

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 incorporation or organization)	(IRS Employer Identification No.)

Corporate Office Properties, L.P.	Delaware	23-2930022
	(State or other jurisdiction of incorporation or organization)	(IRS Employer 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.

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)
	—	—	—	—	—	—	—	(648)	(648)

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Distributions to noncontrolling interests in subsidiaries									
COPT contribution to COPLP of distribution from subsidiary	—	—	—	—	—	1,602	—	(1,602)	—
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	352,000	\$8,800	12,821,667	\$333,833	76,364,873	\$893,963	\$(6,019)	\$9,712	\$1,240,289
Balance at December 31, 2012	352,000	\$8,800	12,821,667	\$333,833	85,020,528	\$1,089,391	\$(5,708)	\$10,183	\$1,436,499
Redemption of preferred units resulting from redemption of preferred shares	—	—	(3,390,000)	(84,750)	—	—	—	—	(84,750)
Issuance of common units resulting from public issuance of common shares	—	—	—	—	4,485,000	117,961	—	—	117,961
Issuance of common units resulting from common shares issued under at-the-market program	—	—	—	—	1,500,000	38,447	—	—	38,447
Acquisition of property and noncontrolling interest in subsidiary for	—	—	—	—	221,501	3,899	—	(2,530)	1,369

COPLP									
common units									
Issuance of									
common units									
resulting from	—	—	—	—	32,756	642	—	—	642
exercise of									
share options									
Share-based									
compensation	—	—	—	—	171,287	5,702	—	—	5,702
Restricted									
common unit	—	—	—	—	(71,523	) (1,848	) —	—	(1,848
redemptions)
Comprehensive									
income	—	495	—	15,481	—	(9,276	) 8,734	1,451	16,885
Distributions to									
owners of									
common and	—	(495	) —	(15,481	) —	(74,405	) —	—	(90,381
preferred units)
Distributions to									
noncontrolling	—	—	—	—	—	—	—	(8	) (8
interests in)
subsidiaries									
Contributions									
from									
noncontrolling	—	—	—	—	—	—	—	85	85
interests in									
subsidiaries									
Adjustment to									
arrive at fair									
value of									
redeemable	—	—	—	—	—	(6,414	) —	—	(6,414
noncontrolling)
interest									
Tax benefit									
from									
share-based	—	—	—	—	—	(122	) —	—	(122
compensation)
Balance at									
September 30,	352,000	\$8,800	9,431,667	\$249,083	91,359,549	\$1,163,977	\$3,026	\$9,181	\$1,434,067
2013									

See accompanying notes to consolidated financial statements.

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Corporate Office Properties, L.P. 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 units	—	165,662
Net proceeds from issuance of common units	157,307	661
Redemption of preferred units	(84,750)	(55,000)
Common unit distributions paid	(72,661)	(73,340)
Preferred unit distributions paid	(17,340)	(12,840)
Restricted unit redemptions	(1,848)	(3,279)
Other	(685)	1,004

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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, L.P. 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	822	14,399
(Increase) decrease in prepaid expenses and other assets	(12,974)	) 1,532
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(386)	) 4,776
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	\$—
Distributions payable	\$29,077	\$26,954
COPLP common units issued to acquire property and noncontrolling interest in other consolidated entity	\$5,194	\$—
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.

Corporate Office Properties Trust and Subsidiaries and Corporate Office Properties, L.P. and Subsidiaries
Notes to Consolidated Financial Statements
(unaudited)

1. Organization

Corporate Office Properties Trust (“COPT”) and subsidiaries (collectively, the “Company”) is a fully-integrated and self-managed real estate investment trust (“REIT”). Corporate Office Properties, L.P. (“COPLP”) and subsidiaries (collectively, the “Operating Partnership”) is the entity through which COPT, the sole general partner of COPLP, conducts almost all of its operations and owns almost all of its assets. Unless otherwise expressly stated or the context otherwise requires, “we”, “us” and “our” as used herein refer to each of the Company and the Operating Partnership. We focus primarily on serving the specialized requirements of United States Government agencies and defense contractors, most of whom are engaged in defense information technology and national security related activities. We generally acquire, develop, manage and lease office and data center properties concentrated in large office parks located near knowledge-based government demand drivers and/or in targeted markets or submarkets in the Greater Washington, DC/Baltimore region. As of September 30, 2013, our investments in real estate included the following:

