Guarantor)	Piedmont OP (the Issuer)	Non-Guarantors	Eliminations	Consolidated
Revenues:					
Rental and tenant reimbursement revenue	$ —	$ 44,710	$ 462,173	$ (2,473)	$ 504,410
Property management fee revenue	—	—	17,118	(15,668)	1,450
Other property related income	—	130	19,977	—	20,107
	—	44,840	499,268	(18,141)	525,967
Expenses:					
Property operating costs	—	19,583	207,896	(18,141)	209,338
Depreciation	—	11,514	96,442	—	107,956
Amortization	—	1,990	61,305	—	63,295
General and administrative	289	6,576	22,848	—	29,713
	289	39,663	388,491	(18,141)	410,302
Other income (expense):					
Interest expense	—	(54,095)	(14,558)	7,630	(61,023)
Other income/(expense)	—	144	9,124	(7,630)	1,638
Loss on extinguishment of debt	—	(1,680)	—	—	(1,680)
Gain on sale of real estate assets	—	1,417	74,274	—	75,691
	—	(54,214)	68,840	—	14,626
Income/(loss) before consolidated subsidiaries	(289)	(49,037)	179,617	—	130,291
Income from subsidiaries	130,585	178,648	—	(309,233)	—
Net income	130,296	129,611	179,617	(309,233)	130,291
Net loss applicable to noncontrolling interest	—	—	5	—	5
Net income applicable to Piedmont	$ 130,296	$ 129,611	$ 179,622	$ (309,233)	$ 130,296

Condensed Consolidated Statements of Income

For the year ended December 31, 2017

(in thousands)	Piedmont (Parent) (Guarantor)	Piedmont OP (the Issuer)	Non-Guarantors	Eliminations	Consolidated
Revenues:					
Rental and tenant reimbursement revenue	$ —	$ 54,109	$ 501,420	$ (2,265)	$ 553,264
Property management fee revenue	—	—	18,205	(16,470)	1,735
Other property related income	—	144	19,030	—	19,174
	—	54,253	538,655	(18,735)	574,173
Expenses:					
Property operating costs	—	22,805	218,371	(18,735)	222,441
Depreciation	—	12,995	106,293	—	119,288
Amortization	—	3,049	72,318	—	75,367
Impairment loss	—	87	46,374	—	46,461
General and administrative	347	6,443	22,529	—	29,319
	347	45,379	465,885	(18,735)	492,876
Other income (expense):					
Interest expense	—	(56,769)	(26,715)	15,360	(68,124)
Other income/(expense)	—	9,168	6,849	(15,360)	657
Equity in income of unconsolidated joint ventures	—	3,845	—	—	3,845
Gain on sale of real estate assets	—	6,431	109,443	—	115,874
	—	(37,325)	89,577	—	52,252
Net income/(loss)	(347)	(28,451)	162,347	—	133,549
Net loss applicable to noncontrolling interest	—	—	15	—	15
Net income/(loss) applicable to Piedmont	$ (347)	$ (28,451)	$ 162,362	$ —	$ 133,564

Consolidating Statements of Comprehensive Income

For the Year Ended December 31, 2019

(in thousands)	Piedmont (Parent) (Guarantor)	Piedmont OP (the Issuer)	Non-Guarantors	Eliminations	Consolidated
Net income	$ 229,261	$ 198,591	$ 286,213	$ (484,804)	$ 229,261
Effective portion of gain/(loss) on derivative instruments that are designated and qualify as cash flow hedges	(5,659)	(5,659)	—	5,659	(5,659)
Plus: Reclassification of net (gain)/loss included in net income	(1,836)	(1,836)	—	1,836	(1,836)
Other comprehensive income	(7,495)	(7,495)	—	7,495	(7,495)
Comprehensive income	$ 221,766	$ 191,096	$ 286,213	$ (477,309)	$ 221,766

