

CORPORATE OFFICE PROPERTIES TRUST
Form 10-Q
October 26, 2012

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, 2012
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

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of
incorporation or organization)

6711 Columbia Gateway Drive, Suite 300, Columbia, MD

(Address of principal executive offices)

23-2947217

(IRS Employer
Identification No.)

21046

(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.

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).

Yes No

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.

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)

Yes No

As of October 18, 2012, 80,793,776 of the Company's Common Shares of Beneficial Interest, \$0.01 par value, were issued and outstanding.

TABLE OF CONTENTS

FORM 10-Q

	PAGE
<u>PART I: FINANCIAL INFORMATION</u>	
<u>Item 1:</u>	
<u>Financial Statements:</u>	
<u>Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011 (unaudited)</u>	3
<u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2012 and 2011 (unaudited)</u>	4
<u>Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2012 and 2011 (unaudited)</u>	5
<u>Consolidated Statements of Equity for the Nine Months Ended September 30, 2012 and 2011 (unaudited)</u>	6
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2012 and 2011 (unaudited)</u>	7
<u>Notes to Consolidated Financial Statements (unaudited)</u>	9
<u>Item 2:</u>	29
<u>Item 3:</u>	42
<u>Item 4:</u>	43
<u>PART II: OTHER INFORMATION</u>	
<u>Item 1:</u>	43
<u>Item 1A:</u>	43
<u>Item 2:</u>	44
<u>Item 3:</u>	44
<u>Item 4:</u>	44
<u>Item 5:</u>	44
<u>Item 6:</u>	44
<u>SIGNATURES</u>	45

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, 2012	December 31, 2011
Assets		
Properties, net:		
Operating properties, net	\$ 2,487,919	\$ 2,714,056
Projects in development or held for future development	614,595	638,919
Total properties, net	3,102,514	3,352,975
Assets held for sale, net	137,815	116,616
Cash and cash equivalents	5,009	5,559
Restricted cash and marketable securities	20,926	36,232
Accounts receivable (net of allowance for doubtful accounts of \$4,754 and \$3,546, respectively)	15,877	26,032
Deferred rent receivable	83,156	86,856
Intangible assets on real estate acquisitions, net	81,059	89,120
Deferred leasing and financing costs, net	58,753	66,515
Prepaid expenses and other assets	92,547	87,619
Total assets	\$ 3,597,656	\$ 3,867,524
Liabilities and equity		
Liabilities:		
Debt, net	\$ 2,169,315	\$ 2,426,303
Accounts payable and accrued expenses	87,390	96,425
Rents received in advance and security deposits	26,773	29,548
Dividends and distributions payable	26,954	35,038
Deferred revenue associated with operating leases	13,102	15,554
Distributions received in excess of investment in unconsolidated real estate joint venture	6,420	6,071
Interest rate derivatives	6,543	30,863
Other liabilities	10,938	9,657
Total liabilities	2,347,435	2,649,459
Commitments and contingencies (Note 16)		
Equity:		
Corporate Office Properties Trust's shareholders' equity:		
Preferred Shares of beneficial interest at liquidation preference (\$0.01 par value; shares authorized of 25,000,000 at September 30, 2012 and 15,000,000 at December 31, 2011; shares issued and outstanding of 12,821,667 at September 30, 2012 and 8,121,667 at December 31, 2011)	333,833	216,333
Common Shares of beneficial interest (\$0.01 par value; 125,000,000 shares authorized, shares issued and outstanding of 72,157,635 at September 30, 2012 and 72,011,324 at December 31, 2011)	722	720
Additional paid-in capital	1,455,558	1,452,393
Cumulative distributions in excess of net income	(610,659)	(532,288)
Accumulated other comprehensive loss	(5,688)	(1,733)
Total Corporate Office Properties Trust's shareholders' equity	1,173,766	1,135,425
Noncontrolling interests in subsidiaries:		

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Common units in the Operating Partnership	48,973	55,281
Preferred units in the Operating Partnership	8,800	8,800
Other consolidated entities	18,682	18,559
Noncontrolling interests in subsidiaries	76,455	82,640
Total equity	1,250,221	1,218,065
Total liabilities and equity	\$ 3,597,656	\$ 3,867,524
See accompanying notes to consolidated financial statements.		

