

CORPORATE OFFICE PROPERTIES TRUST
Form 10-Q
October 29, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q
(Mark one)

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

For the quarterly period ended September 30, 2013
or

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

For the transition period from to

Commission file number 1-14023 (Corporate Office Properties Trust)
Commission file number 333-189188 (Corporate Office Properties, L.P.)
Corporate Office Properties Trust
Corporate Office Properties, L.P.
(Exact name of registrant as specified in its charter)

Corporate Office Properties Trust Maryland 23-2947217
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification No.)

Corporate Office Properties, L.P. Delaware 23-2930022
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification No.)

6711 Columbia Gateway Drive, Suite 300, Columbia, MD 21046
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (443) 285-5400

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.

Corporate Office Properties Trust Yes No
Corporate Office Properties, L.P. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Corporate Office Properties Trust Yes No
Corporate Office Properties, L.P. Yes No

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

Corporate Office Properties Trust

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

Corporate Office Properties, L.P.

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

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

Corporate Office Properties Trust Yes No

Corporate Office Properties, L.P. Trust Yes No

As of October 22, 2013, 87,381,395 of Corporate Office Properties Trust’s Common Shares of Beneficial Interest, \$0.01 par value, were issued and outstanding.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended September 30, 2013 of Corporate Office Properties Trust (“COPT”) and subsidiaries (collectively, the “Company”) and Corporate Office Properties, L.P. (“COPLP”) and subsidiaries (collectively, the “Operating Partnership”). Unless stated otherwise or the context otherwise requires, “we,” “our,” and “us” refer collectively to COPT, COPLP and their subsidiaries.

COPT is a real estate investment trust, or REIT, and the sole general partner of COPLP. As of September 30, 2013, COPT owned 96% of the outstanding common units and 96% of the outstanding preferred units in COPLP. The remaining common and preferred units are owned by certain trustees of COPT and certain non-affiliated investors. As the sole general partner of COPLP, COPT controls COPLP and can cause it to enter into major transactions including acquisitions, dispositions and refinancings and cause changes in its line of business, capital structure and distribution policies.

There are a few differences between the Company and the Operating Partnership which are reflected in the disclosure in this Form 10-Q. We believe it is important to understand the differences between the Company and the Operating Partnership in the context of how the Company and the Operating Partnership operate as an interrelated, consolidated company. COPT is a real estate investment trust, whose only material asset is its ownership of partnership interests of COPLP. As a result, COPT does not conduct business itself, other than acting as the sole general partner of COPLP, issuing public equity from time to time and guaranteeing certain debt of COPLP. COPT itself is not directly obligated under any indebtedness but guarantees some of the debt of COPLP. COPLP owns substantially all of the assets of COPT either directly or through its subsidiaries, conducts almost all of the operations of the business and is structured as a limited partnership with no publicly traded equity. Except for net proceeds from public equity issuances by COPT, which are contributed to COPLP in exchange for partnership units, COPLP generates the capital required by COPT’s business through COPLP’s operations, by COPLP’s direct or indirect incurrence of indebtedness or through the issuance of partnership units.

Noncontrolling interests and shareholders' equity and partners' capital are the main areas of difference between the consolidated financial statements of COPT and those of COPLP. The common limited partnership interests in COPLP not owned by COPT are accounted for as partners' capital in COPLP's consolidated financial statements and as noncontrolling interests in COPT's consolidated financial statements. COPLP's consolidated financial statements also reflect COPT's noncontrolling interests in certain real estate partnerships, limited liability companies ("LLCs"), business trusts and corporations; the differences between shareholders' equity, partners' capital and noncontrolling interests result from the differences in the equity issued at the COPT and COPLP levels and in COPT's noncontrolling interests in these real estate partnerships, LLCs, business trusts and corporations. The only other significant differences between the consolidated financial statements of COPT and those of COPLP are assets in connection with a non-qualified elective deferred compensation plan

(comprised primarily of mutual funds and equity securities) and the corresponding liability to the plan's participants that are held directly by COPT.