• 210 operating office properties totaling 19.2 million square feet;

• 11 office properties under, or contractually committed for, construction or approved for redevelopment that we estimate will total approximately 1.5 million square feet upon completion, including one partially operational property included above;

• land held or under pre-construction totaling 1,721 acres (including 56 acres controlled but not owned) that we believe are potentially developable into approximately 20.4 million square feet; and

• a partially operational, wholesale data center which upon completion and stabilization is expected to have a critical load of 18 megawatts.

COPLP owns real estate both directly and through subsidiary partnerships and limited liability companies (“LLCs”). In addition to owning real estate, COPLP also owns subsidiaries that provide real estate services such as property management and construction and development services primarily for our properties but also for third parties.

Interests in COPLP are in the form of common and preferred units. As of September 30, 2013, COPT owned 95.6% of the outstanding COPLP common units (“common units”) and 96.4% of the outstanding COPLP preferred units (“preferred units”); the remaining common and preferred units in COPLP were owned by third parties. Three of COPT’s trustees controlled, either directly or through ownership by other entities or family members, 3.4% of COPLP’s common units as of September 30, 2013. Common units in COPLP not owned by COPT carry certain redemption rights. The number of common units in COPLP owned by COPT is equivalent to the number of outstanding common shares of beneficial interest (“common shares”) of COPT, and the entitlement of all COPLP common units to quarterly distributions and payments in liquidation are substantially the same as those of COPT common shareholders. Similarly, in the case of each series of preferred units in COPLP held by COPT, there is a series of preferred shares of beneficial interest (“preferred shares”) that is equivalent in number and carries substantially the same terms as such series of COPLP preferred units. COPT’s common shares are publicly traded on the New York Stock Exchange (“NYSE”) under the ticker symbol “OFC”.

Because COPLP is managed by COPT, and COPT conducts substantially all of its operations through COPLP, we refer to COPT’s executive officers as COPLP’s executive officers, and although, as a partnership, COPLP does not have a board of trustees, we refer to COPT’s Board of Trustees as COPLP’s Board of Trustees.

2. Summary of Significant Accounting Policies

Basis of Presentation

The COPT consolidated financial statements include the accounts of COPT, the Operating Partnership, their subsidiaries and other entities in which COPT has a majority voting interest and control. The COPLP consolidated financial statements include the accounts of COPLP, its subsidiaries and other entities in which COPLP has a majority voting interest and control. We also consolidate certain entities when control of such entities can be achieved through means other than voting rights (“variable interest entities” or “VIEs”) if they are deemed to be the primary beneficiary of such entities. We eliminate all significant intercompany balances and transactions in consolidation.

We use the equity method of accounting when we own an interest in an entity and can exert significant influence over the entity’s operations but cannot control the entity’s operations. We discontinue equity method accounting if our investment in an

entity (and net advances) is reduced to zero unless we have guaranteed obligations of the entity or are otherwise committed to provide further financial support for the entity.

We use the cost method of accounting when we own an interest in an entity and cannot exert significant influence over its operations.

These interim financial statements should be read together with the consolidated financial statements and notes thereto as of and for the year ended December 31, 2012 for COPT (included in COPT's 2012 Annual Report on Form 10-K) and COPLP (included in our Current Report on Form 8-K dated July 25, 2013). The unaudited consolidated financial statements include all adjustments that are necessary, in the opinion of management, to fairly present our financial position and results of operations. All adjustments are of a normal recurring nature except for the revisions and reclassifications noted below. The consolidated financial statements have been prepared using the accounting policies described in COPT's 2012 Annual Report on Form 10-K and our Current Report on Form 8-K dated July 25, 2013.

Reclassifications

We reclassified certain amounts from prior periods to conform to the current period presentation of our consolidated financial statements with no effect on previously reported net income or equity.