3

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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,	
	2012	2011	2012	2011
Revenues				
Rental revenue	\$92,783	\$87,692	\$273,089	\$258,896
Tenant recoveries and other real estate operations revenue	22,078	20,286	63,598	58,117
Construction contract and other service revenues	15,283	18,729	53,812	67,854
Total revenues	130,144	126,707	390,499	384,867
Expenses				
Property operating expenses	42,799	41,669	126,339	123,135
Depreciation and amortization associated with real estate operations	28,698	31,269	84,920	84,205
Construction contract and other service expenses	14,410	18,171	51,302	65,698
Impairment losses	46,096	—	41,260	42,983
General and administrative expenses	5,061	6,154	19,820	19,251
Business development expenses and land carry costs	1,632	1,751	4,506	4,322
Total operating expenses	138,696	99,014	328,147	339,594
Operating (loss) income	(8,552)	27,693	62,352	45,273
Interest expense	(23,239)	(24,176)	(71,909)	(74,861)
Interest and other income (loss)	1,095	(242)	3,152	3,682
Loss on early extinguishment of debt	(768)	(1,611)	(937)	(1,636)
(Loss) income from continuing operations before equity in loss of unconsolidated entities and income taxes	(31,464)	1,664	(7,342)	(27,542)
Equity in loss of unconsolidated entities	(246)	(159)	(522)	(223)
Income tax (expense) benefit	(106)	457	(4,296)	6,043
(Loss) income from continuing operations	(31,816)	1,962	(12,160)	(21,722)
Discontinued operations	11,051	5,508	10,212	(18,109)
(Loss) income before gain on sales of real estate	(20,765)	7,470	(1,948)	(39,831)
Gain on sales of real estate, net of income taxes	—	—	21	2,728
Net (loss) income	(20,765)	7,470	(1,927)	(37,103)
Net loss (income) attributable to noncontrolling interests:				
Common units in the Operating Partnership	1,569	(178)	1,020	3,188
Preferred units in the Operating Partnership	(165)	(165)	(495)	(495)
Other consolidated entities	(411)	(561)	(939)	(1,038)
Net (loss) income attributable to Corporate Office Properties Trust	(19,772)	6,566	(2,341)	(35,448)
Preferred share dividends	(6,546)	(4,025)	(14,738)	(12,076)
Issuance costs associated with redeemed preferred shares	(1,827)	—	(1,827)	—
Net (loss) income attributable to Corporate Office Properties Trust common shareholders	\$(28,145)	\$2,541	\$(18,906)	\$(47,524)
Net (loss) income attributable to Corporate Office Properties Trust:				
(Loss) income from continuing operations	\$(30,200)	\$1,381	\$(12,015)	\$(18,454)
Discontinued operations, net	10,428	5,185	9,674	(16,994)
Net (loss) income attributable to Corporate Office Properties Trust	\$(19,772)	\$6,566	\$(2,341)	\$(35,448)
Basic earnings per common share (1)				
Loss from continuing operations	\$(0.54)	\$(0.04)	\$(0.40)	\$(0.46)
Discontinued operations	0.15	0.07	0.13	(0.24)

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Net (loss) income attributable to COPT common shareholders	\$ (0.39)	\$ 0.03	\$ (0.27)	\$ (0.70)
Diluted earnings per common share (1)				
Loss from continuing operations	\$ (0.54)	\$ (0.04)	\$ (0.40)	\$ (0.46)
Discontinued operations	0.15	0.07	0.13	(0.24)
Net (loss) income attributable to COPT common shareholders	\$ (0.39)	\$ 0.03	\$ (0.27)	\$ (0.70)
Dividends declared per common share	\$ 0.2750	\$ 0.4125	\$ 0.8250	\$ 1.2375

(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,	
	2012	2011	2012	2011
Net (loss) income	\$(20,765)	\$7,470	\$(1,927)	\$(37,103)
Other comprehensive loss				