We believe combining the quarterly reports on Form 10-Q of the Company and the Operating Partnership into this single report results in the following benefits:

- combined reports better reflect how management and the analyst community view the business as a single operating unit;
- combined reports enhance investors' understanding of the Company and the Operating Partnership by enabling them to view the business as a whole and in the same manner as management;
- combined reports are more efficient for the Company and the Operating Partnership and result in savings in time, effort and expense; and
- combined reports are more efficient for investors by reducing duplicative disclosure and providing a single document for their review.

To help investors understand the significant differences between the Company and the Operating Partnership, this report presents the following separate sections for each of the Company and the Operating Partnership:

- consolidated financial statements;
- the following notes to the consolidated financial statements:
 - Note 3, Fair Value Measurements of COPT and subsidiaries and COPLP and subsidiaries; and
 - Note 16, Earnings per Share of COPT and subsidiaries and Earnings per Unit of COPLP and subsidiaries;
- "Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources of COPT"; and
- "Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources of the Operating Partnership."

This report also includes separate sections under Part I, Item 4. Controls and Procedures and separate Exhibit 31 and Exhibit 32 certifications for each of COPT and COPLP to establish that the Chief Executive Officer and the Chief Financial Officer of each entity have made the requisite certifications and that COPT and COPLP are compliant with Rule 13a-15 and Rule 15d-14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and 18 U.S.C. §1350.

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PART I: FINANCIAL INFORMATION

ITEM 1. Financial Statements

Corporate Office Properties Trust and Subsidiaries

Consolidated Balance Sheets

(in thousands, except share data)

(unaudited)

	September 30, 2013	December 31, 2012
Assets		
Properties, net:		
Operating properties, net	\$ 2,713,579	\$ 2,597,666
Projects in development or held for future development	526,167	565,378
Total properties, net	3,239,746	3,163,044
Assets held for sale, net	133,984	140,229
Cash and cash equivalents	27,318	10,594
Restricted cash and marketable securities	14,698	21,557
Accounts receivable (net of allowance for doubtful accounts of \$5,344 and \$4,694, respectively)	17,724	19,247
Deferred rent receivable	90,104	85,802
Intangible assets on real estate acquisitions, net	64,372	75,879
Deferred leasing and financing costs, net	63,246	59,952
Mortgage and other investing receivables	40,321	33,396
Prepaid expenses and other assets	64,075	44,059
Total assets	\$ 3,755,588	\$ 3,653,759
Liabilities and equity		
Liabilities:		
Debt, net	\$ 2,135,031	\$ 2,019,168
Accounts payable and accrued expenses	85,291	97,922
Rents received in advance and security deposits	28,539	27,632
Dividends and distributions payable	29,077	28,698
Deferred revenue associated with operating leases	8,545	11,995
Distributions received in excess of investment in unconsolidated real estate joint venture	6,420	6,420
Interest rate derivatives	3,595	6,185
Other liabilities	8,234	8,942
Total liabilities	2,304,732	2,206,962
Commitments and contingencies (Note 17)		
Redeemable noncontrolling interest	16,789	10,298
Equity:		
Corporate Office Properties Trust's shareholders' equity:		
Preferred Shares of beneficial interest at liquidation preference (\$0.01 par value; 25,000,000 shares authorized; shares issued and outstanding of 9,431,667 at September 30, 2013 and 12,821,667 at December 31, 2012)	249,083	333,833
Common Shares of beneficial interest (\$0.01 par value; 125,000,000 shares authorized, shares issued and outstanding of 87,381,395 at September 30, 2013 and 80,952,986 at December 31, 2012)	874	809
Additional paid-in capital	1,812,801	1,653,672
Cumulative distributions in excess of net income	(700,368)	(617,455)