Revisions

As reported in COPT's 2012 Annual Report on Form 10-K, the following errors were identified in 2012:

the misapplication of accounting guidance related to the recognition of a deferred tax asset resulting from an impairment of assets in the fourth quarter of 2011 that failed to consider a partial reversal of that asset that would result from a cancellation of related inter-company debt in the first quarter of 2012. The effect of this error was an overstatement of our income tax benefit and an understatement of our net loss for the year ended December 31, 2011 of \$4.0 million. Based on an evaluation against our projected annual net income at that time, this error was previously reported for COPT as an out-of-period adjustment in the three months ended March 31, 2012;

an over-accrual of incentive compensation cost, the effect of which was an overstatement of general and administrative expenses and an overstatement of net loss for the calendar quarter and year ended December 31, 2011 of \$711,000. Based on an evaluation against our projected annual net income at that time, this error was previously reported for COPT as an out-of-period adjustment in the three months ended March 31, 2012;

the misapplication of accounting guidance requiring that we recognize loss allocations to a noncontrolling interest holder in a consolidated real estate joint venture associated with decreases in such holder's claim on the book value of the joint venture's assets, despite the fact that the real estate held by the joint venture was under development and the joint venture had no underlying losses. The effect of this error was an understatement for COPT of losses attributable to noncontrolling interests in other consolidated entities of \$1.8 million for the nine months ended September 30, 2012 and \$1.4 million for the year ended December 31, 2011; and

the misapplication of accounting guidance pertaining to our reporting for a noncontrolling interest in a consolidated real estate joint venture formed in March 2010 for which the holder of such interest has the right to require us to acquire the interest at fair value. Accounting guidance requires that this noncontrolling interest be classified outside of permanent equity and reported at fair value as of the end of each reporting period, with changes in such fair value reported as equity transactions with no impact to net income or comprehensive income. This error resulted in an overstatement of equity and offsetting understatement of the line entitled "redeemable noncontrolling interest" in the mezzanine section of COPT's consolidated balance sheet of \$8.9 million as of December 31, 2011. This error had no effect on COPT's consolidated statements of operations, including reported net income (losses) or earnings per share.

With respect to the errors in the first two bullets above, we assessed the materiality of these errors on COPT's consolidated financial statements in connection with previously filed periodic reports, in accordance with ASC 250 (SEC's Staff Accounting Bulletin No. 99, "Materiality"), and concluded at such time that the errors were not material to any prior annual or interim periods. In assessing the cumulative effect of all such errors, we have considered ASC 250 (SEC Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements"), and accordingly, the financial statements as of, and for the year ended, December 31, 2011 were revised in COPT's 2012 Annual Report on Form 10-K. We revised COPT amounts pertaining to the first and second quarter of 2012 in COPT's Form 10-Qs filed on April 30, 2013 and August 1, 2013, respectively, and amounts pertaining to the third quarter and first nine months of 2012 herein.

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The following are selected line items from COPT's consolidated financial statements as of, and for the three and nine months ended, September 30, 2012 illustrating the effect of adjustments pertaining to reclassifications and revisions (in thousands):

	Consolidated Balance Sheet as of September 30, 2012			
	Per September 30, 2012 10-Q	As Revised	Change	Revisions
Redeemable noncontrolling interest	\$—	\$9,932	\$9,932	\$9,932
Additional paid-in capital	\$1,455,558	\$1,451,416	\$(4,142)	\$(4,142)
Cumulative distributions in excess of net income	\$(610,659)	\$(607,633)	\$3,026	\$3,026
Noncontrolling interests in common units in COPLP	\$48,973	\$49,157	\$184	\$184
Noncontrolling interests in other consolidated entities	\$18,682	\$9,682	\$(9,000)	\$(9,000)
Total equity	\$1,250,221	\$1,240,289	\$(9,932)	\$(9,932)
Total liabilities, redeemable noncontrolling interest and equity	\$3,597,656	\$3,597,656	\$—	\$—

