

CORPORATE OFFICE PROPERTIES TRUST
Form 10-Q
November 04, 2015

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, 2015

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. Yes No

As of October 16, 2015, 94,533,250 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, 2015 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, 2015, COPT owned approximately 96.3% of the outstanding common units and approximately 95.5% of the outstanding preferred units in COPLP; the remaining common and preferred units in COPLP were owned by third parties. 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 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 COPLP."

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, 2015	December 31, 2014
Assets		
Properties, net:		
Operating properties, net	\$ 2,932,843	\$ 2,751,488
Projects in development or held for future development	414,757	545,426
Total properties, net	3,347,600	3,296,914
Assets held for sale, net	150,572	14,339
Cash and cash equivalents	3,840	6,077
Restricted cash and marketable securities	9,286	9,069
Accounts receivable (net of allowance for doubtful accounts of \$2,010 and \$717, respectively)	19,962	26,901
Deferred rent receivable (net of allowance of \$1,816 and \$1,418, respectively)	103,064	95,910
Intangible assets on real estate acquisitions, net	106,174	43,854
Deferred leasing and financing costs, net	64,367	64,797
Investing receivables	46,821	52,147
Prepaid expenses and other assets, net	66,787	60,249
Total assets	\$ 3,918,473	\$ 3,670,257
Liabilities and equity		
Liabilities:		
Debt, net	\$ 2,121,240	\$ 1,920,057
Accounts payable and accrued expenses	98,551	123,035
Rents received in advance and security deposits	34,504	31,011
Dividends and distributions payable	30,182	29,862
Deferred revenue associated with operating leases	20,113	13,031
Interest rate derivatives	5,844	1,855
Other liabilities	8,524	12,105
Total liabilities	2,318,958	2,130,956
Commitments and contingencies (Note 17)		
Redeemable noncontrolling interest	19,608	18,417
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; issued and outstanding of 7,431,667 at September 30, 2015 and December 31, 2014)	199,083	199,083
Common Shares of beneficial interest (\$0.01 par value; 125,000,000 shares authorized, shares issued and outstanding of 94,533,670 at September 30, 2015 and 93,255,284 at December 31, 2014)	945	933
Additional paid-in capital	2,002,730	1,969,968
Cumulative distributions in excess of net income	(686,986)	(717,264)
Accumulated other comprehensive loss	(5,823)	(1,297)

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Total Corporate Office Properties Trust's shareholders' equity	1,509,949	1,451,423
Noncontrolling interests in subsidiaries:		
Common units in COPLP	50,992	51,534
Preferred units in COPLP	8,800	8,800
Other consolidated entities	10,166	9,127
Noncontrolling interests in subsidiaries	69,958	69,461
Total equity	1,579,907	1,520,884
Total liabilities, redeemable noncontrolling interest and equity	\$ 3,918,473	\$ 3,670,257

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,	
	2015	2014	2015	2014
Revenues				
Rental revenue	\$ 109,080	\$ 96,207	\$ 312,826	\$ 288,574
Tenant recoveries and other real estate operations revenue	24,606	22,069	71,761	70,538
Construction contract and other service revenues	17,058	34,739	97,554	80,390
Total revenues	150,744	153,015	482,141	439,502
Expenses				
Property operating expenses	48,897	43,056	145,996	136,600
Depreciation and amortization associated with real estate operations	38,403	30,237	103,788	104,728
Construction contract and other service expenses	16,132	33,593	94,923	75,353
Impairment losses	2,307	66	3,545	1,368
General, administrative and leasing expenses	7,439	7,211	22,864	22,882
Business development expenses and land carry costs	5,573	1,430	10,986	4,107
Total operating expenses	118,751	115,593	382,102	345,038
Operating income	31,993	37,422	100,039	94,464
Interest expense	(24,121)	(24,802)	(66,727)	(69,107)
Interest and other income	692	1,191	3,217	3,775
Gain (loss) on early extinguishment of debt	85,745	(176)	85,677	(446)
Income from continuing operations before equity in income of unconsolidated entities and income taxes	94,309	13,635	122,206	28,686
Equity in income of unconsolidated entities	18	193	52	206
Income tax expense	(48)	(101)	(153)	(257)
Income from continuing operations	94,279	13,727	122,105	28,635
Discontinued operations	—	191	156	4
Income before gain on sales of real estate	94,279	13,918	122,261	28,639
Gain on sales of real estate	15	10,630	4,000	10,630
Net income	94,294	24,548	126,261	39,269
Net income attributable to noncontrolling interests:				
Common units in COPLP	(3,357)	(768)	(4,231)	(942)
Preferred units in COPLP	(165)	(165)	(495)	(495)
Other consolidated entities	(972)	(895)	(2,599)	(2,481)
Net income attributable to COPT	89,800	22,720	118,936	35,351
Preferred share dividends	(3,552)	(3,553)	(10,657)	(12,387)
Issuance costs associated with redeemed preferred shares	—	—	—	(1,769)
Net income attributable to COPT common shareholders	\$ 86,248	\$ 19,167	\$ 108,279	\$ 21,195
Net income attributable to COPT:				
Income from continuing operations	\$ 89,800	\$ 22,537	\$ 118,783	\$ 35,342
Discontinued operations, net	—	183	153	9
Net income attributable to COPT	\$ 89,800	\$ 22,720	\$ 118,936	\$ 35,351
Basic earnings per common share (1)				
Income from continuing operations	\$ 0.91	\$ 0.22	\$ 1.15	\$ 0.24