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Accumulated other comprehensive income (loss)	2,925	(5,435)
Total Corporate Office Properties Trust's shareholders' equity	1,365,315	1,365,424
Noncontrolling interests in subsidiaries:		
Common units in COPLP	50,815	52,122
Preferred units in COPLP	8,800	8,800
Other consolidated entities	9,137	10,153
Noncontrolling interests in subsidiaries	68,752	71,075
Total equity	1,434,067	1,436,499
Total liabilities, redeemable noncontrolling interest and equity	\$ 3,755,588	\$ 3,653,759

See accompanying notes to consolidated financial statements.

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Corporate Office Properties Trust and Subsidiaries
Consolidated Statements of Operations
(in thousands, except per share data)
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues				
Rental revenue	\$97,442	\$92,287	\$289,628	\$271,634
Tenant recoveries and other real estate operations revenue	21,598	22,075	65,499	63,597
Construction contract and other service revenues	16,991	15,283	52,048	53,812
Total revenues	136,031	129,645	407,175	389,043
Expenses				
Property operating expenses	43,482	41,474	129,409	122,102
Depreciation and amortization associated with real estate operations	29,210	28,604	86,239	84,633
Construction contract and other service expenses	16,306	14,410	49,165	51,302
Impairment losses	16,300	46,096	16,300	41,260
General, administrative and leasing expenses	8,027	6,377	22,430	24,797
Business development expenses and land carry costs	1,383	1,632	4,069	4,506
Total operating expenses	114,708	138,593	307,612	328,600
Operating income (loss)	21,323	(8,948)	99,563	60,443
Interest expense	(21,242)	(23,239)	(66,851)	(71,909)
Interest and other (loss) income	(3)	1,095	2,949	3,152
Loss on early extinguishment of debt	(374)	(768)	(27,028)	(937)
(Loss) income from continuing operations before equity in income (loss) of unconsolidated entities and income taxes	(296)	(31,860)	8,633	(9,251)
Equity in income (loss) of unconsolidated entities	44	(246)	211	(522)
Income tax expense	(24)	(106)	(61)	(327)
(Loss) income from continuing operations	(276)	(32,212)	8,783	(10,100)
Discontinued operations	(1,724)	11,447	(2,594)	11,410
(Loss) income before gain on sales of real estate	(2,000)	(20,765)	6,189	1,310
Gain on sales of real estate	—	—	2,683	21
Net (loss) income	(2,000)	(20,765)	8,872	1,331
Net loss (income) attributable to noncontrolling interests:				
Common units in COPLP	232	1,533	474	738
Preferred units in COPLP	(165)	(165)	(495)	(495)
Other consolidated entities	(1,031)	235	(2,160)	864
Net (loss) income attributable to COPT	(2,964)	(19,162)	6,691	2,438
Preferred share dividends	(4,490)	(6,546)	(15,481)	(14,738)
Issuance costs associated with redeemed preferred shares	—	(1,827)	(2,904)	(1,827)
Net loss attributable to COPT common shareholders	\$(7,454)	\$(27,535)	\$(11,694)	\$(14,127)
Net (loss) income attributable to COPT:				
(Loss) income from continuing operations	\$(1,266)	\$(29,963)	\$9,327	\$(8,369)
Discontinued operations, net	(1,698)	10,801	(2,636)	10,807
Net (loss) income attributable to COPT	\$(2,964)	\$(19,162)	\$6,691	\$2,438
Basic earnings per common share (1)				
Loss from continuing operations	\$(0.07)	\$(0.54)	\$(0.11)	\$(0.35)

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Discontinued operations	(0.02)	0.15	(0.03)	0.15
Net loss attributable to COPT common shareholders	\$(0.09)	\$(0.39)	\$(0.14)	\$(0.20)
Diluted earnings per common share (1)				
Loss from continuing operations	\$(0.07)	\$(0.54)	\$(0.11)	\$(0.35)
Discontinued operations	(0.02)	0.15	(0.03)	0.15
Net loss attributable to COPT common shareholders	\$(0.09)	\$(0.39)	\$(0.14)	\$(0.20)
Dividends declared per common share	\$0.2750	\$0.2750	\$0.8250	\$0.8250

(1) Basic and diluted earnings per common share are calculated based on amounts attributable to common shareholders of Corporate Office Properties Trust.