Consolidating Statements of Comprehensive Income

For the Year Ended December 31, 2018

(in thousands)	Piedmont (Parent) (Guarantor)	Piedmont OP (the Issuer)	Non-Guarantors	Eliminations	Consolidated
Net income	$ 130,296	$ 129,611	$ 179,622	$ (309,233)	$ 130,296
Effective portion of gain/(loss) on derivative instruments that are designated and qualify as cash flow hedges	692	692	—	(692)	692
Plus: Reclassification of net (gain)/loss included in net income	(300)	(300)	—	300	(300)
Other comprehensive income	392	392	—	(392)	392
Comprehensive income	$ 130,688	$ 130,003	$ 179,622	$ (309,625)	$ 130,688

Condensed Consolidated Statements of Cash Flows

For the year ended December 31, 2019

(in thousands)	Piedmont (Parent) (Guarantor)	Piedmont OP (the Issuer)	Non-Guarantors	Eliminations	Consolidated
Net Cash Provided By Operating Activities	$ 236,214	$ 220,068	$ 236,477	$ (484,275)	$ 208,484
Cash Flows from Investing Activities:					
Investment in real estate assets and intangibles	—	(16,020)	(413,733)	—	(429,753)
Net sales proceeds from wholly-owned properties	—	113	589,654	—	589,767
Deferred lease costs paid	—	(3,220)	(22,419)	—	(25,639)
Distributions from subsidiaries	(108,918)	19,287	—	89,631	—
Net cash provided by/(used in) investing activities	(108,918)	160	153,502	89,631	134,375
Cash Flows from Financing Activities:					
Debt issuance costs paid	—	(151)	—	—	(151)
Proceeds from debt	—	592,000	—	—	592,000
Repayments of debt	—	(797,000)	(1,019)	—	(798,019)
Costs of issuance of common stock	(710)	—	—	—	(710)
Value of shares withheld to pay tax obligations related to employee stock compensation	(3,295)	—	—	—	(3,295)
Repurchases of common stock as part of announced plan	(16,899)	—	—	—	(16,899)
Distributions	(106,392)	(5,420)	(389,783)	395,162	(106,433)
Net cash used in financing activities	(127,296)	(210,571)	(390,802)	395,162	(333,507)
Net increase/(decrease) in cash, cash equivalents, and restricted cash and escrows	—	9,657	(823)	518	9,352
Cash, cash equivalents, and restricted cash and escrows, beginning of year	150	34	6,368	(518)	6,034
Cash, cash equivalents, and restricted cash and escrows, end of year	$ 150	$ 9,691	$ 5,545	$ —	$ 15,386

Condensed Consolidated Statements of Cash Flows
For the year ended December 31, 2018

(in thousands)	Piedmont (Parent) (Guarantor)	Piedmont OP (the Issuer)	Non-Guarantors	Eliminations	Consolidated
Net Cash Provided By Operating Activities	$ 135,755	$ 141,293	$ 235,562	$ (309,741)	$ 202,869
Cash Flows from Investing Activities:					
Investment in real estate assets and intangibles	—	(14,479)	(209,540)	—	(224,019)
Intercompany note receivable	—	88,000	—	(88,000)	—
Net sales proceeds from wholly-owned properties	—	36,572	538,655	—	575,227
Note receivable issuance	—	—	(3,200)	—	(3,200)
Note receivable payment	—	—	3,200	—	3,200
Deferred lease costs paid	—	(3,090)	(24,340)	—	(27,430)
Distributions from subsidiaries	349,135	5,405	—	(354,540)	—
Net cash provided by investing activities	349,135	112,408	304,775	(442,540)	323,778
Cash Flows from Financing Activities:					
Debt issuance costs paid	—	(1,040)	—	—	(1,040)
Proceeds from debt	—	977,062	—	—	977,062
Repayments of debt	—	(1,019,000)	(1,455)	—	(1,020,455)
Intercompany note payable	—	—	(88,000)	88,000	—
Costs of issuance of common stock	(85)	—	—	—	(85)
Value of shares withheld to pay tax obligations related to employee stock compensation	(2,219)	—	—	—	(2,219)
Repurchases of common stock as part of announced plan	(298,538)	—	—	—	(298,538)
Distributions	(184,048)	(214,596)	(449,212)	663,763	(184,093)
Net cash used in financing activities	(484,890)	(257,574)	(538,667)	751,763	(529,368)
Net increase/(decrease) in cash, cash equivalents, and restricted cash and escrows	—	(3,873)	1,670	(518)	(2,721)
Cash, cash equivalents, and restricted cash and escrows, beginning of year	150	3,907	4,698	—	8,755
Cash, cash equivalents, and restricted cash and escrows, end of year	$ 150	$ 34	$ 6,368	$ (518)	$ 6,034