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Discontinued operations	0.00	0.00	0.00	0.00
Net income attributable to COPT common shareholders	\$0.91	\$0.22	\$1.15	\$0.24
Diluted earnings per common share (1)				
Income from continuing operations	\$0.91	\$0.22	\$1.15	\$0.24
Discontinued operations	0.00	0.00	0.00	0.00
Net income attributable to COPT common shareholders	\$0.91	\$0.22	\$1.15	\$0.24
Dividends declared per common share	\$0.275	\$0.275	\$0.825	\$0.825

(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,	
	2015	2014	2015	2014
Net income	\$94,294	\$24,548	\$126,261	\$39,269
Other comprehensive (loss) income				
Unrealized (losses) gains on interest rate derivatives	(3,638	) 1,015	(6,720	) (4,738
Losses on interest rate derivatives included in interest expense	915	756	2,457	2,170
Equity in other comprehensive loss of equity method investee	—	—	(264) —
Other comprehensive (loss) income	(2,723	) 1,771	(4,527	) (2,568
Comprehensive income	91,571	26,319	121,734	36,701
Comprehensive income attributable to noncontrolling interests	(4,453	) (1,968	) (7,324	) (3,960
Comprehensive income attributable to COPT	\$87,118	\$24,351	\$114,410	\$32,741

See accompanying notes to consolidated financial statements.

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, 2013 (87,394,512 common shares outstanding)	\$ 249,083	\$ 874	\$ 1,814,015	\$ (641,868)	\$ 3,480	\$ 71,665	\$ 1,497,249
Redemption of preferred shares (2,000,000 shares)	(50,000)	—	1,769	(1,769)	—	—	(50,000)
Conversion of common units to common shares (117,149 shares)	—	1	1,544	—	—	(1,545)	—
Costs associated with common shares issued to the public	—	—	(7)	—	—	—	(7)
Exercise of share options (57,888 shares)	—	—	1,359	—	—	—	1,359
Share-based compensation (142,182 shares issued, net of redemptions)	—	2	5,247	—	—	—	5,249
Redemption of vested equity awards	—	—	(1,389)	—	—	—	(1,389)
Adjustments to noncontrolling interests resulting from changes in ownership of COPLP	—	—	(248)	—	—	248	—
Comprehensive income	—	—	—	35,351	(2,609)	2,313	35,055
Dividends	—	—	—	(84,692)	—	—	(84,692)
Distributions to owners of common and preferred units in COPLP	—	—	—	—	—	(3,710)	(3,710)
Contributions from noncontrolling interests in other consolidated entities	—	—	—	—	—	3	3
Distributions to noncontrolling interests in other consolidated entities	—	—	—	—	—	(1,606)	(1,606)
Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	(7)	—	—	—	(7)
Balance at September 30, 2014 (87,711,731 common shares outstanding)	\$ 199,083	\$ 877	\$ 1,822,283	\$ (692,978)	\$ 871	\$ 67,368	\$ 1,397,504