	Consolidated Statements of Operations for the Three Months Ended September 30, 2012					
	Per September 30, 2012 10-Q	Per September 30, 2013 10-Q	Change	Discontinued Operations	Other Reclassifications	Revisions
Total revenues	\$130,144	\$129,645	\$(499)	\$(499)	\$—	\$—
Expenses						
Property operating expenses	\$42,799	\$41,474	\$(1,325)	\$(9)	\$(1,316)	\$—
Depreciation and amortization associated with real estate operations	28,698	28,604	(94)	(94)	—	—
Construction contract and other service expenses	14,410	14,410	—	—	—	—
Impairment losses	46,096	46,096	—	—	—	—
General, administrative and leasing expenses	5,061	6,377	1,316	—	1,316	—
Business development expenses and land carry costs	1,632	1,632	—	—	—	—
Total operating expenses	\$138,696	\$138,593	\$(103)	\$(103)	\$—	\$—
Operating loss	\$(8,552)	\$(8,948)	\$(396)	\$(396)	\$—	\$—
Interest expense	\$(23,239)	\$(23,239)	\$—	\$—	\$—	\$—
Income tax expense	\$(106)	\$(106)	\$—	\$—	\$—	\$—
Loss from continuing operations	\$(31,816)	\$(32,212)	\$(396)	\$(396)	\$—	\$—
Discontinued operations	\$11,051	\$11,447	\$396	\$396	\$—	\$—
Net loss	\$(20,765)	\$(20,765)	\$—	\$—	\$—	\$—
Net loss attributable to noncontrolling interests in common units in COPLP	\$1,569	\$1,533	\$(36)	\$—	\$—	\$(36)
	\$(411)	\$235	\$646	\$—	\$—	\$646

Net loss attributable to
noncontrolling interests in
other consolidated entities

Net loss attributable to COPT	\$(19,772)	\$(19,162)	\$610	\$—	\$—	\$610
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Basic and diluted earnings per
common share:

Loss from continuing operations	\$(0.54)	\$(0.54)	\$—	\$—	\$—	\$—
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Discontinued operations	0.15		0.15		—	—	—	—
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Net loss attributable to COPT common shareholders	\$(0.39)	\$(0.39)	\$—	\$—	\$—	\$—
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Consolidated Statements of Operations for the Nine Months Ended September 30, 2012						
	Per September 30, 2012 10-Q	Per September 30, 2013 10-Q	Change	Discontinued Operations	Other Reclassifications	Revisions
Total revenues	\$ 390,499	\$ 389,043	\$ (1,456)	\$ (1,456)	\$ —	\$ —
Expenses						
Property operating expenses	\$ 126,339	\$ 122,102	\$ (4,237)	\$ 32	\$ (4,269)	\$ —
Depreciation and amortization associated with real estate operations	84,920	84,633	(287)	(287)	—	—
Construction contract and other service expenses	51,302	51,302	—	—	—	—
Impairment losses	41,260	41,260	—	—	—	—
General, administrative and leasing expenses	19,820	24,797	4,977	(3)	4,269	711
Business development expenses and land carry costs	4,506	4,506	—	—	—	—
Total operating expenses	\$ 328,147	\$ 328,600	\$ 453	\$ (258)	\$ —	\$ 711
Operating income	\$ 62,352	\$ 60,443	\$ (1,909)	\$ (1,198)	\$ —	\$ (711)
Interest expense	\$ (71,909)	\$ (71,909)	\$ —	\$ —	\$ —	\$ —
Income tax expense	\$ (4,296)	\$ (327)	\$ 3,969	\$ —	\$ —	\$ 3,969
Loss from continuing operations	\$ (12,160)	\$ (10,100)	\$ 2,060	\$ (1,198)	\$ —	\$ 3,258
Discontinued operations	\$ 10,212	\$ 11,410	\$ 1,198	\$ 1,198	\$ —	\$ —
Net (loss) income	\$ (1,927)	\$ 1,331	\$ 3,258	\$ —	\$ —	\$ 3,258
Net loss attributable to noncontrolling interests in common units in COPLP	\$ 1,020	\$ 738	\$ (282)	\$ —	\$ —	\$ (282)
Net (income) loss attributable to noncontrolling interests in other consolidated entities	\$ (939)	\$ 864	\$ 1,803	\$ —	\$ —	\$ 1,803
Net (loss) income attributable to COPT	\$ (2,341)	\$ 2,438	\$ 4,779	\$ —	\$ —	\$ 4,779
Basic and diluted earnings per common share:						
Loss from continuing operations	\$ (0.40)	\$ (0.35)	\$ 0.05	\$ (0.02)	\$ —	\$ 0.07
Discontinued operations	0.13	0.15	0.02	0.02	—	—
Net loss attributable to COPT common shareholders	\$ (0.27)	\$ (0.20)	\$ 0.07	\$ —	\$ —	\$ 0.07