Condensed Consolidated Statements of Cash Flows

For the year ended December 31, 2017

(in thousands)	Piedmont (Parent) (Guarantor)	Piedmont OP (the Issuer)	Non-Guarantors	Eliminations	Consolidated
Net Cash Provided/(Used In) by Operating Activities	$ 5,497	$ (18,989)	$ 256,297	$ —	$ 242,805
Cash Flows from Investing Activities:					
Investment in real estate assets, consolidated joint venture, and real estate related intangibles, net	—	(1,614)	(113,479)	—	(115,093)
Intercompany note receivable	—	100	(48,710)	48,610	—
Net sales proceeds from wholly-owned properties	—	23,028	352,490	—	375,518
Net sales proceeds received from unconsolidated joint ventures	—	12,334	—	—	12,334
Investments in unconsolidated joint ventures	—	(1,162)	—	—	(1,162)
Deferred lease costs paid	—	(4,081)	(26,904)	—	(30,985)
Net cash provided by investing activities	—	28,605	163,397	48,610	240,612
Cash Flows from Financing Activities:					
Debt issuance costs paid	—	(132)	—	—	(132)
Proceeds from debt	—	180,000	—	—	180,000
Repayments of debt	—	(335,000)	(141,401)	—	(476,401)
Intercompany note payable	—	(14,289)	62,899	(48,610)	—
Costs of issuance of common stock	(182)	—	—	—	(182)
Value of shares withheld to pay tax obligations related to employee stock compensation	(3,403)	—	—	—	(3,403)
Repurchases of common stock as part of announced plan	(60,474)	—	—	—	(60,474)
(Distributions to)/repayments from affiliates	180,791	160,019	(340,810)	—	—
Dividends paid and discount on dividend reinvestments	(122,229)	—	(45)	—	(122,274)
Net cash used in financing activities	(5,497)	(9,402)	(419,357)	(48,610)	(482,866)
Net increase in cash, cash equivalents, and restricted cash and escrows	—	214	337	—	551
Cash, cash equivalents, and restricted cash and escrows, beginning of year	150	3,693	4,361	—	8,204
Cash, cash equivalents, and restricted cash and escrows, end of year	$ 150	$ 3,907	$ 4,698	$ —	$ 8,755

18. Subsequent events

Declaration of Dividend for the First Quarter 2020

On February 4, 2020, the board of directors of Piedmont declared a dividend for the first quarter 2020 in the amount of $0.21 per share on its common stock to stockholders of record as of the close of business on February 28, 2020, payable on March 20, 2020.

$150 Million Term Loan

On February 10, 2020, Piedmont entered into an agreement with Truist Bank whereby Truist will extend Piedmont a $150 million term loan at LIBOR plus 95 basis points. The loan was unfunded at closing and can be funded in up to four draws at Piedmont's discretion. The original term of the commitment period is six months, with the option to extend for two additional three month periods upon payment of applicable extension fees.