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Balance at December 31, 2014 (93,255,284 common shares outstanding)	\$ 199,083	\$ 933	\$ 1,969,968	\$ (717,264)	\$ (1,297)	\$ 69,461	\$ 1,520,884
Conversion of common units to common shares (160,160 shares)	—	2	2,149	—	—	(2,151)	—
Common shares issued under at-the-market program (890,241 shares)	—	9	26,526	—	—	—	26,535
Exercise of share options (76,474 shares)	—	—	2,008	—	—	—	2,008
Share-based compensation (151,511 shares issued, net of redemptions)	—	1	5,599	—	—	—	5,600
Redemption of vested equity awards	—	—	(2,330)	—	—	—	(2,330)
Adjustments to noncontrolling interests resulting from changes in ownership of COPLP	—	—	(591)	—	—	591	—
Comprehensive income	—	—	—	118,936	(4,526)	5,634	120,044
Dividends	—	—	—	(88,658)	—	—	(88,658)
Distributions to owners of common and preferred units in COPLP	—	—	—	—	—	(3,530)	(3,530)
Distributions to noncontrolling interests in other consolidated entities	—	—	—	—	—	(47)	(47)
Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	(599)	—	—	—	(599)
Balance at September 30, 2015 (94,533,670 common shares outstanding)	\$ 199,083	\$ 945	\$ 2,002,730	\$ (686,986)	\$ (5,823)	\$ 69,958	\$ 1,579,907

See accompanying notes to consolidated financial statements.

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

	For the Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities		
Revenues from real estate operations received	\$373,607	\$358,212
Construction contract and other service revenues received	104,817	62,170
Property operating expenses paid	(146,274)	(141,489)
Construction contract and other service expenses paid	(112,614)	(58,218)
General, administrative, leasing, business development and land carry costs paid	(29,620)	(22,288)
Interest expense paid	(46,278)	(54,683)
Payments in connection with early extinguishment of debt	(18)	(104)
Interest and other income received	4,130	448
Income taxes (paid) refunded	(8)	200
Net cash provided by operating activities	147,742	144,248
Cash flows from investing activities		
Acquisitions of operating properties and related intangible assets	(202,866)	—
Construction, development and redevelopment	(174,434)	(150,862)
Tenant improvements on operating properties	(18,129)	(17,754)
Other capital improvements on operating properties	(12,610)	(21,179)
Proceeds from dispositions of properties	45,066	57,973
Investing receivables funded	(22)	(3,610)
Investing receivables payments received	5,114	10,278
Leasing costs paid	(8,603)	(10,549)
Increase in prepaid expenses and other assets associated with investing activities	(4,348)	(1,260)
Other	(457)	(83)
Net cash used in investing activities	(371,289)	(137,046)
Cash flows from financing activities		
Proceeds from debt		
Revolving Credit Facility	422,000	115,000
Unsecured senior notes	296,580	297,342
Other debt proceeds	50,000	11,569
Repayments of debt		
Revolving Credit Facility	(418,000)	(115,000)
Scheduled principal amortization	(5,011)	(4,914)
Other debt repayments	(50,681)	(183,059)
Deferred financing costs paid	(5,377)	(694)
Net proceeds from issuance of common shares	28,567	1,352
Redemption of preferred shares	—	(50,000)
Common share dividends paid	(77,641)	(72,217)
Preferred share dividends paid	(10,657)	(13,179)
Distributions paid to noncontrolling interests in COPLP	(3,581)	(3,786)
Redemption of vested equity awards	(2,330)	(1,389)
Other	(2,559)	(2,582)
Net cash provided by (used in) financing activities	221,310	(21,557)
Net decrease in cash and cash equivalents	(2,237)	(14,355)