See accompanying notes to consolidated financial statements.

Corporate Office Properties Trust and Subsidiaries
Consolidated Statements of Comprehensive Income
(in thousands)
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Net (loss) income	\$ (2,000)	\$ (20,765)	\$ 8,872	\$ 1,331
Other comprehensive (loss) income				
Unrealized (losses) gains on interest rate derivatives	(2,482)	(2,760)	5,810	(7,386)
Losses on interest rate derivatives included in net (loss) income	689	632	2,021	3,034
Equity in other comprehensive income of equity method investee	1,070	—	1,070	—
Other comprehensive (loss) income	(723)	(2,128)	8,901	(4,352)
Comprehensive (loss) income	(2,723)	(22,893)	17,773	(3,021)
Comprehensive (income) loss attributable to noncontrolling interests	(948)	1,763	(2,722)	1,509
Comprehensive (loss) income attributable to COPT	\$ (3,671)	\$ (21,130)	\$ 15,051	\$ (1,512)

See accompanying notes to consolidated financial statements.

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Corporate Office Properties Trust and Subsidiaries
 Consolidated Statements of Equity
 (Dollars in thousands)
 (unaudited)

	Preferred Shares	Common Shares	Additional Paid-in Capital	Cumulative Distributions in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
Balance at December 31, 2011 (72,011,324 common shares outstanding)	\$ 216,333	\$ 720	\$ 1,451,078	\$ (534,041)	\$ (1,733)	\$ 73,542	\$ 1,205,899
Conversion of common units to common shares (94,550 shares)	—	1	1,187	—	—	(1,188)	—
Preferred shares issued to the public (6,900,000 shares)	172,500	—	(6,838)	—	—	—	165,662
Redemption of preferred shares (2,200,000 shares)	(55,000)	—	1,827	(1,827)	—	—	(55,000)
Costs associated with common shares issued to the public	—	—	(5)	—	—	—	(5)
Exercise of share options (44,624 shares)	—	—	666	—	—	—	666
Share-based compensation	—	1	9,191	—	—	—	9,192
Restricted common share redemptions (135,777 shares)	—	—	(3,279)	—	—	—	(3,279)
Adjustments to noncontrolling interests resulting from changes in ownership of COPLP	—	—	373	—	—	(373)	—
Comprehensive loss	—	—	—	2,438	(3,955)	299	(1,218)
Dividends	—	—	—	(74,203)	—	—	(74,203)
Distributions to owners of common and preferred units in COPLP	—	—	—	—	—	(3,993)	(3,993)
Distributions to noncontrolling interest in other consolidated entities	—	—	—	—	—	(648)	(648)
Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	(2,827)	—	—	—	(2,827)
Tax benefit from share-based compensation	—	—	43	—	—	—	43
Balance at September 30, 2012 (72,157,635 common shares outstanding)	\$ 333,833	\$ 722	\$ 1,451,416	\$ (607,633)	\$ (5,688)	\$ 67,639	\$ 1,240,289
	\$ 333,833	\$ 809	\$ 1,653,672	\$ (617,455)	\$ (5,435)	\$ 71,075	\$ 1,436,499