Acquisition of The Galleria Office Towers

On February 12, 2020, Piedmont purchased three Class A office towers in Dallas, Texas (the "Dallas Galleria Office Towers") totaling approximately 1.4 million square feet of office space, associated parking garages, and a 1.9-acre land parcel located within a 3.7 million square foot mixed-use development that includes the Galleria Dallas retail destination, encompassing over 30 dining options and 1.5 million square feet of shopping, along with the 448-room Westin Galleria Hotel, for a net purchase price of $396 million, or approximately $275 per square foot. The acquisition was initially funded with cash on hand and borrowings under the Company's $500 Million Unsecured 2018 Line of Credit; however, Piedmont anticipates ultimately funding the majority of the acquisition using proceeds from the anticipated sale of 1901 Market in Philadelphia, Pennsylvania.

Piedmont Office Realty Trust, Inc.
Schedule III - Real Estate and Accumulated Depreciation
December 31, 2019
(dollars in thousands)

				Initial Cost to Piedmont				Gross Amount of Which Carried at December 31, 2019						
Description[(1)]	Location	Ownership Percentage	Encumbrances	Land	Buildings and Improvements	Total[(2)]	Costs Capitalized Subsequent to Acquisition[(3)]	Land	Buildings and Improvements	Total[(4)]	Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on which Depreciation and Amortization in Latest Statements of Comprehensive Income is Computed[(5)] (in years)
1430 ENCLAVE PARKWAY	Houston, TX	100 %	None	7,100	37,915	45,015	5,516	5,506	45,025	50,531	20,078	1994	12/21/2000	0 - 40
CRESCENT RIDGE II	Minnetonka, MN	100 %	None	7,700	45,154	52,854	12,099	8,021	56,932	64,953	27,328	2000	12/21/2000	0 - 40
90 CENTRAL STREET	Boxborough, MA	100 %	None	3,642	29,497	33,139	2,059	3,642	31,556	35,198	13,992	2001	5/3/2002	0 - 40
6031 CONNECTION DRIVE	Irving, TX	100 %	None	3,157	43,656	46,813	5,310	3,157	48,966	52,123	21,764	1999	8/15/2002	0 - 40
6021 CONNECTION DRIVE	Irving, TX	100 %	None	3,157	42,662	45,819	11,194	3,157	53,856	57,013	23,940	2000	8/15/2002	0 - 40
6011 CONNECTION DRIVE	Irving, TX	100 %	None	3,157	29,034	32,191	18,451	3,157	47,485	50,642	13,932	1999	8/15/2002	0 - 40
US BANCORP CENTER	Minneapolis, MN	100 %	None	11,138	175,629	186,767	31,031	11,138	206,660	217,798	84,479	2000	5/1/2003	0 - 40
GLENRIDGE HIGHLANDS TWO	Atlanta, GA	100 %	None	6,662	69,031	75,693	(16,167)	6,662	52,864	59,526	25,404	2000	8/1/2003	0 - 40
200 BRIDGEWATER CROSSING	Bridgewater, NJ	100 %	None	8,182	84,160	92,342	(11,288)	8,328	72,726	81,054	30,985	2002	8/14/2003	0 - 40
400 VIRGINIA AVE	Washington, DC	100 %	None	22,146	49,740	71,886	1,579	22,146	51,319	73,465	20,412	1985	11/19/2003	0 - 40
4250 NORTH FAIRFAX DRIVE	Arlington, VA	100 %	None	13,636	70,918	84,554	13,783	13,636	84,701	98,337	32,525	1998	11/19/2003	0 - 40
1225 EYE STREET	Washington, DC	98.1 %	None	21,959	47,602	69,561	9,139	21,959	56,741	78,700	23,701	1986	11/19/2003	0 - 40
1201 EYE STREET	Washington, DC	98.6 %	None	31,985	63,139	95,124	9,416	31,985	72,555	104,540	26,779	2001	11/19/2003	0 - 40
1901 MARKET STREET	Philadelphia, PA	100 %	160,000	13,584	166,683	180,267	53,684	20,829	213,122	233,951	94,261	1987	12/18/2003	0 - 40
60 BROAD STREET	New York, NY	100 %	None	32,522	168,986	201,508	12,105	60,708	152,905	213,613	58,955	1962	12/31/2003	0 - 40
1414 MASSACHUSETTS AVENUE	Cambridge, MA	100 %	None	4,210	35,821	40,031	(8,030)	4,365	27,636	32,001	11,120	1873	1/8/2004	0 - 40
ONE BRATTLE SQUARE	Cambridge, MA	100 %	None	6,974	64,940	71,914	(23,111)	7,113	41,690	48,803	16,976	1991	2/26/2004	0 - 40
600 CORPORATE DRIVE	Lebanon, NJ	100 %	None	3,934	—	3,934	9,281	3,934	9,281	13,215	8,775	2005	3/16/2004	0 - 40
3100 CLARENDON BOULEVARD	Arlington, VA	100 %	None	11,700	69,705	81,405	46,824	11,791	116,438	128,229	34,112	1987	12/9/2004	0 - 40