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Cash and cash equivalents		
Beginning of period	6,077	54,373
End of period	\$3,840	\$40,018
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,	
	2015	2014
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 126,261	\$ 39,269
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and other amortization	105,397	106,619
Impairment losses	3,779	1,371
Amortization of deferred financing costs	3,339	3,646
Increase in deferred rent receivable	(11,939)	(2,738)
Amortization of net debt discounts	805	659
Gain on sales of real estate	(4,000)	(10,654)
Share-based compensation	4,949	4,563
(Gain) loss on early extinguishment of debt	(86,075)	458
Other	1,922	(2,446)
Operating changes in assets and liabilities:		
Decrease in accounts receivable	6,526	6,815
Increase in restricted cash and marketable securities	(1,102)	(2,591)
Increase in prepaid expenses and other assets, net	(5,228)	(26,553)
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(655)	24,247
Increase in rents received in advance and security deposits	3,763	1,583
Net cash provided by operating activities	\$ 147,742	\$ 144,248
Supplemental schedule of non-cash investing and financing activities:		
Decrease in accrued capital improvements, leasing and other investing activity costs	\$(11,722)	\$(174)
Debt assumed on acquisition of operating property	\$55,490	\$—
Other liabilities assumed on acquisition of operating properties	\$5,265	\$—
Decrease in property in connection with surrender of property in settlement of debt	\$(82,738)	\$—
Decrease in debt in connection with surrender of property in settlement of debt	\$(150,000)	\$—
Decrease in fair value of derivatives applied to accumulated other comprehensive loss and noncontrolling interests	\$(4,263)	\$(2,613)
Equity in other comprehensive loss of an equity method investee	\$(264)	\$—
Dividends/distribution payable	\$30,182	\$28,344
Decrease in noncontrolling interests and increase in shareholders' equity in connection with the conversion of common units into common shares	\$2,151	\$1,545
Adjustments to noncontrolling interests resulting from changes in COPLP ownership	\$591	\$248
Increase in redeemable noncontrolling interest and decrease in equity to carry redeemable noncontrolling interest at fair value	\$599	\$7

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, 2015	December 31, 2014
Assets		
Properties, net:		
Operating properties, net	\$ 2,932,843	\$ 2,751,488
Projects in development or held for future development	414,757	545,426
Total properties, net	3,347,600	3,296,914
Assets held for sale, net	150,572	14,339
Cash and cash equivalents	3,840	6,077
Restricted cash and marketable securities	3,787	3,187
Accounts receivable (net of allowance for doubtful accounts of \$2,010 and \$717, respectively)	19,962	26,901
Deferred rent receivable (net of allowance of \$1,816 and \$1,418, respectively)	103,064	95,910
Intangible assets on real estate acquisitions, net	106,174	43,854
Deferred leasing and financing costs, net	64,367	64,797
Investing receivables	46,821	52,147
Prepaid expenses and other assets, net	66,787	60,249
Total assets	\$ 3,912,974	\$ 3,664,375
Liabilities and equity		
Liabilities:		
Debt, net	\$ 2,121,240	\$ 1,920,057
Accounts payable and accrued expenses	98,551	123,035
Rents received in advance and security deposits	34,504	31,011
Distributions payable	30,182	29,862
Deferred revenue associated with operating leases	20,113	13,031
Interest rate derivatives	5,844	1,855
Other liabilities	3,025	6,223
Total liabilities	2,313,459	2,125,074
Commitments and contingencies (Note 17)		
Redeemable noncontrolling interest	19,608	18,417
Equity:		
Corporate Office Properties, L.P.'s equity:		
Preferred units		
General partner, preferred units outstanding of 7,431,667 at September 30, 2015 and December 31, 2014	199,083	199,083
Limited partner, 352,000 preferred units outstanding at September 30, 2015 and December 31, 2014	8,800	8,800
Common units, 94,533,670 and 93,255,284 held by the general partner and 3,677,391 and 3,837,551 held by limited partners at September 30, 2015 and December 31, 2014, respectively	1,367,904	1,305,219
Accumulated other comprehensive loss	(6,086)	(1,381)
Total Corporate Office Properties, L.P.'s equity	1,569,701	1,511,721