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Balance at December 31, 2012 (80,952,986 common shares outstanding)							
Redemption of preferred shares (3,390,000 shares)	(84,750)	—	2,904	(2,904)	—	—	(84,750)
Conversion of common units to common shares (310,889 shares)	—	3	3,988	—	—	(3,991)	—
Common shares issued to the public (4,485,000 shares)	—	45	117,916	—	—	—	117,961
Common shares issued under at-the-market program (1,500,000 shares)	—	15	38,432	—	—	—	38,447
Acquisition of property and noncontrolling interest in other consolidated entity for COPLP common units	—	—	(1,296)	—	—	2,665	1,369
Exercise of share options (32,756 shares)	—	—	642	—	—	—	642
Share-based compensation	—	2	5,700	—	—	—	5,702
Restricted common share redemptions (71,523 shares)	—	—	(1,848)	—	—	—	(1,848)
Adjustments to noncontrolling interests resulting from changes in ownership of COPLP	—	—	(773)	—	—	773	—
Comprehensive income	—	—	—	6,691	8,360	1,834	16,885
Dividends	—	—	—	(86,700)	—	—	(86,700)
Distributions to owners of common and preferred units in COPLP	—	—	—	—	—	(3,681)	(3,681)
Contributions from noncontrolling interests in other consolidated entities	—	—	—	—	—	85	85
Distributions to noncontrolling interests in other consolidated entities	—	—	—	—	—	(8)	(8)
Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	(6,414)	—	—	—	(6,414)
Tax benefit from share-based compensation	—	—	(122)	—	—	—	(122)
Balance at September 30, 2013 (87,381,395 common shares outstanding)	\$ 249,083	\$ 874	\$ 1,812,801	\$ (700,368)	\$ 2,925	\$ 68,752	\$ 1,434,067

See accompanying notes to consolidated financial statements.

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Corporate Office Properties Trust and Subsidiaries
 Consolidated Statements of Cash Flows
 (in thousands)
 (unaudited)

	For the Nine Months Ended September 30,	
	2013	2012
Cash flows from operating activities		
Revenues from real estate operations received	\$ 359,431	\$ 363,877
Construction contract and other service revenues received	48,877	58,637
Property operating expenses paid	(133,799)	(133,375)
Construction contract and other service expenses paid	(53,191)	(50,438)
General, administrative, leasing, business development and land carry costs paid	(20,681)	(18,526)
Interest expense paid	(59,052)	(63,811)
Previously accreted interest expense paid	(11,116)	—
Settlement of interest rate derivatives	—	(29,738)
Proceeds from sale of trading marketable securities	298	18,975
Exit costs on property dispositions	(186)	(4,066)
Payments in connection with early extinguishment of debt	(23,969)	(2,637)
Interest and other income received	391	786
Income taxes paid	6	(8)
Net cash provided by operating activities	107,009	139,676
Cash flows from investing activities		
Construction, development and redevelopment	(156,820)	(107,621)
Tenant improvements on operating properties	(15,868)	(20,924)
Other capital improvements on operating properties	(17,528)	(9,571)
Acquisitions of operating properties	—	(48,308)
Proceeds from dispositions of properties	12,447	290,607
Mortgage and other loan receivables funded or acquired	(4,111)	(11,603)
Leasing costs paid	(9,366)	(7,289)
Other	4,401	(1,527)
Net cash (used in) provided by investing activities	(186,845)	83,764
Cash flows from financing activities		
Proceeds from debt		
Revolving Credit Facility	457,000	262,000
Unsecured senior notes	592,413	—
Other debt proceeds	82,886	399,296
Repayments of debt		
Revolving Credit Facility	(457,000)	(844,000)
Scheduled principal amortization	(7,229)	(9,094)
Other debt repayments	(542,532)	(51,850)
Deferred financing costs paid	(9,001)	(3,210)
Net proceeds from issuance of preferred shares	—	165,662
Net proceeds from issuance of common shares	157,307	661
Redemption of preferred shares	(84,750)	(55,000)
Common share dividends paid	(69,451)	(69,325)
Preferred share dividends paid	(16,845)	(12,345)
Distributions paid to noncontrolling interests in COPLP	(3,705)	(4,510)
Restricted share redemptions	(1,848)	(3,279)

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Other	(685) 1,004	
Net cash provided by (used in) financing activities	96,560	(223,990)
Net increase (decrease) in cash and cash equivalents	16,724	(550)
Cash and cash equivalents			
Beginning of period	10,594	5,559	
End of period	\$27,318	\$5,009	
See accompanying notes to consolidated financial statements.			