				Initial Cost				Gross Amount of Which Carried at December 31, 2019						
Description[1]	Location	Ownership Percentage	Encumbrances	Land	Buildings and Improvements	Total[2]	Costs Capitalized Subsequent to Acquisition[3]	Land	Buildings and Improvements	Total[4]	Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on which Depreciation and Amortization in Latest Statements of Comprehensive Income is Computed[5] (in years)
400 BRIDGEWATER CROSSING	Bridgewater, NJ	100 %	None	10,400	71,052	81,452	(14,328)	10,400	56,724	67,124	19,542	2002	2/17/2006	0 - 40
LAS COLINAS CORPORATE CENTER I	Irving, TX	100 %	None	3,912	18,830	22,742	(3,459)	2,543	16,740	19,283	6,961	1998	8/31/2006	0 - 40
LAS COLINAS CORPORATE CENTER II	Irving, TX	100 %	None	4,496	29,881	34,377	(3,484)	2,543	28,350	30,893	11,032	1998	8/31/2006	0 - 40
TWO PIERCE PLACE	Itasca, IL	100 %	None	4,370	70,632	75,002	13,155	8,156	80,001	88,157	23,285	1991	12/7/2006	0 - 40
ONE MERIDIAN CROSSINGS	Richfield, MN	100 %	None	2,919	24,398	27,317	460	2,919	24,858	27,777	6,456	1997	10/1/2010	0 - 40
TWO MERIDIAN CROSSINGS	Richfield, MN	100 %	None	2,661	25,742	28,403	766	2,661	26,508	29,169	6,964	1998	10/1/2010	0 - 40
THE MEDICI	Atlanta, GA	100 %	None	1,780	11,510	13,290	5,473	1,780	16,983	18,763	5,561	2008	6/7/2011	0 - 40
225 PRESIDENTIAL WAY	Boston, MA	100 %	None	3,626	36,916	40,542	(5,419)	3,612	31,511	35,123	6,479	2001	9/13/2011	0 - 40
235 PRESIDENTIAL WAY	Boston, MA	100 %	None	4,154	44,048	48,202	(6,851)	4,138	37,213	41,351	7,691	2000	9/13/2011	0 - 40
400 TOWNPARK	Lake Mary, FL	100 %	None	2,570	20,555	23,125	5,487	2,570	26,042	28,612	6,900	2008	11/10/2011	0 - 40
ARLINGTON GATEWAY	Arlington, VA	100 %	None	36,930	129,070	166,000	(525)	36,930	128,545	165,475	23,215	2005	3/4/2013	0 - 40
5 & 15 WAYSIDE ROAD	Burlington, MA	100 %	None	7,190	55,445	62,635	7,432	7,190	62,877	70,067	12,914	1999 / 2001	3/22/2013	0 - 40
6565 MACARTHUR BOULEVARD	Irving, TX	100 %	None	4,820	37,767	42,587	209	4,820	37,976	42,796	7,052	1998	12/5/2013	0 - 40
ONE LINCOLN PARK	Dallas, TX	100 %	None	6,640	44,810	51,450	1,250	6,640	46,060	52,700	9,352	1999	12/20/2013	0 - 40
161 CORPORATE CENTER	Irving, TX	100 %	None	2,020	10,680	12,700	(239)	2,020	10,441	12,461	2,894	1998	12/30/2013	0 - 40
5 WALL STREET	Burlington, MA	100 %	28,687	9,560	50,276	59,836	(3,722)	9,560	46,554	56,114	7,357	2008	6/27/2014	0 - 40
1155 PERIMETER CENTER WEST	Atlanta, GA	100 %	None	5,870	66,849	72,719	(2,452)	5,870	64,397	70,267	10,589	2000	8/28/2014	0 - 40
500 TOWNPARK	Lake Mary, FL	100 %	None	2,147	21,925	24,072	4,092	2,147	26,017	28,164	2,582	2016	N/A	0 - 40
PARK PLACE ON TURTLE CREEK	Dallas, TX	100 %	None	4,470	38,048	42,518	3,959	4,470	42,007	46,477	7,615	1986	1/16/2015	0 - 40