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Noncontrolling interests in subsidiaries	10,206	9,163
Total equity	1,579,907	1,520,884
Total liabilities, redeemable noncontrolling interest and equity	\$ 3,912,974	\$ 3,664,375
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,	
	2015	2014	2015	2014
Revenues				
Rental revenue	\$109,080	\$96,207	\$312,826	\$288,574
Tenant recoveries and other real estate operations revenue	24,606	22,069	71,761	70,538
Construction contract and other service revenues	17,058	34,739	97,554	80,390
Total revenues	150,744	153,015	482,141	439,502
Expenses				
Property operating expenses	48,897	43,056	145,996	136,600
Depreciation and amortization associated with real estate operations	38,403	30,237	103,788	104,728
Construction contract and other service expenses	16,132	33,593	94,923	75,353
Impairment losses	2,307	66	3,545	1,368
General, administrative and leasing expenses	7,439	7,211	22,864	22,882
Business development expenses and land carry costs	5,573	1,430	10,986	4,107
Total operating expenses	118,751	115,593	382,102	345,038
Operating income	31,993	37,422	100,039	94,464
Interest expense	(24,121)	(24,802)	(66,727)	(69,107)
Interest and other income	692	1,191	3,217	3,775
Gain (loss) on early extinguishment of debt	85,745	(176)	85,677	(446)
Income from continuing operations before equity in income of unconsolidated entities and income taxes	94,309	13,635	122,206	28,686
Equity in income of unconsolidated entities	18	193	52	206
Income tax expense	(48)	(101)	(153)	(257)
Income from continuing operations	94,279	13,727	122,105	28,635
Discontinued operations	—	191	156	4
Income before gain on sales of real estate	94,279	13,918	122,261	28,639
Gain on sales of real estate	15	10,630	4,000	10,630
Net income	94,294	24,548	126,261	39,269
Net income attributable to noncontrolling interests in consolidated entities	(972)	(897)	(2,602)	(2,471)
Net income attributable to COPLP	93,322	23,651	123,659	36,798
Preferred unit distributions	(3,717)	(3,718)	(11,152)	(12,882)
Issuance costs associated with redeemed preferred units	—	—	—	(1,769)
Net income attributable to COPLP common unitholders	\$89,605	\$19,933	\$112,507	\$22,147
Net income attributable to COPLP:				
Income from continuing operations	\$93,322	\$23,460	\$123,500	\$36,789
Discontinued operations, net	—	191	159	9
Net income attributable to COPLP	\$93,322	\$23,651	\$123,659	\$36,798
Basic earnings per common unit (1)				
Income from continuing operations	\$0.91	\$0.22	\$1.15	\$0.24
Discontinued operations	0.00	0.00	0.00	0.00
Net income attributable to COPLP common unitholders	\$0.91	\$0.22	\$1.15	\$0.24
Diluted earnings per common unit (1)				

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Income from continuing operations	\$0.91	\$0.22	\$1.15	\$0.24
Discontinued operations	0.00	0.00	0.00	0.00
Net income attributable to COPLP common unitholders	\$0.91	\$0.22	\$1.15	\$0.24
Distributions declared per common unit	\$0.275	\$0.275	\$0.825	\$0.825

(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,	
	2015	2014	2015	2014
Net income	\$94,294	\$24,548	\$126,261	\$39,269
Other comprehensive (loss) income				
Unrealized gains (losses) on interest rate derivatives	(3,638	) 1,015	(6,720	) (4,738
Losses on interest rate derivatives included in interest expense	915	756	2,457	2,170
Equity in other comprehensive loss of equity method investee	—	—	(264) —
Other comprehensive (loss) income	(2,723	) 1,771	(4,527	) (2,568
Comprehensive income	91,571	26,319	121,734	36,701
Comprehensive income attributable to noncontrolling interests	(1,035	) (964	) (2,780	) (2,630
Comprehensive income attributable to COPLP	\$90,536	\$25,355	\$118,954	\$34,071

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, 2013	352,000	\$8,800	9,431,667	\$249,083	91,372,212	\$1,226,318	\$3,605	\$9,443	\$1,497,249
Redemption of preferred units resulting from redemption of preferred shares	—	—	(2,000,000)	(50,000)	—	—	—	—	(50,000)
Costs associated with common shares issued to the public	—	—	—	—	—	(7)	—	—	(7)
Issuance of common units resulting from exercise of share options	—	—	—	—	57,888	1,359	—	—	1,359
Share-based compensation (units net of redemption)	—	—	—	—	142,182	5,249	—	—	5,249
Redemptions of vested equity awards	—	—	—	—	—	(1,389)	—	—	(1,389)
Comprehensive income	—	495	—	12,387	—	23,916	(2,726)	983	35,055
Distributions to owners of common and preferred units	—	(495)	—	(12,387)	—	(75,520)	—	—	(88,402)
Distributions to noncontrolling interests in subsidiaries	—	—	—	—	—	—	—	(1,606)	(1,606)
Contributions from noncontrolling interests in subsidiaries	—	—	—	—	—	—	—	3	3