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Corporate Office Properties Trust and Subsidiaries
Consolidated Statements of Cash Flows (continued)
(in thousands)
(unaudited)

	For the Nine Months Ended September 30,	
	2013	2012
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$8,872	\$1,331
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and other amortization	87,956	95,248
Impairment losses	30,940	60,593
Settlement of previously accreted interest expense	(11,116)	—
Amortization of deferred financing costs	4,292	4,696
Increase in deferred rent receivable	(7,995)	(7,939)
Amortization of net debt discounts	1,207	2,357
Gain on sales of real estate	(2,683)	(20,969)
Share-based compensation	4,869	8,262
Loss (gain) on early extinguishment of debt	3,059	(3,436)
Other	(2,284)	(459)
Changes in operating assets and liabilities:		
Decrease in accounts receivable	1,523	10,063
Decrease in restricted cash and marketable securities	418	15,051
(Increase) decrease in prepaid expenses and other assets	(12,974)	1,532
Increase in accounts payable, accrued expenses and other liabilities	18	4,124
Increase (decrease) in rents received in advance and security deposits	907	(2,775)
Decrease in interest rate derivatives in connection with cash settlement	—	(28,003)
Net cash provided by operating activities	\$107,009	\$139,676
Supplemental schedule of non-cash investing and financing activities:		
Decrease in accrued capital improvements, leasing and other investing activity costs	\$(13,094)	\$(11,627)
Decrease in property in connection with surrender of property in settlement of debt	\$—	\$12,812
Decrease in debt in connection with surrender of property in settlement of debt	\$—	\$16,304
Increase (decrease) in fair value of derivatives applied to accumulated other comprehensive income (loss) and noncontrolling interests	\$7,785	\$(4,398)
Equity in other comprehensive income of an equity method investee	\$1,070	\$—
Dividends/distributions payable	\$29,077	\$26,954
COPLP common units issued to acquire property and noncontrolling interest in other consolidated entity	\$5,194	\$—
Decrease in noncontrolling interests and increase in shareholders' equity in connection with the conversion of common units into common shares	\$3,991	\$1,188
Adjustments to noncontrolling interests resulting from changes in COPLP ownership	\$773	\$373
Increase in redeemable noncontrolling interest and decrease in shareholders' equity to carry redeemable noncontrolling interest at fair value	\$6,414	\$2,827

See accompanying notes to consolidated financial statements.

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Corporate Office Properties, L.P. and Subsidiaries
 Consolidated Balance Sheets
 (in thousands, except unit data)
 (unaudited)