Description[1]	Location	Ownership Percentage	Encumbrances	Initial Cost: Land	Initial Cost: Buildings and Improvements	Initial Cost: Total[2]	Costs Capitalized Subsequent to Acquisition[3]	Gross Amount of Which Carried at December 31, 2019: Land	Gross Amount of Which Carried at December 31, 2019: Buildings and Improvements	Gross Amount of Which Carried at December 31, 2019: Total[4]	Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on which Depreciation and Amortization in Latest Statements of Comprehensive Income is Computed[5] (in years)
80 CENTRAL STREET	Boxborough, MA	100 %	None	1,980	8,930	10,910	3,021	1,980	11,951	13,931	1,250	1988	7/24/2015	0 - 40
ENCLAVE PLACE	Houston, TX	100 %	None	1,890	60,094	61,984	35,631	1,890	95,725	97,615	7,078	2015	N/A	0 - 40
SUNTRUST CENTER	Orlando, FL	100 %	None	11,660	139,015	150,675	6,612	11,660	145,627	157,287	18,244	1988	11/4/2015	0 - 40
GALLERIA 300	Atlanta, GA	100 %	None	4,000	73,554	77,554	5,145	4,000	78,699	82,699	12,434	1987	11/4/2015	0 - 40
GLENRIDGE HIGHLANDS ONE	Atlanta, GA	100 %	None	5,960	50,013	55,973	1,515	5,960	51,528	57,488	7,794	1998	11/24/2015	0 - 40
CNL CENTER I	Orlando, FL	99 %	None	6,470	77,858	84,328	(2,089)	6,470	75,769	82,239	9,175	1999	8/1/2016	0 - 40
CNL CENTER II	Orlando, FL	99 %	None	4,550	55,609	60,159	771	4,550	56,380	60,930	7,582	2006	8/1/2016	0 - 40
ONE WAYSIDE ROAD	Boston, MA	100 %	None	6,240	57,124	63,364	(4,471)	6,240	52,653	58,893	4,872	1997 / 2008	8/10/2016	0 - 40
GALLERIA 200	Atlanta, GA	100 %	None	6,470	55,825	62,295	3,757	6,470	59,582	66,052	6,596	1984	10/7/2016	0 - 40
750 WEST JOHN CARPENTER FREEWAY	Irving, TX	100 %	None	7,860	36,303	44,163	2,034	7,860	38,337	46,197	6,284	1999	11/30/2016	0 - 40
NORMAN POINTE I	Bloomington, MN	100 %	None	4,358	22,322	26,680	1,191	4,360	23,511	27,871	2,064	2000	12/28/2017	0 - 40
501 WEST CHURCH STREET	Orlando, FL	100 %	None	2,805	28,119	30,924	—	2,805	28,119	30,924	2,215	2003	2/23/2018	0 - 40
9320 EXCELSIOR BOULEVARD	Hopkins, MN	100 %	None	3,760	35,289	39,049	(553)	3,707	34,789	38,496	2,469	2010	10/25/2018	0 - 40
25 BURLINGTON MALL ROAD	Burlington, MA	100 %	None	10,230	54,787	65,017	(1,002)	10,230	53,785	64,015	5,203	1987	12/12/2018	0 - 40
GALLERIA 100	Atlanta, GA	100 %	None	7,285	72,449	79,734	946	7,285	73,395	80,680	3,863	1982	5/6/2019	0 - 40
GALLERIA 400	Atlanta, GA	100 %	None	5,687	92,915	98,602	203	5,687	93,118	98,805	1,614	1999	8/23/2019	0 - 40
GALLERIA 600	Atlanta, GA	100 %	None	5,418	81,003	86,421	558	5,418	81,561	86,979	1,915	2002	8/23/2019	0 - 40
PIEDMONT POWER, LLC[6]	Bridgewater, NJ	100 %	None	—	79	79	2,740	—	2,819	2,819	960	N/A	12/20/2011	0 - 40
UNDEVELOPED LAND PARCELS[7]	Various	100 %	None	40,503	—	40,503	(601)	37,614	2,288	39,902	206	N/A	Various	N/A
Total—All Properties				**$ 474,206**	**$ 3,103,994**	**$ 3,578,200**	**$ 240,087**	**$ 506,389**	**$ 3,311,898**	**$ 3,818,287**	**$ 875,777**			