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Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	—	—	—	(7)	—	—	(7)	
Balance at September 30, 2014	352,000	\$8,800	7,431,667	\$199,083	91,572,282	\$1,179,919	\$879	\$8,823		\$1,397,504		
Balance at December 31, 2014	352,000	\$8,800	7,431,667	\$199,083	97,092,835	\$1,305,219	\$(1,381)	\$9,163		\$1,520,884		
Issuance of common units resulting from common shares issued under at-the-market program	—	—	—	—	890,241	26,535	—	—		26,535		
Issuance of common units resulting from exercise of share options	—	—	—	—	76,474	2,008	—	—		2,008		
Share-based compensation (units net of redemption)	—	—	—	—	151,511	5,600	—	—		5,600		
Redemptions of vested equity awards	—	—	—	—	—	(2,330	)	—	—	(2,330)	
Comprehensive income	—	495	—	10,657	—	112,507	(4,705	)	1,090	120,044	
Distributions to owners of common and preferred units	—	(495)	—	(10,657)	—	(81,036)	—	(92,188)
Distributions to noncontrolling interests in subsidiaries	—	—	—	—	—	—	—	(47	)	(47)	
Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	—	—	—	(599	)	—	—	(599)	
Balance at September 30, 2015	352,000	\$8,800	7,431,667	\$199,083	98,211,061	\$1,367,904	\$(6,086)	\$10,206		\$1,579,907		

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,	
	2015	2014
Cash flows from operating activities		
Revenues from real estate operations received	\$373,607	\$358,212
Construction contract and other service revenues received	104,817	62,170
Property operating expenses paid	(146,274)	(141,489)
Construction contract and other service expenses paid	(112,614)	(58,218)
General, administrative, leasing, business development and land carry costs paid	(29,620)	(22,288)
Interest expense paid	(46,278)	(54,683)
Payments in connection with early extinguishment of debt	(18)	(104)
Interest and other income received	4,130	448
Income taxes (paid) refunded	(8)	200
Net cash provided by operating activities	147,742	144,248
Cash flows from investing activities		
Acquisitions of operating properties and related intangible assets	(202,866)	—
Construction, development and redevelopment	(174,434)	(150,862)
Tenant improvements on operating properties	(18,129)	(17,754)
Other capital improvements on operating properties	(12,610)	(21,179)
Proceeds from dispositions of properties	45,066	57,973
Investing receivables funded	(22)	(3,610)
Investing receivables payments received	5,114	10,278
Leasing costs paid	(8,603)	(10,549)
Increase in prepaid expenses and other assets associated with investing activities	(4,348)	(1,260)
Other	(457)	(83)
Net cash used in investing activities	(371,289)	(137,046)
Cash flows from financing activities		
Proceeds from debt		
Revolving Credit Facility	422,000	115,000
Unsecured senior notes	296,580	297,342
Other debt proceeds	50,000	11,569
Repayments of debt		
Revolving Credit Facility	(418,000)	(115,000)
Scheduled principal amortization	(5,011)	(4,914)
Other debt repayments	(50,681)	(183,059)
Deferred financing costs paid	(5,377)	(694)
Net proceeds from issuance of common units	28,567	1,352
Redemption of preferred units	—	(50,000)
Common unit distributions paid	(80,727)	(75,508)
Preferred unit distributions paid	(11,152)	(13,674)
Redemption of vested equity awards	(2,330)	(1,389)
Other	(2,559)	(2,582)
Net cash provided by (used in) financing activities	221,310	(21,557)
Net decrease in cash and cash equivalents	(2,237)	(14,355)
Cash and cash equivalents		

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Beginning of period	6,077	54,373
End of period	\$3,840	\$40,018
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,	
	2015	2014
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 126,261	\$ 39,269
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and other amortization	105,397	106,619
Impairment losses	3,779	1,371
Amortization of deferred financing costs	3,339	3,646
Increase in deferred rent receivable	(11,939)	(2,738)
Amortization of net debt discounts	805	659
Gain on sales of real estate	(4,000)	(10,654)
Share-based compensation	4,949	4,563
(Gain) loss on early extinguishment of debt	(86,075)	458
Other	1,922	(2,446)
Operating changes in assets and liabilities:		
Decrease in accounts receivable	6,526	6,815
Increase in restricted cash and marketable securities	(1,485)	(2,558)
Increase in prepaid expenses and other assets, net	(5,228)	(26,553)
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(272)	24,214
Increase in rents received in advance and security deposits	3,763	1,583
Net cash provided by operating activities	\$ 147,742	\$ 144,248
Supplemental schedule of non-cash investing and financing activities:		
Decrease in accrued capital improvements, leasing and other investing activity costs	\$ (11,722))