	September 30, 2013	December 31, 2012
Assets		
Properties, net:		
Operating properties, net	\$ 2,713,579	\$ 2,597,666
Projects in development or held for future development	526,167	565,378
Total properties, net	3,239,746	3,163,044
Assets held for sale, net	133,984	140,229
Cash and cash equivalents	27,318	10,594
Restricted cash and marketable securities	7,517	14,781
Accounts receivable (net of allowance for doubtful accounts of \$5,344 and \$4,694, respectively)	17,724	19,247
Deferred rent receivable	90,104	85,802
Intangible assets on real estate acquisitions, net	64,372	75,879
Deferred leasing and financing costs, net	63,246	59,952
Mortgage and other investing receivables	40,321	33,396
Prepaid expenses and other assets	64,075	44,059
Total assets	\$ 3,748,407	\$ 3,646,983
Liabilities and equity		
Liabilities:		
Debt, net	\$ 2,135,031	\$ 2,019,168
Accounts payable and accrued expenses	85,291	97,922
Rents received in advance and security deposits	28,539	27,632
Distributions payable	29,077	28,698
Deferred revenue associated with operating leases	8,545	11,995
Distributions received in excess of investment in unconsolidated real estate joint venture	6,420	6,420
Interest rate derivatives	3,595	6,185
Other liabilities	1,053	2,166
Total liabilities	2,297,551	2,200,186
Commitments and contingencies (Note 17)		
Redeemable noncontrolling interest	16,789	10,298
Equity:		
Corporate Office Properties, L.P.'s equity:		
Preferred units		
General partner, 9,431,667 preferred units outstanding at September 30, 2013 and 12,821,667 preferred units outstanding at December 31, 2012	249,083	333,833
Limited partner, 352,000 preferred units outstanding at September 30, 2013 and December 31, 2012	8,800	8,800
Common units, 87,381,395 and 80,952,986 held by the general partner and 3,978,154 and 4,067,542 held by limited partners at September 30, 2013 and December 31, 2012, respectively	1,163,977	1,089,391
Accumulated other comprehensive income (loss)	3,026	(5,708)

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Total Corporate Office Properties, L.P.'s equity	1,424,886	1,426,316
Noncontrolling interests in subsidiaries	9,181	10,183
Total equity	1,434,067	1,436,499
Total liabilities, redeemable noncontrolling interest and equity	\$ 3,748,407	\$3,646,983
See accompanying notes to consolidated financial statements.		

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Corporate Office Properties, L.P. and Subsidiaries
 Consolidated Statements of Operations
 (in thousands, except per unit data)
 (unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues				
Rental revenue	\$97,442	\$92,287	\$289,628	\$271,634
Tenant recoveries and other real estate operations revenue	21,598	22,075	65,499	63,597
Construction contract and other service revenues	16,991	15,283	52,048	53,812
Total revenues	136,031	129,645	407,175	389,043
Expenses				
Property operating expenses	43,482	41,474	129,409	122,102
Depreciation and amortization associated with real estate operations	29,210	28,604	86,239	84,633
Construction contract and other service expenses	16,306	14,410	49,165	51,302
Impairment losses	16,300	46,096	16,300	41,260
General, administrative and leasing expenses	8,027	6,377	22,430	24,797
Business development expenses and land carry costs	1,383	1,632	4,069	4,506
Total operating expenses	114,708	138,593	307,612	328,600
Operating income (loss)	21,323	(8,948)	99,563	60,443
Interest expense	(21,242)	(23,239)	(66,851)	(71,909)
Interest and other (loss) income	(3)	1,095	2,949	3,152
Loss on early extinguishment of debt	(374)	(768)	(27,028)	(937)
(Loss) income from continuing operations before equity in income (loss) of unconsolidated entities and income taxes	(296)	(31,860)	8,633	(9,251)
Equity in income (loss) of unconsolidated entities	44	(246)	211	(522)
Income tax expense	(24)	(106)	(61)	(327)
(Loss) income from continuing operations	(276)	(32,212)	8,783	(10,100)
Discontinued operations	(1,724)	11,447	(2,594)	11,410
(Loss) income before gain on sales of real estate	(2,000)	(20,765)	6,189	1,310
Gain on sales of real estate	—	—	2,683	21
Net (loss) income	(2,000)	(20,765)	8,872	1,331
Net (income) loss attributable to noncontrolling interests in consolidated entities	(1,035)	(404)	(2,172)	167
Net (loss) income attributable to COPLP	(3,035)	(21,169)	6,700	1,498
Preferred unit distributions	(4,655)	(6,711)	(15,976)	(15,233)
Issuance costs associated with redeemed preferred units	—	(1,827)	(2,904)	(1,827)
Net loss attributable to COPLP common unitholders	\$(7,690)	\$(29,707)	\$(12,180)	\$(15,562)
Net (loss) income attributable to COPLP:				
(Loss) income from continuing operations	\$(1,262)	\$(31,969)	\$9,441	\$(9,250)
Discontinued operations, net	(1,773)	10,800	(2,741)	10,748
Net (loss) income attributable to COPLP	\$(3,035)	\$(21,169)	\$6,700	\$1,498
Basic earnings per common unit (1)				
Loss from continuing operations	\$(0.07)	\$(0.54)	\$(0.11)	\$(0.35)
Discontinued operations	(0.02)	0.15	(0.03)	0.14
Net loss attributable to COPLP common unitholders	\$(0.09)	\$(0.39)	\$(0.14)	\$(0.21)
Diluted earnings per common unit (1)				
Loss from continuing operations	\$(0.07)	\$(0.54)	\$(0.11)	\$(0.35)