Recent Accounting Pronouncements

We adopted guidance issued by the Financial Accounting Standards Board (“FASB”) effective January 1, 2013 related to the reporting of the effect of significant reclassifications from accumulated other comprehensive income. This guidance requires an entity to report, either parenthetically on the face of the financial statements or in a single footnote, changes in the components of accumulated other comprehensive income for the period. An entity is required to separately report the amount of such changes attributable to reclassifications (and the statements of operations line affected by such reclassifications) and the amount of such changes attributable to current period other comprehensive

income. For amounts that are not required to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures that provide additional detail about those amounts. Our adoption of this guidance did not affect our consolidated financial statements or disclosures.

3. Fair Value Measurements

For a description on how we estimate fair value, see Note 3 to the consolidated financial statements in COPT's 2012 Annual Report on Form 10-K and Note 3 to the COPLP consolidated financial statements in our Current Report on Form 8-K dated July 25, 2013.

Recurring Fair Value Measurements

Our partner in a real estate joint venture has the right to require us to acquire its interest at fair value beginning in March 2020; accordingly, we classify the fair value of our partner's interest as a redeemable noncontrolling interest in the mezzanine section of our consolidated balance sheet. In determining the fair value of our partner's interest as of September 30, 2013, we used discount rates ranging from 10.0% to 20.0% (15.3% weighted average), which factored in risk appropriate to the level of future property development expected to be undertaken by the joint venture; a significant increase (decrease) in the discount rate used in determining the fair value would result in a significantly (lower) higher fair value. Given our reliance on the unobservable inputs, the valuations are classified in Level 3 of the fair value hierarchy.

The carrying values of cash and cash equivalents, restricted cash, accounts receivable, other assets (excluding investing receivables) and accounts payable and accrued expenses are reasonable estimates of their fair values because of the short maturities of these instruments. As discussed in Note 6, we estimated the fair values of our mortgage and other investing receivables based on the discounted estimated future cash flows of the loans (categorized within Level 3 of the fair value hierarchy); the discount rates used approximate current market rates for loans with similar maturities and credit quality, and the estimated cash payments include scheduled principal and interest payments. For our disclosure of debt fair values in Note 8 to the consolidated financial statements, we estimated the fair value of our unsecured senior notes and exchangeable senior notes based on quoted market rates for publicly-traded debt (categorized within Level 2 of the fair value hierarchy) and estimated the fair value of our other debt based on the discounted estimated future cash payments to be made on such debt (categorized within Level 3 of the fair value hierarchy); the discount rates used approximate current market rates for loans, or groups of loans, with similar maturities and credit quality, and the estimated future payments include scheduled principal and interest payments. Fair value estimates are made at a specific point in time, are subjective in nature and involve uncertainties and matters of significant judgment. Settlement at such fair value amounts may not be possible and may not be a prudent management decision.

For additional fair value information, please refer to Note 6 for mortgage loans receivable, Note 8 for debt and Note 9 for interest rate derivatives.