(1) All of Piedmont's properties are office buildings, except for the separately described Undeveloped Land Parcels and solar equipment labeled Piedmont Power, LLC.

(2) Total initial cost excludes purchase price allocated to intangible lease origination costs and intangible lease liabilities.

(3) Includes improvements and carrying costs capitalized subsequent to acquisition, as well as reductions related to write-offs of fully depreciated/amortized capitalized assets and impairment losses on real estate assets.

(4) The net carrying value of Piedmont's total assets for federal income tax purposes is approximately $3.3 billion.

(5) Piedmont's assets are depreciated or amortized using the straight-line method over the useful lives of the assets by class. Generally, Tenant Improvements and Lease Intangibles are amortized over the lease term. Generally, Building Improvements are depreciated over 5 - 25 years, Land Improvements are depreciated over 20 - 25 years, and Buildings are depreciated over 40 years.

(6) Represents solar panels at the 400 Bridgewater Crossing building.

(7) Undeveloped Land Parcels includes land parcels that Piedmont may develop in the future.

Piedmont Office Realty Trust, Inc.
Schedule III - Real Estate and Accumulated Depreciation
December 31, 2019
(dollars in thousands)

	2019	2018	2017
Real Estate:			
Balance at the beginning of the year	**$ 3,924,531**	$4,438,209	$4,800,025
Additions to/improvements of real estate	**406,833**	206,442	85,368
Assets disposed	**(452,672)**	(675,692)	(353,911) (1)
Assets impaired	**(8,953)** (3)	—	(46,461) (2)
Write-offs of intangible assets (4)	**(36,429)**	(33,067)	(37,188)
Write-offs of fully depreciated/amortized assets	**(15,023)**	(11,361)	(9,624)
Balance at the end of the year	**$ 3,818,287**	$3,924,531	$4,438,209
Accumulated Depreciation and Amortization:			
Balance at the beginning of the year	**$ 907,937**	$1,053,467	$1,058,704
Depreciation and amortization expense	**132,600**	128,456	145,837
Assets disposed	**(113,309)**	(229,558)	(104,262) (1)
Write-offs of intangible assets (4)	**(36,428)**	(33,067)	(37,188)
Write-offs of fully depreciated/amortized assets	**(15,023)**	(11,361)	(9,624)
Balance at the end of the year	**$ 875,777**	$ 907,937	$1,053,467

(1) Includes the disposition of the 8560 Upland Drive property, Piedmont's last remaining investment in an unconsolidated joint venture.