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Discontinued operations	(0.02)	0.15	(0.03)	0.14
Net loss attributable to COPLP common unitholders	\$(0.09)	\$(0.39)	\$(0.14)	\$(0.21)
Distributions declared per common unit	\$0.2750	\$0.2750	\$0.8250	\$0.8250

(1) Basic and diluted earnings per common unit are calculated based on amounts attributable to common unitholders of Corporate Office Properties, L.P.

See accompanying notes to consolidated financial statements.

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Corporate Office Properties, L.P. and Subsidiaries
 Consolidated Statements of Comprehensive Income
 (in thousands)
 (unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Net (loss) income	\$(2,000)	\$(20,765)	\$8,872	\$1,331
Other comprehensive (loss) income				
Unrealized (losses) gains on interest rate derivatives	(2,482)	(2,760)	5,810	(7,386)
Losses on interest rate derivatives included in net (loss) income	689	632	2,021	3,034
Equity in other comprehensive income of equity method investee	1,070	—	1,070	—
Other comprehensive (loss) income	(723)	(2,128)	8,901	(4,352)
Comprehensive (loss) income	(2,723)	(22,893)	17,773	(3,021)
Comprehensive (income) loss attributable to noncontrolling interests	(1,050)	(360)	(2,339)	336
Comprehensive (loss) income attributable to COPLP	\$(3,773)	\$(23,253)	\$15,434	\$(2,685)

See accompanying notes to consolidated financial statements.

Corporate Office Properties, L.P. and Subsidiaries
Consolidated Statements of Equity
(Dollars in thousands)
(unaudited)

	Limited Partner Preferred Units		General Partner Preferred Units		Common Units		Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests in Subsidiaries	Total Equity
	Units	Amount	Units	Amount	Units	Amount			
Balance at December 31, 2011	352,000	\$8,800	8,121,667	\$216,333	76,313,112	\$972,107	\$(1,837)	\$10,496	\$1,205,899
Issuance of preferred units resulting from public issuance of preferred shares	—	—	6,900,000	172,500	—	(6,838)	—	—	165,662
Redemption of preferred units resulting from redemption of preferred shares	—	—	(2,200,000)	(55,000)	—	—	—	—	(55,000)
Costs of common units resulting from public issuance of common shares	—	—	—	—	—	(5)	—	—	(5)
Issuance of common units resulting from exercise of share options	—	—	—	—	44,624	666	—	—	666
Share-based compensation	—	—	—	—	142,914	9,192	—	—	9,192
Restricted common unit redemptions	—	—	—	—	(135,777)	(3,279)	—	—	(3,279)
Comprehensive loss	—	495	—	14,738	—	(13,735)	(4,182)	1,466	(1,218)
Distributions to owners of common and preferred units	—	(495)	—	(14,738)	—	(62,963)	—	—	(78,196)
Distributions to noncontrolling	—	—	—	—	—	—	—	(648)	(648)

interests in subsidiaries							
COPT							
contribution to COPLP of	—	—	—	—	—	1,602	—
distribution from subsidiary							