COPT and Subsidiaries

The table below sets forth financial assets and liabilities of COPT and its subsidiaries that are accounted for at fair value on a recurring basis as of September 30, 2013 and the hierarchy level of inputs used in measuring their respective fair values under applicable accounting standards (in thousands):

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Marketable securities in deferred compensation plan (1)				
Mutual funds	\$ 6,753	\$ —	\$ —	\$6,753
Common stocks	217	—	—	217

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Other	211	—	—	211
Common stock (1)	520	—	—	520
Interest rate derivatives (2)	—	5,195	—	5,195
Warrants to purchase common stock (2)	—	301	—	301
Total Assets	\$ 7,701	\$ 5,496	\$ —	\$13,197
Liabilities:				
Deferred compensation plan liability (3)	\$ 7,181	\$ —	\$ —	\$7,181
Interest rate derivatives	—	3,595	—	3,595
Total Liabilities	\$ 7,181	\$ 3,595	\$ —	\$10,776
Redeemable noncontrolling interest	\$ —	\$ —	\$ 16,789	\$16,789

(1) Included in the line entitled “restricted cash and marketable securities” on COPT’s consolidated balance sheet.

(2) Included in the line entitled “prepaid expenses and other assets” on COPT’s consolidated balance sheet.

(3) Included in the line entitled “other liabilities” on COPT’s consolidated balance sheet.

COPLP and Subsidiaries

The table below sets forth financial assets and liabilities of COPLP and its subsidiaries that are accounted for at fair value on a recurring basis as of September 30, 2013 and the hierarchy level of inputs used in measuring their respective fair values under applicable accounting standards (in thousands):

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Common stock (1)	\$ 520	\$ —	\$ —	\$ 520
Interest rate derivatives (2)	—	5,195	—	5,195
Warrants to purchase common stock (2)	—	301	—	301
Total Assets	\$ 520	\$ 5,496	\$ —	\$ 6,016
Liabilities:				
Interest rate derivatives	\$ —	\$ 3,595	\$ —	\$ 3,595
Redeemable noncontrolling interest	\$ —	\$ —	\$ 16,789	\$ 16,789

(1) Included in the line entitled “restricted cash and marketable securities” on COPLP’s consolidated balance sheet.

(2) Included in the line entitled “prepaid expenses and other assets” on COPLP’s consolidated balance sheet.

Nonrecurring Fair Value Measurements

Nine Months Ended September 30, 2013

During the nine months ended September 30, 2013, we recognized the following impairment losses:

for certain of our operating properties serving as collateral for a non recourse loan, we expect that the cash flows that will be generated by the properties will be insufficient to fund debt service requirements on the loan. While we sought to negotiate various alternatives with the lender, during the three months ended September 30, 2013, we determined that the probable outcome will be the conveyance of the properties to the lender to extinguish the loan. We expect that the conveyance will occur in a series of transactions in the fourth quarter of 2013 and the first quarter of 2014. We determined that the carrying amount of certain of these properties located in Colorado Springs, Colorado exceed their fair value, and will not likely be recovered from the cash flows from the operations of the properties over the likely remaining holding period. Accordingly, we recognized non-cash impairment losses of \$10.4 million on these properties during the three months ended September 30, 2013;

\$14.8 million (all classified as discontinued operations and including \$186,000 in exit costs) in connection with properties and land no longer aligned with our strategy that we sold or have classified as held for sale, most of which was attributable to our continuing negotiations to sell certain properties in Colorado Springs; and

\$5.9 million on two properties in the Greater Baltimore region during the three months ended September 30, 2013.

After shortening our expected holding period for these properties during the period, we determined that the carrying amount of the properties will not likely be recovered from the cash flows from the operations and sales of the properties over the shortened period.

The table below sets forth the fair value hierarchy of the valuation technique used by us in determining the fair value of the properties (dollars in thousands):

Quoted Prices in	Significant	Impairment Losses Recognized (1)
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Description	Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Unobservable Inputs (Level 3)	Total	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
Assets (2):						
Properties, net	\$ —	\$ —	\$245,535	\$245,535	\$21,888	\$30,940

(1) Represents impairment losses, excluding exit costs incurred of \$186,000 for the three months and nine months ended September 30, 2013.

(2) Reflects balance sheet classifications of assets at time of fair value measurement, excluding the effect of held for sale classifications.