(2) Piedmont recognized an impairment loss on a disposal group of real estate assets as part of the 2017 Disposition Portfolio (see Note 7).

(3) Piedmont recognized an impairment loss on the Dupree building, as well as the 600 Corporate Drive building (see Note 7).

(4) Consists of write-offs of intangible lease assets related to lease restructurings, amendments, and terminations.

EXHIBIT 31.1

PRINCIPAL EXECUTIVE OFFICER CERTIFICATION
PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, C. Brent Smith, certify that:

1. I have reviewed this annual report on Form 10-K of Piedmont Office Realty Trust, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 19, 2020

By: /s/ C. BRENT SMITH

C. Brent Smith
Principal Executive Officer

EXHIBIT 31.2

PRINCIPAL FINANCIAL OFFICER CERTIFICATION
PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert E. Bowers, certify that:

1. I have reviewed this annual report on Form 10-K of Piedmont Office Realty Trust, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 19, 2020

By: /s/ ROBERT E. BOWERS

Robert E. Bowers
Principal Financial Officer

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. 1350)

In connection with the Annual Report of Piedmont Office Realty Trust, Inc. (the "Registrant") on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission (the "Report"), the undersigned, C. Brent Smith, Chief Executive Officer of the Registrant, hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

It is not intended that this statement be deemed to be filed for the purposes of the Securities Exchange Act of 1934.

By: /s/ C. BRENT SMITH

C. Brent Smith
Chief Executive Officer
February 19, 2020

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. 1350)

In connection with the Annual Report of Piedmont Office Realty Trust, Inc. (the "Registrant") on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission (the "Report"), the undersigned, Robert E. Bowers, Chief Financial Officer of the Registrant, hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

It is not intended that this statement be deemed to be filed for the purposes of the Securities Exchange Act of 1934.

By: /s/ ROBERT E. BOWERS

Robert E. Bowers
Chief Financial Officer
February 19, 2020

CORPORATE INFORMATION

Board of Directors:

Frank C. McDowell	Director and Chairman of the Board of Directors
Dale H. Taysom	Director and Vice-Chairman of the Board of Directors
Kelly H. Barrett	Director
Wesley E. Cantrell	Director
Glenn G. Cohen *	Director and Executive Vice-President, Chief Financial Officer & Treasurer of Kimco Realty Corporation
Barbara B. Lang	Director and Managing Principal & Chief Executive Officer of Lang Strategies, LLC
C. Brent Smith	President and Chief Executive Officer and Director
Jeffrey L. Swope	Director and Managing Partner and Chief Executive Officer of Champion Partners Ltd.

Corporate Officers:

C. Brent Smith	President and Chief Executive Officer and Director
Robert E. Bowers	Chief Financial Officer and Executive Vice-President
Edward H. Guilbert, III	Executive Vice-President – Finance and Treasurer
Christopher A. Kollme	Executive Vice-President – Finance and Strategy
Laura P. Moon	Chief Accounting Officer and Senior Vice-President
Robert K. Wiberg	Executive Vice-President – Mid-Atlantic and Northeast Regions and Head of Development
Joseph H. Pangburn	Executive Vice-President – Southwest Region
Thomas R. Prescott	Executive Vice-President – Midwest Region
George M. Wells	Executive Vice-President – Real Estate Operations
Alex Valente	Executive Vice-President – Southeast Region

Form 10-K Exhibits

We will furnish any exhibit to our Annual Report on Form 10-K upon the payment of a fee equal to our reasonable expenses in furnishing such exhibit. Requests for exhibits should be directed to our Corporate Secretary, by phone at 770-418-8800, or by mail at 5565 Glenridge Connector, Suite 450, Atlanta, GA 30342.

Transfer Agent

Computershare
866-354-3485
Investor.services@piedmontreit.com

* Mr. Cohen was appointed to the Board of Directors effective March 1, 2020.