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The table below sets forth quantitative information about significant unobservable inputs used for the Level 3 fair value measurements reported above (dollars in thousands):

Description	Fair Value on Measurement Date	Valuation Technique	Unobservable Input	Range (Weighted Average)
Properties on which impairment losses were recognized	\$ 245,535	Bids for property indicative of value	Indicative bids (1)	(1)
		Contract of sale	Contract price (1)	(1)
		Discounted cash flow	Discount rate	10.0% to 11.0% (10.9%)
			Terminal capitalization rate	9.5% to 10.0% (9.7%)
			Market rent growth rate	3.0% (2)
Expense growth rate	3.0% (2)			

(1) These fair value measurements were developed as a result of negotiations between us and potential, or actual, purchasers of properties.

(2) Only one value applied for this unobservable input.

Nine Months Ended September 30, 2012

During the nine months ended September 30, 2012, we recognized non-cash impairment losses of \$60.6 million for the amount by which the carrying values of certain properties exceeded their estimated fair values. The table below sets forth the fair value hierarchy of the valuation techniques used by us in determining such fair values (dollars in thousands):

Description	Quoted Prices in Active Markets for Identical Assets		Significant Other Observable Inputs	Significant Unobservable Inputs	Impairment Losses Recognized (1)	
	(Level 1)	(Level 2)	(Level 3)	Total	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
Assets (2):						
Properties, net	\$ —	\$ —	\$ 369,312	\$ 369,312	\$ 52,900	60,593

(1) Represents impairment losses, excluding exit costs incurred of \$2.9 million for the three months ended September 30, 2012 and \$4.2 million for the nine months ended September 30, 2012.

(2) Reflects balance sheet classifications of assets at time of fair value measurement, excluding the effect of held for sale classifications.

The table below sets forth quantitative information about significant unobservable inputs used for the Level 3 fair value measurements reported above (dollars in thousands):

Description	Fair Value on Measurement Date	Valuation Technique	Unobservable Input	Range (Weighted Average)
Properties on which impairment losses were recognized	\$ 369,312	Bid for properties indicative of value	Indicative bid (1)	(1)
		Contract of sale	Contract price (1)	(1)
		Discounted cash flow	Discount rate	10.1% to 11.0% (10.4%)

	Terminal capitalization rate	8.7% to 10.0% (8.9%)
	Market rent growth rate	3.0% (2)
	Expense growth rate	3.0% (2)
Yield Analysis	Yield	12% (2)
	Market rent rate	\$8.50 per square foot(2)
	Leasing costs	\$20.00 per square foot (2)

(1) These fair value measurements were developed as a result of negotiations between us and potential, or actual, purchasers of properties.

(2) Only one value applied for this unobservable input.

4. Properties, net

Operating properties, net consisted of the following (in thousands):

	September 30, 2013	December 31, 2012
Land	\$436,565	\$427,766
Buildings and improvements	2,889,383	2,725,875
Less: accumulated depreciation	(612,369	) (555,975
Operating properties, net	\$2,713,579	\$2,597,666

Projects we had in development or held for future development consisted of the following (in thousands):

	September 30, 2013	December 31, 2012
Land	\$253,810	\$236,324
Construction in progress, excluding land	272,357	329,054
Projects in development or held for future development	\$526,167	\$565,378

During the nine months ended September 30, 2013, we sold 920 Elkrige Landing Road, a 103,000 square foot office property in Linthicum, Maryland (in the Baltimore/Washington Corridor), for \$6.9 million.

2013 Construction Activities

During the nine months ended September 30, 2013, we placed into service an aggregate of 392,000 square feet in four newly constructed office properties located in the Baltimore/Washington Corridor, Northern Virginia and Huntsville, Alabama. As of September 30, 2013, we had nine office properties under construction, or for which we were contractually committed to construct, that we estimate will total 1.3 million square feet upon completion, including four in Northern Virginia, three in Huntsville, Alabama and two in the Baltimore/Washington Corridor. We also had redevelopment underway, or otherwise approved, for two office properties that we estimate will total 235,000 square feet upon completion, including one in Greater Philadelphia and one in the Baltimore/Washington Corridor.

5. Real Estate Joint Ventures

During the nine months ended September 30, 2013, we had an investment in one unconsolidated real estate joint venture accounted for using the equity method of accounting. Information pertaining to this investment is set forth below (dollars in thousands):

Investment Balance at (1)		Date	Nature of		Maximum
September 30, 2013	December 31, 2012	Acquired	Ownership	Activity	Exposure to Loss (2)
\$(6,420	) \$(6,420	9/29/2005	20%	Operates 16 Buildings	\$—

(1) The carrying amount of our investment in this joint venture was lower than our share of the equity in the joint venture by \$3.0 million at September 30, 2013 and \$4.5 million at December 31, 2012 due to our deferral of gain on the contribution by us of real estate into the joint venture upon its formation and our discontinuance of loss recognition under the equity method effective October 2012, as discussed below. A difference will continue to exist to the extent the nature of our continuing involvement in the joint venture remains the same and we continue to no longer recognize income or losses under the equity method.

(2) Derived from the sum of our investment balance and maximum additional unilateral capital contributions or loans required from us. Not reported above are additional amounts that we and our partner are required to fund when

needed by this joint venture; these funding requirements are proportional to our respective ownership percentages. Also not reported above are additional unilateral contributions or loans from us, the amounts of which are uncertain, that we would be required to make if certain contingent events occur (see Note 17).

The following table sets forth condensed balance sheets for this unconsolidated real estate joint venture (in thousands):

	September 30, 2013	December 31, 2012
Properties, net	\$57,222	\$58,460
Other assets	6,248	4,376
Total assets	\$63,470	\$62,836
Liabilities (primarily debt)	\$80,424	\$72,693
Owners' equity	(16,954	) (9,857
Total liabilities and owners' equity	\$63,470	\$62,836

The following table sets forth condensed statements of operations for this unconsolidated real estate joint venture (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues	\$1,739	\$1,778	\$5,342	\$5,497
Property operating expenses	(755	) (758	) (2,250	) (2,219
Interest expense	(2,966	) (1,138	) (8,521	) (3,291
Depreciation and amortization expense	(575	) (568	) (1,668	) (1,732
Net loss	\$(2,557	) \$(686	) \$(7,097	) \$(1,745

As discussed further in our 2012 Annual Report on Form 10-K and our Current Report on Form 8-K dated July 25, 2013, in 2012, the holder of mortgage debt encumbering all of the joint venture's properties notified us of the debt's default, initiated foreclosure proceedings and terminated our property management responsibilities; accordingly, we discontinued recognition of losses on this investment under the equity method effective in October 2012 due to our having neither the obligation nor intent to support the joint venture.

The table below sets forth information pertaining to our investments in consolidated real estate joint ventures at September 30, 2013 (dollars in thousands):

	Date Acquired	Ownership % at 9/30/2013	Nature of Activity	September 30, 2013 (1)		
				Total Assets	Pledged Assets	Total Liabilities
LW Redstone Company, LLC	3/23/2010	85%	Developing business park (2)	\$114,141	\$45,209	\$22,141
M Square Associates, LLC	6/26/2007	50%	Operating two buildings and developing others (3)	60,879	47,854	41,463
COPT-FD Indian Head, LLC	10/23/2006	75%	Holding land parcel (4)	6,447	—	—
MOR Forbes 2 LLC	12/24/2002	50%	Operating one building (5)	4,132	—	90
				\$185,599	\$93,063	\$63,694

(1) Excludes amounts eliminated in consolidation.

(2) This joint venture's property is in Huntsville, Alabama.

(3) This joint venture's properties are in College Park, Maryland (in the Suburban Maryland region).

(4) This joint venture's property is in Charles County, Maryland. In 2012, the joint venture exercised its option under a development agreement to require Charles County to repurchase the land parcel at its original acquisition cost. Under the terms of the agreement with Charles County, the repurchase is expected to occur by August 2014.

(5) This joint venture's property is in Lanham, Maryland (in the Suburban Maryland region).

These ventures include only ones in which parties other than COPLP and COPT own interests. During the periods included herein, we also owned a controlling interest in Arundel Preserve #5, LLC, a consolidated real estate joint venture owning property in Hanover Maryland (in the Baltimore/Washington Corridor), until September 17, 2013, at which time we acquired our partner's noncontrolling interest, along with incremental additional land value in the venture, in exchange for